

WUHAN GENERAL GROUP (CHINA), INC  
Form 10-Q  
November 15, 2010

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

Form 10-Q

(Mark One)

Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the quarterly period ended September 30, 2010

or

Transition Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 001-34125

WUHAN GENERAL GROUP (CHINA), INC.  
(Exact Name of Registrant as Specified in Its Charter)

Nevada  
(State or Other Jurisdiction  
of Incorporation or  
Organization)

No.)

84-1092589  
(I.R.S. Employer Identification

Canglongdao Science Park of Wuhan East Lake Hi-Tech  
Development Zone

Wuhan, Hubei, People's Republic of China  
(Address of Principal Executive Offices)

430200  
(Zip Code)

86-27-5970-0069

\_\_\_\_\_  
(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 (the "Exchange Act") during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting

company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

As of November 12, 2010, the registrant had a total of 25,351,950 shares of common stock outstanding.

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## PART I

## FINANCIAL INFORMATION

## Item 1. Financial Statements.

Wuhan General Group (China), Inc.  
Consolidated Balance Sheets  
At September 30, 2010 and December 31, 2009  
(Stated in US Dollars)

|   | Note    | September 30, 2010 | (Audited)<br>December 31, 2009 |
|---|---------|--------------------|--------------------------------|
| <b>ASSETS</b>                                 |         |                    |                                |
| <b>Current Assets</b>                         |         |                    |                                |
| Cash  | 2(e)    | \$ 30,429,072      | \$ 407,394                     |
| Restricted Cash                               | 3       | 9,366,963          | 7,759,971                      |
| Notes Receivable                              | 4       | 2,998,761          | 28,520                         |
| Accounts Receivable                           | 2(f),5  | 50,280,382         | 53,962,201                     |
| Other Receivable                              |         | 9,797,721          | 4,684,372                      |
| Inventory                                     | 2(g),6  | 14,683,226         | 15,630,470                     |
| Advances to Suppliers                         | 7       | 35,233,559         | 24,616,120                     |
| Advances to Employees                         | 8       | 555,381            | 342,829                        |
| Prepaid Expenses                              |         | 1,207,097          | 928,629                        |
| Prepaid Taxes                                 |         | 641,095            | 546,050                        |
| Deferred Tax Asset                            |         | 785,979            | 749,031                        |
| Total Current Assets                          |         | \$ 155,979,236     | \$ 109,655,587                 |
| <b>Non-Current Assets</b>                     |         |                    |                                |
| Real Property Available for Sale              |         | \$ 1,126,021       | \$ 1,103,113                   |
| Property, Plant & Equipment, net              | 2(h),9  | 32,089,817         | 32,908,334                     |
| Land Use Rights, net                          | 2(j),10 | 11,880,935         | 12,073,139                     |
| Construction in Progress                      | 11      | 26,841,342         | 17,864,257                     |
| Intangible Assets, net                        | 2(i),12 | 255,522            | 212,798                        |
| Total Assets                                  |         | \$ 228,172,873     | \$ 173,817,228                 |
| <b>LIABILITIES &amp; STOCKHOLDERS' EQUITY</b> |         |                    |                                |
| <b>Liabilities</b>                            |         |                    |                                |
| <b>Current Liabilities</b>                    |         |                    |                                |
| Bank Loans & Notes                            | 13      | \$ 61,031,860      | \$ 46,758,253                  |
| Accounts Payable                              |         | 13,811,339         | 8,049,057                      |
| Taxes Payable                                 |         | 4,102,621          | 3,169,948                      |
| Other Payable                                 | 14      | 5,321,248          | 4,228,042                      |
| Dividend Payable                              |         | 531,900            | 727,129                        |
| Accrued Liabilities                           | 2(w),15 | 3,767,049          | 3,524,388                      |
| Customer Deposits                             |         | 9,845,382          | 4,696,719                      |
| Total Current Liabilities                     |         | \$ 98,411,399      | \$ 71,153,536                  |
| <b>Long Term Liabilities</b>                  |         |                    |                                |
| Bank Loans and Notes                          | 13      | 19,856,376         | -                              |
| Total Liabilities                             |         | \$ 118,267,775     | \$ 71,153,536                  |

See Accompanying Notes to the Financial Statements and Accountant's Report.

Wuhan General Group (China), Inc.  
 Consolidated Balance Sheets  
 At September 30, 2010 and December 31, 2009  
 (Stated in US Dollars)

|  | Note    | September 30, 2010    | (Audited)<br>December 31, 2009 |
|--|---------|-----------------------|--------------------------------|
| <b>Stockholders' Equity</b>  |         |                       |                                |
| Preferred Stock - \$0.0001 Par Value, 50,000,000<br>Shares Authorized; 6,241,453 Shares of Series A<br>Convertible Preferred Stock Issued & Outstanding at<br>September 30, 2010 and December 31, 2009 |         |                       |                                |
|  |         | \$ 624                | \$ 624                         |
| Additional Paid-in Capital - Preferred Stock   |         | 8,170,415             | 8,170,415                      |
| Additional Paid-in Capital - Warrants  |         | 3,484,011             | 3,484,011                      |
| Additional Paid-in Capital - Beneficial Conversion<br>Feature  |         | 6,371,547             | 6,371,547                      |
| Preferred Stock - \$0.0001 Par Value 50,000,000<br>Shares Authorized; 6,354,078 Shares of Series B<br>Convertible Preferred Stock Issued & Outstanding at<br>September 30, 2010 and December 31, 2009  |         |                       |                                |
|  |         | 635                   | 635                            |
| Additional Paid in Capital - Preferred Stock   |         | 12,637,158            | 12,637,158                     |
| Additional Paid in Capital - Warrants  |         | 2,274,181             | 2,274,181                      |
| Additional Paid in Capital - Beneficial Conversion<br>Feature  |         | 4,023,692             | 4,023,692                      |
| Common Stock - \$0.0001 Par Value 100,000,000<br>Shares Authorized; 25,351,950 Shares Issued &<br>Outstanding at September 30, 2010 and December 31,<br>2009   |         |                       |                                |
|  | 16      | 2,536                 | 2,536                          |
| Additional Paid-in Capital   |         | 29,825,673            | 29,793,996                     |
| Statutory Reserve  | 2(u),17 | 5,454,773             | 4,563,592                      |
| Retained Earnings  |         | 26,484,563            | 23,477,239                     |
| Accumulated Other Comprehensive Income   | 2(v)    | 11,175,290            | 7,864,066                      |
| <b>Total Stockholders' Equity</b>  |         | <b>\$ 109,905,098</b> | <b>\$ 102,663,692</b>          |
| <b>Total Liabilities &amp; Stockholders' Equity</b>  |         | <b>\$ 228,172,873</b> | <b>\$ 173,817,228</b>          |

See Accompanying Notes to the Financial Statements and Accountant's Report.

Wuhan General Group (China), Inc.  
 Statements of Income  
 For the three and nine months ended September 30, 2010 and 2009  
 (Stated in US Dollars)

|  | Note     | Three months ended       |                       | Nine months ended        |                       |
|--|----------|--------------------------|-----------------------|--------------------------|-----------------------|
|  |          | September<br>30,<br>2010 | September 30,<br>2009 | September<br>30,<br>2010 | September 30,<br>2009 |
| <b>Revenue</b>                                 |          |                          |                       |                          |                       |
| Sales  | 2(l)     | \$ 28,755,999            | \$ 24,720,005         | \$ 69,398,212            | \$ 59,949,344         |
| Cost of Sales                                  | 2(m)     | (20,670,203)             | (17,855,151)          | (51,541,724)             | (45,213,132)          |
| Gross Profit                                   |          | 8,085,796                | 6,864,854             | 17,856,488               | 14,736,212            |
| <b>Operating Expenses</b>                      |          |                          |                       |                          |                       |
| Selling Expenses                               | 2(n)     | (311,836)                | (759,752)             | (979,818)                | (1,479,742)           |
| General & Administrative Expenses              | 2(o)     | (3,461,848)              | (1,463,970)           | (5,157,710)              | (4,395,556)           |
| Warranty Expense                               | 2(w),15  | (231,843)                | (178,610)             | (608,393)                | (482,346)             |
| Total Operating Expense                        |          | (4,005,527)              | (2,402,332)           | (6,745,921)              | (6,357,644)           |
| Operating Income                               |          | 4,080,269                | 4,462,522             | 11,110,567               | 8,378,568             |
| <b>Other Income (Expenses)</b>                 |          |                          |                       |                          |                       |
| Other Income (Expense), net                    |          | 31,095                   | 117,589               | 176,153                  | 79,702                |
| Interest Income                                |          | 75,307                   | 288,862               | 101,374                  | 494,258               |
| Interest Expense                               |          | (1,811,846)              | (1,276,069)           | (5,946,623)              | (2,572,984)           |
| Stock Penalty for late listing on NASDAQ       |          | -                        | -                     | -                        | (1,153,439)           |
| Total Other Income (Loss) & Expense            |          | (1,705,444)              | (869,618)             | (5,669,096)              | (3,152,463)           |
| Earnings before Tax                            |          | 2,374,825                | 3,592,904             | 5,441,471                | 5,226,105             |
| Income Tax                                     | 2(t), 18 | (543,384)                | (586,053)             | (1,011,066)              | (1,085,866)           |
| Net Income                                     |          | \$ 1,831,441             | \$ 3,006,851          | \$ 4,430,405             | \$ 4,140,239          |
| Preferred Dividends Declared                   |          | (177,300)                | (183,276)             | (531,900)                | (543,363)             |
| Income (Loss) Available to Common Shareholders |          | \$ 1,654,141             | \$ 2,823,575          | \$ 3,898,505             | \$ 3,596,876          |
| <b>Earnings Per Share</b>                      |          |                          |                       |                          |                       |
|  | 19       |                          |                       |                          |                       |
| Basic  |          | \$ 0.07                  | \$ 0.11               | \$ 0.15                  | \$ 0.14               |
| Diluted  |          | \$ 0.05                  | \$ 0.08               | \$ 0.12                  | \$ 0.09               |
| <b>Weighted Average Shares Outstanding</b>     |          |                          |                       |                          |                       |
| Basic  |          | 25,351,950               | 25,285,902            | 25,351,950               | 25,013,117            |
| Diluted  |          | 31,706,028               | 39,135,314            | 31,706,028               | 38,324,011            |
| <b>Comprehensive Income</b>                    |          |                          |                       |                          |                       |
| Net Income                                     |          | \$ 1,831,441             | \$ 3,006,851          | \$ 4,430,405             | \$ 4,140,239          |
| Other Comprehensive Income                     |          |                          |                       |                          |                       |

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|   |              |              |              |              |
|---|--------------|--------------|--------------|--------------|
| Foreign Currency Translation Adjustment | 3,681,033    | 15,984       | 3,311,224    | 60,853       |
| Total Comprehensive Income              | \$ 5,512,474 | \$ 3,022,835 | \$ 7,741,629 | \$ 4,201,092 |

See Accompanying Notes to the Financial Statements and Accountant's Report.



Wuhan General Group (China), Inc.  
 Consolidated Statements of Stockholders' Equity  
 For the periods ended September 30, 2010 and December 31, 2009  
 (Stated in US Dollars)

|                    | Series A, J, C Warrants | Beneficial Conversion Feature Additional Paid in Capital | Series B Convertible Preferred Stock Shares Out-standing Amount | Series B Preferred Stock Additional Paid in Capital | Series B, JJ Warrants Additional Paid in Capital | Beneficial Conversion Feature Additional Paid in Capital | Common Stock Shares Out-standing Amount | Additional Paid in Capital | Statutory Reserve |               |              |
|--------------------|-------------------------|--|---|---|--|--|---|----------------------------|-------------------|---------------|--------------|
| September 30, 2010 | \$ 3,484,011            | \$ 6,371,547   | 6,354,078   | \$ 635  | \$ 12,637,158                                    | \$ 2,274,181   | \$ 4,023,692                            | 25,351,950                 | \$ 2,536          | \$ 29,793,996 | \$ 4,563,592 |
| December 31, 2009  | \$ 3,484,011            | \$ 6,371,547   | 6,354,078   | \$ 635  | \$ 12,637,158                                    | \$ 2,274,181   | \$ 4,023,692                            | 25,351,950                 | \$ 2,536          | \$ 29,825,673 | \$ 5,454,773 |

31,677

891,181

See Accompanying Notes to the Financial Statements and Accountant's Report.

Wuhan General Group (China), Inc.  
 Consolidated Statements of Stockholders' Equity  
 For the periods ended September 30, 2010 and December 31, 2009  
 (Stated in US Dollars)

| Series A, J, C Warrants | Beneficial Conversion Feature Additional Paid in Capital | Series B Convertible Preferred Stock Shares Out-standing Amount | Series B Preferred Stock Additional Paid in Capital | Series B, JJ Warrants Additional Paid in Capital | Beneficial Conversion Feature Additional Paid in Capital | Common Stock Shares Out-standing Amount | Additional Paid in Capital | Statutory Reserve |              |             |
|-------------------------|--|---|---|--|--|---|----------------------------|-------------------|--------------|-------------|
| \$3,687,794             | \$6,371,547  | 6,354,078   | \$635   | \$12,637,158                                     | \$2,274,181  | \$4,023,692                             | 24,752,802                 | \$2,475           | \$28,436,835 | \$3,271,158 |
|                         |  |   |   |  |  | 529,787                                 | 53                         | 1,153,386         |              |             |
|                         |  |   |   |  |  | 69,361                                  | 8                          | (8)               |              |             |
|                         | (203,783)  |   |   |  |  |   |                            |                   | 203,783      |             |
|                         |  |   |   |  |  |   |                            |                   |              | 1,292,158   |
| \$3,484,011             | \$6,371,547  | 6,354,078   | \$635   | \$12,637,158                                     | \$2,274,181  | \$4,023,692                             | 25,351,950                 | \$2,536           | \$29,793,996 | \$4,563,316 |

See Accompanying Notes to the Financial Statements and Accountant's Report.

Wuhan General Group (China), Inc.  
 Statements of Cash Flows  
 For the three and nine months ended September 30, 2010 and 2009  
 (Stated in US Dollars)

|   | Three months ended    |                       | Nine months ended     |                       |
|---|-----------------------|-----------------------|-----------------------|-----------------------|
|   | September 30,<br>2010 | September 30,<br>2009 | September 30,<br>2010 | September 30,<br>2009 |
| <b>Cash Flow from Operating Activities</b>                        |                       |                       |                       |                       |
| Cash Received from Customers                                      | \$ 29,352,649         | \$ 20,543,291         | \$ 70,145,104         | \$ 54,806,025         |
| Cash Paid to Suppliers & Employees                                | (24,695,309)          | (24,617,529)          | (58,142,582)          | (55,429,438)          |
| Interest Received   | 75,307                | 288,862               | 101,374               | 494,258               |
| Interest Paid   | (1,811,846)           | (1,276,069)           | (5,946,623)           | (2,572,984)           |
| Income Taxes Paid   | (543,384)             | (591,022)             | (1,011,066)           | (1,227,465)           |
| Miscellaneous Receipts  | 63,485                | 73,002                | 211,227               | 141,821               |
| Cash Sourced/(Used) in Operating Activities                       | \$ 2,440,902          | \$ (5,579,465)        | \$ 5,357,434          | \$ (3,787,783)        |
| <b>Cash Flows from Investing Activities</b>                       |                       |                       |                       |                       |
| <b>Cash Invested in Restricted Time Deposits</b>                  |                       |                       |                       |                       |
| Cash Invested in Restricted Time Deposits                         | \$ 1,048,452          | \$ (1,205,674)        | \$ (1,606,992)        | \$ 5,644,340          |
| Payments for Construction of Plant & Purchase of Equipment        | (9,200,236)           | (585,589)             | (10,147,032)          | (1,238,982)           |
| Repayment of/(Investment in) Notes                                | -                     | (1,160)               | -                     | (1,160)               |
| Cash Sourced/(Used) in Investing Activities                       | \$ (8,151,784)        | \$ (1,792,423)        | \$ (11,754,024)       | \$ 4,404,198          |
| <b>Cash Flows from Financing Activities</b>                       |                       |                       |                       |                       |
| <b>Proceeds from/(Repayment of) Bank Loans</b>                    |                       |                       |                       |                       |
| Proceeds from/(Repayment of) Bank Loans                           | \$ 13,392,688         | \$ 14,339,013         | \$ 81,875,700         | \$ 15,160,576         |
| (Repayment of Notes)  | (5,273,221)           | (8,189,240)           | (47,745,716)          | (17,622,200)          |
| Dividends Paid  | -                     | -                     | (727,129)             | (193,804)             |
| Cash Sourced/(Used) in Financing Activities                       | \$ 8,119,467          | \$ 6,149,773          | \$ 33,402,855         | \$ (2,655,428)        |
| Net Increase/(Decrease) in Cash & Cash Equivalents for the Period | \$ 2,408,585          | \$ (1,222,115)        | \$ 27,006,265         | \$ (2,039,013)        |
| Effect of Currency Translation                                    | 3,445,056             | 15,984                | 3,015,413             | 41,339                |
| Cash & Cash Equivalents at Beginning of Period                    | 24,575,431            | 2,025,960             | 407,394               | 2,817,503             |
| Cash & Cash Equivalents at End of Period                          | \$ 30,429,072         | \$ 819,829            | \$ 30,429,072         | \$ 819,829            |

See Accompanying Notes to the Financial Statements and Accountant's Report.



Wuhan General Group (China), Inc.  
Reconciliation of Net Income to Cash Flow Sourced/(Used) in Operating Activities  
For the three and nine months ended September 30, 2010 and 2009  
(Stated in US Dollars)

|   | Three months ended       |                                     | Nine months ended        |                                     |
|---|--------------------------|-------------------------------------|--------------------------|-------------------------------------|
|   | September<br>30,<br>2010 | September 30,<br>2009<br>[restated] | September<br>30,<br>2010 | September 30,<br>2009<br>[restated] |
| Net Income  | \$ 1,831,441             | \$ 3,006,851                        | \$ 4,430,405             | \$ 4,140,239                        |
| <b>Adjustments to Reconcile Net Income to<br/>Net Cash Provided by Cash Activities:</b> |                          |                                     |                          |                                     |
| Stock Penalties   | -                        | -                                   | -                        | 1,153,439                           |
| Stock Option Compensation   | 15,103                   | -                                   | 31,678                   | -                                   |
| Amortization  | 231,207                  | 102,562                             | 422,383                  | 244,535                             |
| Depreciation  | 774,167                  | 598,618                             | 1,988,464                | 1,661,067                           |
| Decrease/(Increase) in Notes Receivable   | (2,826,185)              | 12,416                              | (2,970,241)              | (2,194)                             |
| Decrease/(Increase) in Accounts Receivable  | 3,909,934                | (4,796,292)                         | 3,681,819                | (6,354,497)                         |
| Decrease/(Increase) in Other Receivable   | (2,732,273)              | (619,146)                           | (5,113,350)              | 439,409                             |
| Decrease/(Increase) in Inventory*   | 1,989,428                | (890,465)                           | 947,244                  | (12,689,113)                        |
| Decrease/(Increase) in Advances to Suppliers  | (3,500,722)              | (3,178,946)                         | (10,617,440)             | 4,388,517                           |
| Decrease/(Increase) in Advances to Employees  | 389,423                  | 50,602                              | (212,552)                | 73,198                              |
| Decrease/(Increase) in Prepaid Expenses   | (1,060,288)              | (617,744)                           | (278,467)                | (706,328)                           |
| Decrease/(Increase) in Prepaid Taxes  | (84,977)                 | (132,347)                           | (95,045)                 | 78,531                              |
| Decrease/(Increase) in Deferred Tax Asset   | (10,757)                 | (4,969)                             | (36,948)                 | (493,300)                           |
| Increase/(Decrease) in Accounts Payable   | 332,369                  | (731,264)                           | 5,762,282                | 330,816                             |
| Increase/(Decrease) in Taxes Payable  | 906,917                  | 790,144                             | 932,673                  | 1,300,789                           |
| Increase/(Decrease) in Other Payable  | (246,153)                | (775,025)                           | 1,093,205                | 1,127,905                           |
| Increase/(Decrease) in Accrued Liabilities  | 277,096                  | 379,232                             | 242,661                  | 745,241                             |
| Increase/(Decrease) in Customer Deposits  | 2,245,172                | 1,226,308                           | 5,148,663                | 773,963                             |
| Total of all adjustments  | \$ 609,461               | \$ (8,586,316)                      | \$ 927,029               | \$ (7,928,022)                      |
| Net Cash Provided/(Used) by Operating Activities  | \$ 2,440,902             | \$ (5,579,465)                      | \$ 5,357,434             | \$ (3,787,783)                      |

\*As previously disclosed in prior filings, the Company discovered an error in the classification of certain assets. The assets were previously erroneously misclassified as Construction in Progress. The assets were in fact inventory related to the Huangli Power Plant Project. Such a misclassification impacted the Company's balance sheet at December 31, 2008 and subsequent statements of cash flows that required the Company to use the December 31, 2008 balance sheet for calculation purposes. Upon discovery of the error, the Company decided to show the error as a reconciling item on its statements of cash flows. In light of guidance provided under SAB Topic 1M and 1N, the Company has adjusted its December 31, 2008 balance sheet by reclassifying those assets to the proper account of Inventory, rather than Construction in Progress. Accordingly, the presentation of the statements of flow flows has been restated in connection with this reclassification. The Company has made such a change in order to give greater prominence to the previously identified error and to improve comparability between periods. As a result of the change, the Company's current assets and related current ratio have increased. The correction of error had no impact

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on previously reported earnings in the years ended December 31, 2009 and 2008.

See Accompanying Notes to the Financial Statements and Accountant's Report.

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Wuhan General Group (China), Inc.  
Notes to Financial Statements  
As of September 30, 2010 and December 31, 2009  
And for the three and nine months ended September 30, 2010 and 2009  
(Stated in US Dollars)

1. ORGANIZATION AND PRINCIPAL ACTIVITIES

Wuhan General Group (China), Inc. (the “Company”) is a holding company whose primary business operations are conducted through its operating subsidiaries Wuhan Blower Co., Ltd. (“Wuhan Blower”), Wuhan Generating Equipment Co., Ltd. (“Wuhan Generating”), and Wuhan Sungreen Environment Protection Equipment Co., Ltd. (“Wuhan Sungreen”), formerly known as Wuhan Xingelin Machinery Equipment Manufacturing Co., Ltd. Wuhan Blower is a China-based manufacturer of industrial blowers that principally are components of steam driven electrical power generation plants. Wuhan Generating is a China-based manufacturer of industrial steam and water turbines, also principally for use in electrical power generation plants. Wuhan Sungreen is a China-based manufacturer of blower silencers, connectors, and other general spare parts for blowers and electrical equipment.

The Company was formed under the laws of the State of Colorado on July 19, 1988 as Riverside Capital, Inc. On March 18, 1992, the Company changed its name to United National Film Corporation. In June 2001, the Company suspended all business activities and became a “shell company.”

In 2006, the Company effectively dissolved or abandoned all subsidiaries, which may or may not have been active in periods prior to June 2001. On October 20, 2006, the Company changed its state of incorporation from Colorado to Nevada by means of a merger with and into a Nevada corporation formed on September 12, 2006 solely for the purpose of effecting the reincorporation.

On February 7, 2007, the Company entered into a share exchange agreement with Fame Good International Limited (“Fame”) and Universe Faith Group Limited (“UFG”). Prior to the share exchange, Fame was the sole stockholder of UFG, which is the parent company of Wuhan Blower and Wuhan Generating. Pursuant to the share exchange, UFG became a wholly owned subsidiary of the Company and Fame became the Company’s controlling stockholder. On March 13, 2007, the Company changed its name from United National Film Corporation to Wuhan General Group (China), Inc.

On December 25, 2008, Wuhan Blower, entered into an Asset Purchase Agreement with Wuhan Gongchuang Real Estate Co., Ltd. (the “Seller”, also known as “Hubei Gongchuang Real Estate Co., Ltd”) pursuant to which Wuhan Blower acquired certain assets owned by Seller, including certain buildings, equipment, land use rights, and construction in progress. An 8-K filed with the US Securities and Exchange Commission on February 5, 2009 further details the transaction. Title of the assets purchased under the above agreement has been recorded under Wuhan Sungreen. Wuhan Blower currently owns 100% beneficial interest in Wuhan Sungreen. Wuhan Sungreen is incorporated under the laws of the PRC. The purchased assets have been accounted for on Wuhan Sungreen’s books as contributed capital.

The assets that were purchased from the Seller were re-appraised by an independent appraisal firm Zhuhai GongPingSiYuan Appraising Co Ltd (“Zhuhai”). The re-appraisal found that the purchase price of the assets was not materially unfair. Zhuhai concluded that when the entire construction of the workshop and buildings is completed, the purchase price should be considered fair. See also Note 9 – Property, Plant and Equipment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a)

Method of Accounting

The Company maintains its general ledger and journals with the accrual method of accounting for financial reporting purposes. The financial statements and notes are representations of management. Accounting policies adopted by the Company conform to generally accepted accounting principles in the United States of America and have been consistently applied in the presentation of financial statements, which are compiled on the accrual basis of accounting.

(b)

Consolidation

The interim consolidated financial statements include the accounts of the Company and its subsidiaries, UFG, Wuhan Blower, Wuhan Generating and Wuhan Sungreen. Inter-company transactions, such as sales, cost of sales, due to/due from balances, investment in subsidiaries, and subsidiaries' capitalization have been eliminated.



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(c) Economic and Political Risks

The Company's operations are conducted in the People's Republic of China (the "PRC"). Accordingly, the Company's business, financial condition and results of operations may be influenced by the political, economic and legal environment in the PRC, and by the general state of the PRC economy.

(d) Use of Estimates

In preparing the financial statements in conformity with accounting principles generally accepted in the United States of America, management makes estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the dates of the financial statements, as well as the reported amounts of revenues and expenses during the reporting periods. These estimates and assumptions include, but are not limited to, the valuation of accounts receivable, inventories, deferred income taxes and the estimation of useful lives of property, plant, and equipment. Actual results could differ from these estimates.

(e) Cash and Cash Equivalents

The Company considers all cash and other highly liquid investments with initial maturities of three months or less to be cash equivalents. The Company maintains bank accounts in the United States of America and in the PRC.

(f) Accounts Receivable-Trade

Trade receivables are recognized and carried at the original invoice amount less allowance for any uncollectible amounts. An allowance for doubtful accounts is made when collection of the full amount is no longer probable. Pursuant to the Company's accounting policies, the allowance for doubtful accounts is determined by applying a rate of five percent on outstanding trade receivables. In addition, the Company uses a specific review process to determine if any additional allowances for doubtful accounts are required. Bad debts are charged against the allowance when outstanding trade receivables have been determined to be uncollectible. See also Note 5 – Accounts Receivable.

(g) Inventory

Inventory, consisting of raw materials, work in progress, and finished products, is stated at the lower of cost or market value. Finished products are comprised of direct materials, direct labor and an appropriate proportion of overhead.

(h) Property, Plant, and Equipment

Property, plant, and equipment are carried at cost less accumulated depreciation. Depreciation is provided over their estimated useful lives, using the straight-line method with 5% salvage value. Estimated useful lives of the property, plant and equipment are as follows:

|                         |          |
|-------------------------|----------|
| Buildings               | 30 years |
| Machinery and Equipment | 10 years |

|                        |         |
|------------------------|---------|
| Furniture and Fixtures | 5 years |
| Motor Vehicles         | 5 years |

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(i) Intangible Assets

Intangible assets are stated at cost less accumulated amortization. Amortization is provided over the respective useful lives, using the straight-line method. Estimated useful lives of intangibles are as follows:

|                    |          |
|--------------------|----------|
| Technical Licenses | 10 years |
| Trademark          | 20 years |

In accordance with ASU 350 Impairment of Long-Lived Assets, the Company reviews its technical licenses and trademarks for impairment on an annual basis. The Company's review process focuses on estimating future cash flows generated by these intangible assets. The estimation of future cash flows includes consideration of obsolescence of technical licenses and potential trademark infringement. The Company has not yet recognized any impairment upon the intangible assets. See note 2(k) Accounting for Impairment of Long-Lived Assets for detailing of how the Company accounts for impairment.

(j) Land Use Rights

The Company carries land use rights at cost less accumulated amortization. Land use rights are amortized straight-line over the useful life of 50 years for the Wuhan Blower and Wuhan Generating campus, and of 30 years for the Wuhan Sungreen campus.

(k) Accounting for Impairment of Long-Lived Assets

The Company adopted Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"), which addresses financial accounting and reporting for the impairment or disposal of long-lived assets. The Company periodically evaluates the carrying value of long-lived assets to be held and used in accordance with SFAS 144. SFAS 144 requires impairment losses to be recorded on long-lived assets used in operations when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amounts. In that event, a loss is recognized based on the amount by which the carrying amount exceeds the fair market value of the long-lived assets. Loss on long-lived assets to be disposed of is determined in a similar manner, except that fair market values are reduced for the cost of disposal. The Company's long-lived assets are grouped by their presentation on the financial statements according to the balance sheet and further segregated by their operating and asset type. Long-lived assets subject to impairment include buildings, equipment, vehicles, trademarks, software licenses, land use rights and real property available for sale. The Company considers annually whether these assets are impaired. The Company makes its determinations based on various factors that impact those assets. For example, the Company considers real property impaired if property prices decrease drastically and it is unlikely that the prices will recover within the foreseeable future. Although property values in the PRC have experienced a decline during the last year, prices are increasing again. Therefore, the Company believes its real property has at least retained the value of its original cost to the Company. Equipment used for production, which undergo regular maintenance, are assessed annually. The Company has maintained a profitable business amidst the economic downturn and equipment has continued to be used for production, indicating that such equipment still retains its value to the Company. Based on its review, the Company believes that, as of September 30, 2010 and December 31, 2009, there were no significant impairments of its

long-lived assets.

The Company believes that cash flows generated by its ongoing business, which incorporates significant use of the long-lived assets of the Company, provide sufficient profit so that it is unnecessary to record any impairment charges. The Company believes that current annual provision of depreciation and amortization provides sufficient expense related to the use of the long-lived assets carried on the Company's books.

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(l) Revenue Recognition

Revenue from the sale of blower products, generating equipment and other general equipment is recognized at the time of the transfer of risks and rewards of ownership, which generally occurs when the goods are delivered to customers and the title passes. The Company believes that the installation is not essential to the functionality of the equipment. This is because the equipment is tested at the Company's facilities before it is shipped and consequently, the equipment is completed and functional at the point that it is delivered to the customer. Additionally, since the Company's products generally are a smaller component of a large project, after delivery, the Company has no control over how the customer will use the delivered products and sometimes other companies are used to install the equipment purchased from us. Finally, our customers do not have a contractual right to return products to the Company, and we historically have experienced virtually no returns. Product sales revenue represents the invoiced value of goods, net of the value-added tax (VAT). All of the Company's products that are sold in the PRC are subject to a Chinese value-added tax at a rate of 17% of the gross sales price. This VAT may be offset by VAT paid by the Company on raw materials and other materials included in the cost of producing the finished product.

Revenue from "Turn-Key" construction projects is recognized using the percentage-of-completion method of accounting and therefore takes into account the costs, estimated earnings and revenue to date on contracts not yet completed. Revenue recognized is that percentage of the total contract price that cost expended to date bears to anticipated final total cost, based on current estimates of costs to complete. Contract costs include all direct material and labor costs and those indirect costs related to contract performance, such as indirect labor, supplies, tools, repairs, and depreciation costs. Selling, general, and administrative costs are charged to expense as incurred. At the time a loss on a contract becomes known, the entire amount of the estimated ultimate loss is recognized in the consolidated financial statements. Claims for additional contract costs are recognized upon a signed change order from the customer or in accordance with paragraphs 62 and 65 of AICPA Statement of Position 81-1, "Accounting for Performance of Construction - Type and Certain Production - Type Contracts."

Revenue from the rendering of maintenance services is recognized when such services are provided.

Provision is made for foreseeable losses as soon as they are anticipated by management.

(m) Cost of Sales

The Company's cost of sales is comprised of raw materials, factory worker salaries and related benefits, machinery supplies, maintenance supplies, depreciation, utilities, inbound freight, purchasing and receiving costs, inspection and warehousing costs.

(n) Selling Expenses

Selling expenses are comprised of outbound freight, salary for the sales force, client entertainment, commissions, depreciation, advertising, and travel and lodging expenses.

(o) General & Administrative Expenses

General and administrative expenses include outside consulting services, research & development, executive compensation, quality control, and general overhead such as the finance department, administrative staff, and depreciation and amortization expense.

(p)

Advertising

The Company expenses all advertising costs as incurred.

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(q) Research and Development

The Company expenses all research and development costs as incurred.

(r) Shipping and Handling

Shipping and handling costs represent costs associated with shipping products to customers and handling finished goods. Shipping and handling costs billed to customers are recognized as revenue and shipping and handling costs incurred by the Company are included in cost of sales.

(s) Foreign Currency Translation

The Company maintains its financial statements in the functional currency, which is the Renminbi (RMB). Monetary assets and liabilities denominated in currencies other than the functional currency are translated into the functional currency at rates of exchange prevailing at the balance sheet dates. Transactions denominated in currencies other than the functional currency are translated into the functional currency at the exchange rates prevailing at the dates of the transaction. Exchange gains or losses arising from foreign currency transactions are included in the determination of net income for the respective periods.

For financial reporting purposes, the financial statements of the Company, which are prepared using the functional currency, have been translated into United States dollars. Assets and liabilities are translated at the exchange rates at the balance sheet dates and revenue and expenses are translated at the average exchange rates and stockholders' equity is translated at historical exchange rates. Translation adjustments are not included in determining net income but are included in foreign exchange adjustment to other comprehensive income, a component of stockholders' equity.

| Exchange Rates                          | 9/30/2010 | 12/31/2009 | 9/30/2009 |
|---|-----------|------------|-----------|
| Period end RMB : US\$ exchange rate     | 6.6981    | 6.83720    | 6.8376    |
| Average period RMB : US\$ exchange rate | 6.8164    | 6.84088    | 6.8425    |

RMB is not freely convertible into foreign currency and all foreign exchange transactions must take place through authorized institutions. No representation is made that the RMB amounts could have been, or could be, converted into US\$ at the rates used in translation.

(t) Income Taxes

The Company uses the accrual method of accounting to determine income taxes for the year. The Company has implemented Statement of Financial Accounting Standards (SFAS) No. 109, Accounting for Income Taxes. Income tax liabilities computed according to the United States and People's Republic of China (PRC) tax laws are provided for the tax effects of transactions reported in the financial statements and consist of taxes currently due plus deferred taxes related primarily to differences between the basis of fixed assets and intangible assets for financial and tax reporting. The deferred tax assets and liabilities represent the future tax return consequences of those differences, which will be either taxable or deductible when the assets and liabilities are recovered or settled. Deferred taxes also are recognized for operating losses that are available to offset future income taxes. A valuation allowance is created to evaluate

deferred tax assets if it is more likely than not that these items will either expire before the Company is able to realize that tax benefit, or that future realization is uncertain.

Effective January 1, 2009, PRC government implemented a new 25% tax rate for all domestic and foreign enterprises abolishing any tax holiday, which was defined as "two-year exemption followed by three-year half exemption" enjoyed by many foreign-invested enterprises. As a result of the new tax law of a standard 25% tax rate, tax holidays terminated as of December 31, 2008. However, the PRC government established transition rules allowing enterprises already benefiting from tax holidays before January 1, 2009, to continue enjoying the tax holidays until being fully utilized. For the year ended December 31, 2009, Wuhan Blower and Wuhan Generating were subject to a 12.5% tax rate and Wuhan Sungreen was subject to a 25% tax rate.

The Company is also subject to United States Tax according to Internal Revenue Code Sections 951 and 957. Corporate income tax is imposed on progressive rates in the range of:



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|      | Taxable Income |              |                |
|------|----------------|--------------|----------------|
| Rate | Over           | But Not Over | Of Amount Over |
| 15%  | 0              | 50,000       | 0              |
| 25%  | 50,000         | 75,000       | 50,000         |
| 34%  | 75,000         | 100,000      | 75,000         |
| 39%  | 100,000        | 335,000      | 100,000        |
| 34%  | 335,000        | 10,000,000   | 335,000        |
| 35%  | 10,000,000     | 15,000,000   | 10,000,000     |
| 38%  | 15,000,000     | 18,333,333   | 15,000,000     |
| 35%  | 18,333,333     | -            | -              |

(u) Statutory Reserve

In accordance with PRC laws, the Company maintains statutory reserves which are appropriations from net income, to the account “statutory reserve” to be used for future company development, recovery of losses, and increase of capital, as approved, to expand production or operations. PRC laws require that an enterprise operating at a profit, must appropriate, on an annual basis, an amount equal to 10% of its profit. Such an appropriation is necessary until the reserve reaches a maximum that is equal to 50% of the enterprise’s PRC registered capital. The Company cannot pay dividends from statutory reserves or paid in capital registered in the PRC.

(v) Other Comprehensive Income

Comprehensive income is defined to include all changes in equity, except those resulting from investments by owners and distributions to owners. Among other disclosures, all items that are required to be recognized under current accounting standards as components of comprehensive income are required to be reported in a financial statement that is presented with the same prominence as other financial statements. The Company’s current component of other comprehensive income is the foreign currency translation adjustment.

(w) Warranty Policy

The estimation of warranty obligations is determined in the same period that revenue from the sale of the related products is recognized. The warranty obligation is based on historical experience and reflects management’s best estimate of expected costs at the time products are sold. Warranty accruals are adjusted for known or anticipated warranty claims as new information becomes available. Future events and circumstances could materially change our estimates and require adjustments to the warranty obligation. New product launches require a greater use of judgment in developing estimates until historical experience becomes available. See also Note 15 – Warranty Liability.

(x) Earnings Per Share

Basic earnings per share is computed on the basis of the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share is computed on the basis of the weighted average number of shares of common stock plus the effect of dilutive potential common shares outstanding during the period using the treasury stock method for warrants and the as-if method for convertible securities. Dilutive potential common shares

include outstanding warrants, and convertible preferred stock. See also Note 19 – Earnings Per Share.

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(y) Financial Instruments

The Company's financial instruments are cash and cash equivalents, accounts receivable, other receivable, advances to suppliers, advances to employees, bank loans and notes, accounts payable, other payable, dividend payable, accrued liabilities, and long-term liabilities. The recorded values of cash and cash equivalents, accounts receivable, other receivable, advances to suppliers, advances to employees, bank loans and notes, accounts payable, other payable, dividend payable and accrued liabilities approximate their fair values based on their short-term nature.

(z) Retirement Plan

The employees of the Company participate in the defined contribution retirement plans managed by the local government authorities whereby the Company is required to contribute to the schemes at fixed rates of the employees' salary. The Company's contributions to this plan are charged to profit or loss when incurred. The Company has no obligations for the payment of retirement and other post-retirement benefits of staff other than the contributions described above.

(aa) Recent Accounting Pronouncements

In June 2009, FASB issued FASB Statement No. 166, Accounting for Transfers for Financial Assets (FASB ASC 860 Transfers and Servicing) and FASB Statement No. 167 (FASB ASC 810 Consolidation), a revision to FASB Interpretation No. 46 (Revised December 2003), Consolidation of Variable Interest Entities (FASB ASC 810 Consolidation).

Statement 166 is a revision to FASB Statement No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities (FASB ASC 860 Transfers and Servicing), and will require more information about transfers of financial assets, including securitization transactions, and where entities have continuing exposure to the risks related to transferred financial assets. It eliminates the concept of a "qualifying special-purpose entity," changes the requirements for derecognizing financial assets, and requires additional disclosures. Statement No. 166 (FASB ASC 860 Transfers and Servicing) must be applied as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period and for interim and annual reporting periods thereafter. Earlier application is prohibited. This Statement must be applied to transfers occurring on or after the effective date. The Company has adopted the new accounting standard. There was no material impact on the financial statements presented herein.

Statement 167 is a revision to FASB Interpretation No. 46 (Revised December 2003), Consolidation of Variable Interest Entities (FASB ASC 810 Consolidation), and changes how a reporting entity determines whether an entity that is insufficiently capitalized or is not controlled through voting (or similar) rights should be consolidated. The determination of whether a reporting entity is required to consolidate another entity is based on, among other things, the other entity's purpose and design and the reporting entity's ability to direct the activities of the other entity that most significantly impact the other entity's economic performance. Statement No. 167 (FASB ASC 810 Consolidation) shall be effective as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period, and for interim and annual reporting periods thereafter. Earlier application is prohibited. The Company has adopted the new accounting standard. There was no

material impact on the financial statements presented herein.

On June 30, 2009, FASB issued FASB Statement No. 168, Accounting Standards Codification™ ( FASB ASC 105 Generally Accepted Accounting Principles) a replacement of FASB Statement No. 162 the Hierarchy of Generally Accepted Accounting Principles. On the effective date of this standard, FASB Accounting Standards Codification™ (ASC) became the source of authoritative U.S. accounting and reporting standards for nongovernmental entities, in addition to guidance issued by the Securities and Exchange Commission (SEC). This statement is effective for financial statements issued for interim and annual periods ending after September 15, 2009. If an accounting change results from the application of this guidance, an entity should disclose the nature and reason for the change in accounting principle in their financial statements. This new standard categorizes the GAAP hierarchy to two levels: one that is authoritative (in FASB ASC) and one that is non-authoritative (not in FASB ASC). Exceptions include all rules and interpretive releases of the SEC under the authority of federal securities laws, which are sources of authoritative GAAP for SEC registrants, and certain grandfathered guidance having an effective date before March 15, 1992. Statement No. 168 is the final standard that will be issued by FASB in that form. There will no longer be, for example, accounting standards in the form of statements, staff positions, Emerging Issues Task Force (EITF) abstracts, or AICPA Accounting Statements of Position. The Company has adopted the new accounting standard. There was no material impact on the financial statements presented herein.





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6. INVENTORY

|                  | September 30,<br>2010 | December 31,<br>2009 |
|------------------|-----------------------|----------------------|
| Raw Materials    | \$ 6,826,781          | \$ 4,938,537         |
| Work in Progress | 4,894,977             | 8,319,353            |
| Finished Goods   | 2,961,468             | 2,372,580            |
|                  | \$ 14,683,226         | \$ 15,630,470        |

7. ADVANCES TO SUPPLIERS

Advances to suppliers of \$35,233,559 and \$24,616,120 as of September 30, 2010 and December 31, 2009, respectively, consisted of advances to vendors for raw materials, equipment, parts, transportation and projects. The following table details the Company's advances to suppliers at September 30, 2010:

|                             | September 30,<br>2010 |
|-----------------------------|-----------------------|
| Raw Materials               | \$ 15,856,788         |
| Equipment                   | 14,061,138            |
| Advances to sub-contractors | 2,301,089             |
| Transportation              | 298,592               |
| Miscellaneous               | 2,715,952             |
|                             | \$ 35,233,559         |

8. ADVANCES TO EMPLOYEES

Advances to Employees of \$555,381 and \$342,829 as of September 30, 2010 and December 31, 2009, respectively, consisted of advances to salespeople for salary, travel, and expenses over extended periods as they work to procure new sales contracts or install and perform on existing contracts. These advances are deducted from future sales commissions earned by these salespeople. In the event that a salesperson leaves the Company prior to earning sales commissions sufficient to offset advances paid to the salesperson, the Company immediately expenses any outstanding balance to the income statement. None of the employees who have received these advances is a director or executive officer of the Company.

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9. **PROPERTY, PLANT AND EQUIPMENT**

Property, plant, and equipment, which are stated at cost less depreciation, were composed of the following:

At September 30, 2010

| Category of Asset                            | Wuhan<br>Blower      | Wuhan<br>Generating  | Wuhan<br>Sungreen   | Total                |
|--|----------------------|----------------------|---------------------|----------------------|
| Buildings                                    | \$ 13,582,053        | \$ 8,873,432         | \$ -                | \$ 22,455,485        |
| Machinery & Equipment                        | 1,995,351            | 12,648,801           | 2,063,220           | 16,707,372           |
| Furniture & Fixtures                         | 378,890              | 26,604               | 8,102               | 413,596              |
| Auto   | 748,072              | 330,168              | 14,894              | 1,093,134            |
| Other  | 77,826               | -                    | -                   | 77,826               |
|  | 16,782,192           | 21,879,005           | 2,086,216           | 40,747,413           |
| <b>Less: Accumulated Depreciation</b>        |                      |                      |                     |                      |
| Buildings                                    | (2,702,808)          | (379,414)            | -                   | (3,082,222)          |
| Machinery & Equipment                        | (965,568)            | (3,300,083)          | (339,475)           | (4,605,126)          |
| Furniture & Fixtures                         | (311,200)            | (8,910)              | (3,031)             | (323,141)            |
| Auto   | (553,796)            | (108,390)            | (2,361)             | (664,547)            |
| Other  | 17,440               | -                    | -                   | 17,440               |
|  | (4,515,932)          | (3,796,797)          | (344,867)           | (8,657,596)          |
| <b>Property, Plant, &amp; Equipment, Net</b> | <b>\$ 12,266,260</b> | <b>\$ 18,082,208</b> | <b>\$ 1,741,349</b> | <b>\$ 32,089,817</b> |

At December 31, 2009

| Category of Asset                            | Wuhan<br>Blower      | Wuhan<br>Generating  | Wuhan<br>Sungreen   | Total                |
|--|----------------------|----------------------|---------------------|----------------------|
| Buildings                                    | \$ 13,192,892        | \$ 8,692,905         | \$ -                | \$ 21,885,797        |
| Machinery & Equipment                        | 1,908,216            | 12,343,760           | 2,020,846           | 16,272,822           |
| Furniture & Fixtures                         | 367,993              | 16,666               | 6,607               | 391,266              |
| Auto   | 678,290              | 267,044              | 7,313               | 952,647              |
| Other  | 74,933               | -                    | -                   | 74,933               |
|  | 16,222,324           | 21,320,375           | 2,034,766           | 39,577,465           |
| <b>Less: Accumulated Depreciation</b>        |                      |                      |                     |                      |
| Buildings                                    | (2,237,889)          | (165,239)            | -                   | (2,403,128)          |
| Machinery & Equipment                        | (811,808)            | (2,352,315)          | (219,212)           | (3,383,335)          |
| Furniture & Fixtures                         | (278,719)            | (6,047)              | (1,812)             | (286,578)            |
| Auto   | (487,616)            | (86,651)             | (578)               | (574,845)            |
| Other  | (21,245)             | -                    | -                   | (21,245)             |
|  | (3,837,277)          | (2,610,252)          | (221,602)           | (6,669,131)          |
| <b>Property, Plant, &amp; Equipment, Net</b> | <b>\$ 12,385,047</b> | <b>\$ 18,710,123</b> | <b>\$ 1,813,164</b> | <b>\$ 32,908,334</b> |



The shared campus of Wuhan Blower and Wuhan Generating consists of approximately 440,000 square feet (44,233 square meters) of building floor space. The Company's new turbine manufacturing workshop will provide approximately 215,482 square feet (20,019 square meters) of floor space. A new office building will house the business operations of Wuhan Generating and will provide an additional 134,656 square feet (12,510 square meters) of floor space.

The newly acquired campus of Wuhan Sungreen will house the following buildings when fully built out and complete:

|                  | Square<br>Feet | Square<br>Meters |
|------------------|----------------|------------------|
| Workshop 1       | 136,131        | 12,647.00        |
| Workshop 2       | 90,363         | 8,395.00         |
| Workshop 3       | 95,777         | 8,898.00         |
| Dormitories      | 67,662         | 6,286.08         |
| Commercial Shops | 5,285          | 491.00           |
| Warehouse        | 102,155        | 9,490.60         |
| Office Buildings | 152,994        | 14,213.64        |
|                  | 650,367        | 60,421.32        |

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The local government has already approved the architectural plans for all of the buildings. Currently Workshop 1, Warehouse, Dormitories, and Commercial Shops have yet to be built. Workshop 2 and Workshop 3 are fully built. The Office Building is currently under construction but has yet to be completed.

In order to complete the building of the Workshop 1 the Company will need to pay approximately an additional \$5.1 million beyond the amount committed in the asset purchase agreement.

10. LAND USE RIGHTS

At September 30, 2010

| Category of Asset              | Wuhan Blower | Wuhan Generating | Wuhan Sungreen | Total         |
|--------------------------------|--------------|------------------|----------------|---------------|
| Land Use Rights                | \$ 2,167,062 | \$ -             | \$ 10,717,860  | \$ 12,884,922 |
| Less: Accumulated Amortization | (333,249)    | -                | (670,738)      | (1,003,987)   |
| Land Use Rights, Net           | \$ 1,833,813 | \$ -             | \$ 10,047,122  | \$ 11,880,935 |

At December 31, 2009

| Category of Asset              | Wuhan Blower | Wuhan Generating | Wuhan Sungreen | Total         |
|--------------------------------|--------------|------------------|----------------|---------------|
| Land Use Rights                | \$ 2,199,372 | \$ -             | \$ 10,499,810  | \$ 12,699,182 |
| Less: Accumulated Amortization | (276,049)    | -                | (349,994)      | (626,043)     |
| Land Use Rights, Net           | \$ 1,923,323 | \$ -             | \$ 10,149,816  | \$ 12,073,139 |

The Company acquired through Wuhan Hi-Tech Blower Manufacturing Co. Ltd. the Land Use Rights for three parcels of land totaling 1,170,000 square feet for a term of 50 years from March 1, 2004 to March 1, 2054 for \$1,856,757 (RMB 14,515,200). The land has been used for the Company's facilities including the blower manufacturing facilities, turbine manufacturing facility, warehouses, testing facilities, dormitories, and administrative buildings for its Wuhan Blower and Wuhan Generating subsidiaries.

The parcel of land purchased in the asset acquisition and now carried on the books of Wuhan Sungreen total 792,547 square feet (73,630.05 square meters). The land will be used for Wuhan Sungreen's office building, workshops, and dormitories. The land use right will be amortized over 30 years.

11. CONSTRUCTION IN PROGRESS

Construction in progress represents the direct costs of design, acquisition, building construction, building improvements, and land improvement. These costs are capitalized in the Construction in Progress account until substantially all activities necessary to prepare the assets for their intended use are completed. At such point, the Construction in Progress account is closed and the capitalized costs are transferred to their appropriate asset classification. No depreciation is provided until it is completed and ready for the intended use.

The assets reported under the construction in progress account relate to various projects at the Company's operating subsidiaries. All of the construction projects at Wuhan Blower have been substantially completed. The assets have

been put into use. Accordingly, the assets have been moved to the property, plant and equipment account. Construction projects at Wuhan Generating include a new workshop, office building and the installation of equipment in the workshop. The workshop was completed in the beginning of 2009. All equipment will be fully installed and operational by the end of 2010. The structure of the office building has been substantially completed; however, the necessary construction of the interior to bring the building into use has been temporarily stopped. The Company is evaluating its current resources and will provide an expected completion date when it believes sufficient resources will be available to complete the construction. The construction projects at Wuhan Sungreen include a new workshop and office building. The Company expects construction on both the workshop and office building to be complete by the end of 2010.

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Construction in progress increased by approximately \$18.2 million from December 31, 2007 to December 31, 2008. Approximately \$11.0 million of this increase was attributable to the acquisition of construction in progress accounts related to the purchase of Wuhan Sungreen in 2008. Approximately \$7.2 million was attributable to investments in the turbine facility of Wuhan Generating. Also, during this same period, certain assets that were completed and put into use were moved from the construction in progress account to the property, plant and equipment account. From December 31, 2008 to December 31, 2009, Construction in Progress decreased by approximately \$10.2 million which reflects those assets being moved from construction in progress account to the property, plant and equipment account.

The following table details the assets that are accounted for in the Construction-in-Progress account at September 30, 2010 and December 31, 2009:

| Subsidiary       | Description                      | At<br>September 30,<br>2010 | At<br>December 31,<br>2009 |
|------------------|----------------------------------|-----------------------------|----------------------------|
| Wuhan Blower     | Badminton courts                 | \$ 24,634                   | \$ 24,133                  |
| Wuhan Blower     | Workshop Equipment               | 425,882                     | -                          |
| Wuhan Generating | Capitalized Interest             | -                           | 67,561                     |
| Wuhan Generating | Equipment Requiring Installation | 10,771,335                  | 2,528,256                  |
| Wuhan Generating | Generating Office Building       | 3,499,086                   | 3,427,899                  |
| Wuhan Generating | Miscellaneous                    | -                           | 4,429                      |
| Wuhan Sungreen   | Landscaping                      | 149,318                     | 146,280                    |
| Wuhan Sungreen   | Workshop                         | 4,951,870                   | 4,849,588                  |
| Wuhan Sungreen   | Office Building                  | 5,974,145                   | 5,792,300                  |
| Wuhan Sungreen   | Utility Systems Setup            | 1,045,072                   | 1,023,811                  |
|                  |                                  | \$ 26,841,342               | \$ 17,864,257              |

## 12. INTANGIBLE ASSETS

The following categories of assets are stated at cost less accumulated amortization.

| Category of Asset                     | September 30,<br>2010 | December 31,<br>2009 |
|---------------------------------------|-----------------------|----------------------|
| Trademarks                            | \$ 149,296            | \$ 106,038           |
| Mitsubishi License                    | 343,811               | 302,888              |
| Tianyu CAD License                    | 4,554                 | 3,958                |
| Sunway CAD License                    | 17,169                | 16,820               |
| Microsoft License                     | 14,258                | 12,222               |
|                                       | \$ 529,088            | \$ 441,926           |
| <b>Less: Accumulated Amortization</b> |                       |                      |
| Trademarks                            | \$ (74,648)           | \$ (62,160)          |

|                        |              |              |
|------------------------|--------------|--------------|
| Mitsubishi License     | (181,822)    | (152,862)    |
| Tianyu CAD License     | (2,676)      | (2,287)      |
| Sunway CAD License     | (5,066)      | (3,915)      |
| Microsoft License      | (9,354)      | (7,904)      |
|                        | \$ (273,566) | \$ (229,128) |
| Intangible Assets, Net | \$ 255,522   | \$ 212,798   |

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The weighted average amortization period for the Company's intangible assets at September 30, 2010 and December 31, 2009 were 12.82 years and 12.82 years, respectively.

The weighted average amortization period for the Trademark is 20 years.

The weighted average amortization period for the Mitsubishi, CAD, and Microsoft technical licenses is 10 years.

### 13. BANK LOANS AND NOTES

The following table provides the name of the creditor, due date, interest rate, and amounts outstanding at September 30, 2010 and December 31, 2009, for the Company's bank loans and notes payable.

| Short Term Bank Loans and Notes |            |                                    |            | Interest       | At                 | At                |
|---------------------------------|------------|------------------------------------|------------|----------------|--------------------|-------------------|
| Subsidiary                      | Type       | Name of Creditor                   | Due Date   | Rate Per Annum | September 30, 2010 | December 31, 2009 |
| Wuhan Blower                    | Bank Loans | China Citic Bank                   | 4/19/2010  | 5.31%          | \$ -               | \$ 3,656,467      |
| Wuhan Blower                    | Bank Loans | Bank of China Ltd.                 | 3/2/2010   | 5.40%          | -                  | 804,423           |
| Wuhan Blower                    | Bank Loans | Guangdong Development Bank         | 6/15/2010  | 6.37%          | -                  | 1,608,846         |
| Wuhan Blower                    | Bank Loans | Agricultural Bank of China         | 8/6/2010   | 5.84%          | -                  | 7,312,935         |
| Wuhan Blower                    | Bank Loans | Hankou Bank                        | 7/5/2010   | 5.31%          | -                  | 833,675           |
| Wuhan Blower                    | Bank Loans | Standard Chartered Bank            | 12/16/2013 | 9.40%          | -                  | 7,094,145         |
| Wuhan Blower                    | Bank Loans | Hankou Bank                        | 6/29/2011  | 5.31%          | 19,050,178         | -                 |
| Wuhan Blower                    | Bank Loans | Hankou Bank                        | 7/27/2011  | 5.31%          | 5,971,843          | -                 |
| Wuhan Blower                    | Bank Loans | Hankou Bank                        | 9/30/2011  | 4.43%          | 746,480            | -                 |
| Wuhan Blower                    | Bank Loans | Hubei Zhongjing Credit Co., Ltd.   | 12/28/2010 | 4.80%          | 1,080,530          | -                 |
| Wuhan Blower                    | Bank Loans | Wuhan Kangfuman Investment Limited | 12/05/2010 | 4.43%          | 298,592            | -                 |
| Subtotal                        |            |                                    |            |                | \$ 27,147,623      | \$ 21,310,491     |

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|              |               |                         |           |  |    |    |    |              |
|--------------|---------------|-------------------------|-----------|--|----|----|----|--------------|
| Wuhan Blower | Notes Payable | Standard Chartered Bank | 4/21/2010 |  | \$ | -  | \$ | 1,828,234    |
| Wuhan Blower | Notes Payable | Standard Chartered Bank | 3/3/2010  |  |    | -  |    | 417,047      |
| Wuhan Blower | Notes Payable | Standard Chartered Bank | 3/18/2010 |  |    | -  |    | 1,462,587    |
| Wuhan Blower | Notes Payable | Standard Chartered Bank | 2/11/2010 |  |    | -  |    | 731,294      |
| Wuhan Blower | Notes Payable | Bank of Communications  | 1/24/2010 |  |    | -  |    | 892,178      |
| Subtotal     |               |                         |           |  |    | \$ | -  | \$ 5,331,340 |

|                  |            |                            |            |       |           |    |            |              |
|------------------|------------|----------------------------|------------|-------|-----------|----|------------|--------------|
| Wuhan Generating | Bank Loans | Hankou Bank                | 10/13/2010 | 5.31% |           | -  |            | 1,462,587    |
| Wuhan Generating | Bank Loans | Bank of Communications     | 12/23/2010 | 5.67% |           | -  |            | 1,462,587    |
| Wuhan Generating | Bank Loans | Bank of Communications     | 12/23/2010 | 5.67% |           | -  |            | **1,462,587  |
| Wuhan Generating | Bank Loans | Standard Chartered Bank    | 12/17/2012 | 9.40% |           | -  |            | 2,925,714    |
| Wuhan Generating | Bank Loans | Hankou Bank                | 10/13/2010 | 5.31% | 1,492,961 |    |            | -            |
| Wuhan Generating | Bank Loans | Hankou Bank                | 6/29/2011  | 5.31% | 4,478,882 |    |            | -            |
| Wuhan Generating | Bank Loans | Xingye Bank                | 4/27/2011  | 6.37% | 8,957,764 |    |            | -            |
| Wuhan Generating | Bank Loans | Agricultural Bank of China | 8/19/2011  | 5.31% | 1,492,961 |    |            | -            |
| Wuhan Generating | Bank Loans | Agricultural Bank of China | 8/22/2011  | 5.31% | 6,419,730 |    |            | -            |
| Wuhan Generating | Bank Loans | Agricultural Bank of China | 8/26/2011  | 5.31% | 1,194,369 |    |            | -            |
| Subtotal         |            |                            |            |       |           | \$ | 24,036,667 | \$ 7,313,475 |

|                  |               |                        |           |  |    |   |         |           |
|------------------|---------------|------------------------|-----------|--|----|---|---------|-----------|
| Wuhan Generating | Notes Payable | Bank of Communications | 1/6/2010  |  | \$ | - | \$      | 1,462,587 |
| Wuhan Generating | Notes Payable | Bank of Communications | 1/12/2010 |  |    | - |         | 1,462,587 |
| Wuhan Generating | Notes Payable | Bank of Communications | 1/17/2010 |  |    | - |         | 1,462,587 |
| Wuhan Generating | Notes Payable | Bank of Communications | 1/22/2010 |  |    | - |         | 1,462,587 |
| Wuhan Generating | Notes Payable | Hankou Bank            | 4/13/2010 |  |    | - |         | 1,462,587 |
| Wuhan Generating | Notes Payable | Hankou Bank            | 4/21/2010 |  |    | - |         | 530,188   |
| Wuhan Generating | Notes Payable | Hankou Bank            | 4/26/2010 |  |    | - |         | 917,773   |
| Wuhan Generating | Notes Payable | Bank of Communications | 4/8/2010  |  |    | - |         | 3,948,985 |
|                  |               |                        |           |  |    |   | 895,776 | -         |

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|  |                |                                 |            |       |               |               |   |
|--|----------------|---------------------------------|------------|-------|---------------|---------------|---|
| Wuhan Generating                         | Notes Payable  |                                 |            |       |               |               |   |
| Wuhan Generating                         | Notes Payable  | Hankou Bank                     | 10/27/2010 |       | 597,185       |               | - |
| Wuhan Generating                         | Notes Payable  | Pudong Development Bank         | 11/27/2010 |       | 8,211,285     |               | - |
| Subtotal                                 |                |                                 |            |       | \$ 9,704,246  | \$ 12,709,881 |   |
| Wuhan Sungreen                           | Notes Payable  | Various vendors and individuals | On Demand  |       | \$ 143,324    | \$ *93,066    |   |
| Subtotal                                 |                |                                 |            |       | \$ 143,324    | \$ 93,066     |   |
| Total of Short Term Bank Loans and Notes |                |                                 |            |       | \$ 61,031,860 | \$ 46,758,253 |   |
| Long Term Bank Loans                     |                |                                 |            |       |               |               |   |
| Wuhan Blower                             | Long Term Loan | China Construction Bank         | 7/1/2012   | 5.40% | \$ 3,135,217  | \$            | - |
| Wuhan Blower                             | Long Term Loan | Agricultural Bank of China      | 6/20/2012  | 5.40% | 2,538,033     |               | - |
| Wuhan Blower                             | Long Term Loan | Agricultural Bank of China      | 8/17/2012  | 5.40% | 4,478,882     |               | - |
| Wuhan Blower                             | Long Term Loan | Agricultural Bank of China      | 9/16/2012  | 5.40% | 5,225,362     |               | - |
| Subtotal                                 |                |                                 |            |       | 15,377,494    |               | - |
| Wuhan Generating                         | Long Term Loan | Hankou Bank                     | 9/30/2013  | 5.60% | \$ 4,478,882  | \$            | - |
| Subtotal                                 |                |                                 |            |       | 4,478,882     |               | - |
| Total of Long Term Bank Loans            |                |                                 |            |       | \$ 19,856,376 | \$            | - |



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\*The disclosure of the amount of various notes on demand attributable to Wuhan Sungreen has been revised as a correction of error. The amount was formerly disclosed as \$13,006 in the notes to the financial statements dated December 31, 2009. The total liability amount related to bank loans shown on the consolidated balance sheet was properly disclosed; the error was confined to just the note regarding bank loans. In accordance with SFAS 154, and SAB 99, the Company believes the error was immaterial to prior financial statements and there was no impact to earnings for that period.

\*\*The Company has corrected an error in the classification of debts between long term and short term. The amount related to the loan from Bank of Communications was improperly included in the total for long term loans on the consolidated balance sheet at December 31, 2009; however the amount was properly disclosed as current in the notes to the financial statements for the same period. The amount was subsequently refinanced by a loan from Standard Chartered Bank on January 29, 2010. In light of the amount and circumstances of the error, in accordance with SFAS 154 and SAB 99, the Company has determined that the error was immaterial and the Company's earnings were unaffected by the correction.

Certain notes payable, as indicated above, do not have a stated rate of interest. These notes are payable on demand to the Company's creditors. The creditors have given extended credit terms secured by pledge of the Company's restricted cash.

In November 2009, Standard Chartered Bank granted the Company credit facilities in the amount of \$50,189,435. The Company was not in compliance with all of its loan covenants with Standard Chartered Bank at December 31, 2009. The Company has reclassified the debt owed to Standard Chartered Bank at December 31, 2009 as short term debt.

In July 2010, the Company repaid all amounts owed to Standard Chartered and terminated its loan facility with this bank.

As a result of the Company's repayment of the debt to Standard Chartered Bank, the Company charged \$1,914,892 of loan procurement costs to interest expense in the Company's statements of income for nine months ended September 30, 2010.

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14. OTHER PAYABLE

The Company has accrued amounts in “Other Payable” for goods and services that have been delivered but value added tax invoices have yet to be issued by vendors. The following tables detail the Company’s Other Payable line items at September 30, 2010 and December 31, 2009:

At September 30, 2010

| Vendor  | Description   | Amount       |
|---|---|--------------|
| Yuan, Hualin  | Regular business expenses that have yet to be reimbursed  | \$ 597,184   |
| Wang, Xuechao                                       | Regular business expenses that have yet to be reimbursed  | 724,086      |
| Wuhan Jianyuan Motor Services Co., Ltd.             | Transportation costs  | 564,339      |
| Wuhan Xiuma Technology Co., Ltd.                    | Transportation costs  | 597,184      |
| Zhou, Zhiqing                                       | Regular business expenses that have yet to be reimbursed  | 298,592      |
| Hubei Yilianyin Trading Co., Ltd.                   | Regular business expenses   | 194,085      |
| Wuhan Pengmai Motor Transport Co., Ltd.             | Transportation costs  | 218,178      |
| Yu, Shijing   | Regular business expenses that have yet to be reimbursed  | 126,902      |
| Wuhan Sanhe Vehicle Service Co., Ltd.               | Transportation costs  | 141,487      |
| Wuhan Longyang Logistics Co., Ltd                   | Transportation costs  | 115,821      |
| Wuhan Xinxinshi Tradings Limited                    | Regular business expenses that have yet to be reimbursed  | 197,817      |
| Hubei Gong Chuang                                   | Remaining payment for Purchase of Sungreen Assets   | 298,592      |
| Wuhan Huayuan Yuncheng Electric Equipment Co., Ltd. | Self-bonding deposit provided by vendor to be released back to vendor upon successful installation of equipment | 149,296      |
| Various Vendors                                     | Miscellaneous cost and expenses of amounts less than \$100,000  | 1,097,685    |
|   |   | \$ 5,321,248 |

At December 31, 2009

| Vendor                             | Description  | Amount     |
|------------------------------------|--|------------|
| Hubei Gong Chuang                  | Purchase of Sukong Assets                                | \$ 777,475 |
| Hubei Delisen Technology Co., Ltd. | Transportation costs                                     | 585,034    |
| Wuhan Xiuma Technology Co., Ltd.   | Transportation costs                                     | 585,034    |
| Yu, Shijing                        | Regular business expenses that have yet to be reimbursed | 438,776    |
| Qiao, Cunwu                        |  | 201,402    |

| Regular business expenses that have yet to be reimbursed |  |              |
|--|--|--------------|
| Wuhan Pengmai Motor Transport Co., Ltd.                  | Transportation costs   | 192,147      |
| Wuhan Sanhe Vehicle Service Co., Ltd.                    | Transportation costs   | 140,969      |
| Wuhan Longyang Logistics Co., Ltd                        | Transportation costs   | 112,624      |
| Various Vendors  | Miscellaneous cost and expenses of amounts less than \$100,000 | 1,194,581    |
|  |  | \$ 4,228,042 |

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15. WARRANTY LIABILITY

Warranty liability is accrued and carried on the balance sheet as a component of Accrued Liabilities. The Company makes its warranty accrual based on individual assessment of each contract because terms and conditions vary. The Company's typical sales contracts provide for a warranty period of 12-24 months following product installation.

The following table summarizes the activity related to the Company's product warranty liability for the nine months ended September 30, 2010 and the year ended December 31, 2009:

|   | September 30,<br>2010 | December 31,<br>2009 |
|---|-----------------------|----------------------|
| Balance at beginning of period                                      | \$ 1,469,358          | \$ 1,154,613         |
| Adjustment  |                       |                      |
| Accruals for current & pre-existing warranties issued during period | 608,393               | 371,764              |
| Less: Settlements made during period                                | (33,566)              | (57,019)             |
| Less: Reversals and warranty expirations                            | -                     | -                    |
| Balance at end of period  | \$ 2,044,185          | \$ 1,469,358         |

16. CAPITALIZATION

The Company's outstanding securities at September 30, 2010 are shown in the following table:

| Type of Security                    | Number     | Issuance Date | Expiration Date |
|-------------------------------------|------------|---------------|-----------------|
| Common Stock                        | 25,351,950 | N/A           | N/A             |
| Series A Preferred                  | 6,241,453  | 2/7/2007      | N/A             |
| Series B Preferred                  | 6,354,078  | 9/5/2009      | N/A             |
| Series A Warrants                   | 6,172,531  | 2/7/2007      | 2/6/2012        |
| Series B Warrants                   | 3,821,446  | 2/7/2007      | 2/6/2012        |
| Series C Warrants                   | 635,710    | 2/7/2007      | 2/6/2017        |
| Series AA Warrants                  | 617,253    | 2/7/2007      | 2/6/2017        |
| Series BB Warrants                  | 382,145    | 2/7/2007      | 2/6/2017        |
| Series JJ Warrants                  | 636,908    | 2/7/2007      | 2/6/2017        |
| Options Issued to Directors         | 40,000     | 11/30/2007    | 11/30/2017      |
| Options Issued to Directors         | 40,000     | 1/2/2008      | 1/2/2018        |
| Options Issued to Directors         | 160,000    | 3/10/2010     | 3/10/2020       |
| Total Shares on Fully Diluted Basis | 50,453,474 |               |                 |

Series A Convertible Preferred Stock

The Series A Preferred Stock is convertible into shares of the Company's common stock on a one-for-one basis. Holders of Series A Preferred Stock are entitled to a dividend equal to 5% per annum of the amount invested, subject to adjustment. These dividends are payable quarterly. In the event of a voluntary or involuntary liquidation, holders of preferred stock are entitled to a liquidation preference of \$2.33 per share. This amount is in excess of the stock's par value of \$0.0001. The Series A convertible preferred stock is cumulative, non-participating, and non-redeemable, and as such, there is no related sinking fund. On or after February 5, 2010, the Series A Convertible Preferred Stock will be mandatorily converted into common stock if the Company's common stock achieves certain price and volume requirements.

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Series B Convertible Preferred Stock

On September 5, 2008, the Company entered into an Agreement to Amend Series J Warrants of the Company with holders of warrants exercisable for a majority of the shares of warrant stock issuable under the Company's Series A, B and J warrants. This agreement amended the Series J Warrants so that such warrants are exercisable for shares of the Company's Series B Convertible Preferred Stock, par value \$0.0001 per share (the "Series B Preferred Stock"). Prior to this agreement, such warrants were exercisable for shares of the Company's common stock.

In connection with this agreement, the Company designated 9,358,370 shares of preferred stock as "Series B Convertible Preferred Stock, par value \$0.0001 per share" with those rights and preferences as set forth in the Certificate of Designation of the Relative Rights and Preferences of the Series B Preferred Stock of the Company. The Series B Preferred Stock ranks senior to the Company's common stock and junior to the Company's Series A Convertible Preferred Stock, par value \$0.0001 per share. The shares of Series B Preferred Stock are convertible on a one-for-one basis into shares of the Company's common stock. Except with respect to specified transactions that may affect the rights, preferences, privileges or voting power of the Series B Preferred Stock and except as otherwise required by Nevada law, the Series B Preferred Stock has no voting rights. The Series B Preferred Stock is non-redeemable and is not entitled to dividends. When accounting for the Series B Preferred Stock, the Company determined that they qualified as equity because the aforementioned characteristics made them akin to common stock.

Investors holding the amended Series J Warrants exercised their right to purchase Series B Preferred Stock at \$2.33 per share. For the year ended December 31, 2008, certain investors exercised their amended Series J Warrants for a total of 6,369,078 shares of Series B Preferred Stock. The Company received gross proceeds of \$14,839,952 for the issuance of those shares in connection with the exercise of the Series J Warrants. The total amount of commission paid to the placement agent, 1st Bridgehouse Securities, was 10% of the gross proceeds, or \$1,483,995. The Company also paid a total of \$274,480 for other financing related expenses. The net proceeds from the transactions, after accounting for placement agent commissions and other related financing expenses, was \$13,081,477.

Simultaneously with the exercise of a portion of the Series J Warrants, a corresponding portion of the Series B and Series JJ Warrants became exercisable. Accordingly, the Company accounted for the net proceeds of this issuance by allocating to Par Value, Additional Paid in Capital attributable to Series B Preferred Stock, and Additional Paid in Capital attributable to Series B and JJ Warrants. The Company determined that the Series B Preferred Stock had a beneficial conversion feature (BCF). Accordingly, the Company accounted for this BCF as a constructive preferred dividend, which is a charge that reduces retained earnings and increases additional paid in capital attributable to the Series B Preferred Stock. The Company also transferred a prorated portion of proceeds previously recorded under Warrants A, J, B, and C to the Additional Paid in Capital of Series B Preferred Stock to reflect the exercise of the amended Series J Warrants.

In accordance to EITF 00-27 and EITF 98-5, the Company accounted for the modification of the Series J warrants as capital transaction because the modification of the warrants was concurrent with the Company's investors contributing more working capital to the Company through the exercise of the Series J warrants. In consideration of SFAS 123(R), the Company does not believe there is additional incremental value that should be charged to earnings because the fair value assigned to the Series B Convertible Preferred Stock was less than the fair value of the Company's common stock based on the market's closing price on September 5, 2008 and the valuation provided by investment bankers on

September 3, 2008. The Series J warrant holders did not receive any additional value as a result of the amendment.

#### Warrants

Our outstanding Series A warrants are exercisable for an aggregate of 6,172,531 shares of common stock as of June 30, 2010. The Series A Warrants have an exercise price of \$2.57 per share and expire on February 7, 2012.

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Our outstanding Series B Warrants are exercisable for an aggregate of 3,821,446 shares of common stock as of June 30, 2010. The Series B Warrants have an exercise price of \$2.57 and expire on February 7, 2012.

The Series C, AA, BB and JJ Warrants relate to the Series A Convertible Preferred Stock, Series A Warrants, Series B Warrants and Series J Warrants, respectively. The exercise prices of the Series C, AA, BB and JJ Warrants are \$2.57, \$2.83, \$2.83 and \$2.57, respectively. The Series C, AA, BB and JJ Warrants expire on February 7, 2017. As of June 30, 2010, our outstanding Series C, AA, BB and JJ Warrants were exercisable for 635,710, 617,253, 382,145 and 636,908 shares of common stock, respectively.

The Series J Warrants expired on November 7, 2008.

Prior to February 7, 2009, the terms of the Company's outstanding Series A Convertible Preferred Stock and warrants provided for a downward adjustment in the conversion and exercise price in the event that the Company issues shares of common stock or securities convertible into common stock for consideration less than the conversion or exercise price of these previously issued securities. This anti-dilution provision expired on February 7, 2009, which was two years after the date of issuance of such securities.

Exercise of Series C Warrants

During the year ended December 31, 2009, holders of Series C Warrants exercised the right to purchase 187,294 shares of common stock. The transaction was a cashless exercise. Accordingly, the Company issued to the holders 69,361 shares of common stock and cancelled warrants with the rights to purchase 117,933 shares of common stock.

17. COMMITMENTS OF STATUTORY RESERVE

In compliance with PRC laws, the Company is required to appropriate 10% of its net income to its statutory reserve up to a maximum of 50% of an enterprise's registered Paid-in capital. The Company had future unfunded commitments, as provided below.

|   | September 30,<br>2010 | December 31,<br>2009 |
|---|-----------------------|----------------------|
| Unadjusted Registered Capital in PRC            | \$ 52,575,256         | \$ 52,575,256        |
| 50% maximum thereof                             | 26,287,628            | 26,287,628           |
| Less: Amounts Appropriated to Statutory Reserve | (5,454,773)           | (4,563,593)          |
| Unfunded Commitment                             | \$ 20,832,855         | \$ 21,724,035        |

18. INCOME TAXES

On February 7, 2007, income from the Company's foreign subsidiaries became subject to U.S. income tax liability; however, this tax is deferred until foreign source income is repatriated to the Company from earnings and profits after foreign income taxes, which has not yet occurred.



The Company has engaged a U.S. CPA firm to prepare its U.S. income tax returns in order to maintain a high level of compliance with U.S. tax laws.

All of the Company's operations are in the PRC, and in accordance with the relevant tax laws and regulations of PRC, the corporate income tax rate is 25%. As a business incentive, the Company was approved as a foreign investment enterprise in March 2007, and in accordance with the relevant regulations regarding the favorable tax treatment for a foreign investment enterprise, the Company was entitled to a two-year tax exemption followed by a three-year half exemption. For the years ended December 31, 2008 and 2007, the Company was still within the two year tax exemption period, and accordingly, made no provision for income taxes. For the quarter ended September 30, 2010, Wuhan Blower and Wuhan Generating were subject to a 12.5% tax rate and Wuhan Sungreen was subject to a 25% tax rate.

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Income before taxes and the provision for taxes consists of the following:

|                                    | September 30,<br>2010 | December 31,<br>2009 |
|------------------------------------|-----------------------|----------------------|
| <b>Income (loss) before taxes:</b> |                       |                      |
| US                                 | \$ (2,304,681)        | \$ (2,475,455)       |
| BVI                                | (413)                 | (27,927)             |
| PRC                                | 7,746,565             | 12,412,787           |
| <b>Total income before taxes</b>   | <b>\$ 5,441,471</b>   | <b>\$ 9,909,405</b>  |
| <b>Provision for taxes:</b>        |                       |                      |
| <b>Current:</b>                    |                       |                      |
| U.S. Federal                       | -                     | -                    |
| State                              | -                     | -                    |
| China                              | 1,048,014             | 2,195,828            |
| Currency effect                    | -                     | 403                  |
|                                    | <b>\$ 1,048,014</b>   | <b>\$ 2,196,231</b>  |
| <b>Deferred:</b>                   |                       |                      |
| U.S. Federal                       | -                     | -                    |
| China                              | (36,948)              | (749,031)            |
|                                    | <b>(36,948)</b>       | <b>(749,031)</b>     |
| <b>Total provision for taxes</b>   | <b>\$ 1,011,066</b>   | <b>\$ 1,447,200</b>  |
| <b>Effective tax rate</b>          | <b>18.58%</b>         | <b>14.60%</b>        |

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts for income tax purposes. Significant components of our deferred tax assets and liabilities at September 30, 2010 and December 31, 2009 are as follows:

|                                       | September<br>30, 2010 | December 31,<br>2009 |
|---------------------------------------|-----------------------|----------------------|
| <b>Deferred tax assets</b>            |                       |                      |
| Bad debt expense & accrual expense    | \$ 785,979            | \$ 749,031           |
|                                       | <b>785,979</b>        | <b>749,031</b>       |
| Valuation allowance                   | -                     | -                    |
| <b>Total deferred tax assets</b>      | <b>785,979</b>        | <b>749,031</b>       |
| <b>Deferred tax liabilities</b>       |                       |                      |
| <b>Total deferred tax liabilities</b> | <b>-</b>              | <b>-</b>             |
| <b>Net deferred tax assets</b>        | <b>785,979</b>        | <b>749,031</b>       |
| <b>Reported as:</b>                   |                       |                      |
| Current deferred tax assets           | 785,979               | 749,031              |
| Non-current deferred tax assets       | -                     | -                    |
| Non-current deferred tax liabilities  | -                     | -                    |
| <b>Net deferred taxes</b>             | <b>\$ 785,979</b>     | <b>\$ 749,031</b>    |

The differences between the U.S. federal statutory income tax rates and the Company's effective tax rate for the nine months ended September 30, 2010 and the year ended December 31, 2009 are shown in the following table:

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|  | 2010    | 2009    |
|--|---------|---------|
| U.S. federal statutory income tax rate | 34.00%  | 34.00%  |
| Lower rates in PRC, net                | -9.00%  | -9.00%  |
| Accruals in foreign jurisdictions      | 6.08%   | 2.10%   |
| Tax holiday                            | -12.50% | -12.50% |
| Effective tax rate                     | 18.58%  | 14.60%  |

19. EARNINGS PER SHARE

Components of basic and diluted earnings per share were as follows:

|  | Three months<br>ended<br>September 30,<br>2010 | Three months<br>ended<br>September 30,<br>2009 | Nine months<br>ended<br>September 30,<br>2010 | Nine months<br>ended<br>September 30,<br>2009 |
|--|--|--|---|---|
| <b>Basic Earnings Per Share Numerator</b>  |  |  |   |   |
| Net Income   | \$ 1,831,441                                   | \$ 3,006,851                                   | \$ 4,430,405                                  | \$ 4,140,239                                  |
| Less:  |  |  |   |   |
| Preferred Dividends  | 177,300  | 183,276  | 531,900                                       | 543,363                                       |
| Income Available to Common Stockholders  | \$ 1,654,141                                   | \$ 2,823,575                                   | \$ 3,898,505                                  | \$ 3,596,876                                  |
| <b>Diluted Earnings Per Share Numerator</b>  |  |  |   |   |
| Income Available to Common Stockholders  | \$ 1,654,141                                   | \$ 2,823,575                                   | \$ 3,898,505                                  | \$ 3,596,876                                  |
| Add:   |  |  |   |   |
| Preferred Dividends (“-” indicates potentially anti-dilutive)                      | -  | -  | -   | -   |
| Income Available to Common Stockholders on Converted Basis                         | \$ 1,654,141                                   | \$ 2,823,575                                   | \$ 3,898,505                                  | \$ 3,596,876                                  |
| <b>Original Shares:</b>  |  |  |   |   |
| Original Shares:   | 25,351,950                                     | 24,752,802                                     | 25,351,950                                    | 24,752,802                                    |
| <b>Additions from Actual Events</b>  |  |  |   |   |
| - Issuance of Common Stock   | -  | -  | -   | -   |
| - Addition to Common Stock from Issuance   | -  | -  | -   | -   |
| - Addition to Common Stock from Actual Conversion                                  | -  | 533,100  | -   | 260,315                                       |
| Basic Weighted Average Shares Outstanding  | 25,351,950                                     | 25,285,902                                     | 25,351,950                                    | 25,013,117                                    |
| <b>Dilutive Shares:</b>  |  |  |   |   |
| <b>Additions from Potential Events</b>   |  |  |   |   |
| - Conversion of Series A Preferred Stock (“-” indicates potentially anti-dilutive) | -  | 12,595,531                                     | -   | 12,595,531                                    |
| - Conversion of Series B Preferred Stock   | 6,354,078                                      | 715,363  | 6,354,078                                     | 1,253,881                                     |
| -Exercise of Employee & Director Stock Options                                     | -  | -  | -   | -   |

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|  |            |            |            |             |
|--|------------|------------|------------|-------------|
| Diluted Weighted Average Shares Outstanding: | 31,706,028 | 39,135,314 | 31,706,028 | 38,324,011  |
| <b>Earnings Per Share</b>                    |            |            |            |             |
| - Basic                                      | \$ 0.07    | \$ 0.11    | \$ 0.15    | \$ 0.14     |
| - Diluted                                    | \$ 0.05    | \$ 0.08    | \$ 0.12    | \$ 0.09     |
| <b>Weighted Average Shares Outstanding</b>   |            |            |            |             |
| - Basic                                      | 25,351,950 | 25,285,902 | 25,351,950 | 25,013,1171 |
| - Diluted                                    | 31,706,028 | 39,135,314 | 31,706,028 | 38,324,0111 |

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20. OPERATING SEGMENTS

The Company individually tracks the performance of its three operating subsidiaries: Wuhan Blower, Wuhan Generating, and Wuhan Sungreen. Wuhan Blower is primarily engaged in the design, manufacture, installation, and service of blowers. Wuhan Generating is primarily engaged in the design, manufacture, installation, and service of power generating equipment. Wuhan Sungreen is in the business of design, production, and sale of blower silencers, connectors, and other general spare parts for blowers and electrical equipment. Below is a presentation of the Company's results of operations for the nine months ended September 30, 2010 and 2009 and financial position at September 30, 2010 and December 31, 2009. The Company has also provided reconciling adjustments with the Company and its intermediate holding company, UFG.

| Results of Operations<br>For the nine months ended<br>September 30, 2010 | Wuhan<br>Blower | Wuhan<br>Generating | Wuhan<br>Sungreen | Company,<br>UFG,<br>Adjustments | Total         |
|--|-----------------|---------------------|-------------------|---------------------------------|---------------|
| Sales  | \$ 41,822,253   | \$ 29,717,712       | \$ 638,726        | \$ (2,780,479)                  | \$ 69,398,212 |
| Cost of Sales  | (30,806,895)    | (23,041,095)        | (474,213)         | 2,780,479                       | (51,541,724)  |
| Gross Profit   | 11,015,358      | 6,676,617           | 164,513           | -                               | 17,856,488    |
| Operating Expenses   | (4,383,207)     | (849,916)           | (551,644)         | (961,154)                       | (6,745,921)   |
| Other Income (Expenses)  | (3,794,174)     | (576,152)           | 45,170            | (1,343,940)                     | (5,669,096)   |
| Earnings before Tax  | 2,837,977       | 5,250,549           | (341,961)         | (2,305,094)                     | 5,441,471     |
| Tax  | (354,747)       | (656,319)           | -                 | -                               | (1,011,066)   |
| Net Income   | \$ 2,483,230    | \$ 4,594,230        | \$ (341,961)      | \$ (2,305,094)                  | \$ 4,430,405  |

| Results of Operations<br>For the nine months ended<br>September 30, 2009 | Wuhan<br>Blower | Wuhan<br>Generating | Wuhan<br>Sungreen | Company,<br>UFG,<br>Adjustments | Total         |
|--|-----------------|---------------------|-------------------|---------------------------------|---------------|
| Sales  | \$ 32,272,712   | \$ 27,370,131       | \$ 306,501        | \$ -                            | \$ 59,949,344 |
| Cost of Sales  | (23,652,193)    | (21,342,999)        | (217,940)         | -                               | (45,213,132)  |
| Gross Profit   | 8,620,519       | 6,027,132           | 88,561            | -                               | 14,736,212    |
| Operating Expenses   | (4,503,343)     | (635,582)           | (404,770)         | (813,949)                       | (6,357,644)   |
| Other Income (Expenses)  | (1,367,252)     | (508,399)           | (122,345)         | (1,154,467)                     | (3,152,463)   |
| Earnings before Tax  | 2,749,924       | 4,883,151           | (438,554)         | (1,968,416)                     | 5,226,105     |
| Tax  | (509,316)       | (576,550)           | -                 | -                               | (1,085,866)   |

|            |              |              |              |                |              |
|------------|--------------|--------------|--------------|----------------|--------------|
| Net Income | \$ 2,240,608 | \$ 4,306,601 | \$ (438,554) | \$ (1,968,416) | \$ 4,140,239 |
|------------|--------------|--------------|--------------|----------------|--------------|

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| Financial Position<br>At<br>September 30, 2010 | Wuhan<br>Blower       | Wuhan<br>Generating  | Wuhan<br>Sungreen    | Company,<br>UFG,<br>Adjustments | Total                 |
|--|-----------------------|----------------------|----------------------|---------------------------------|-----------------------|
| Current Assets                                 | \$ 106,378,850        | \$ 71,738,802        | \$ 1,830,921         | \$ (23,969,337)                 | \$ 155,979,236        |
| Non Current Assets                             | 57,240,852            | 24,231,081           | 23,908,876           | (33,187,172)                    | 72,193,637            |
| <b>Total Assets</b>                            | <b>163,619,702</b>    | <b>95,969,883</b>    | <b>25,739,797</b>    | <b>(57,156,509)</b>             | <b>228,172,873</b>    |
| Current Liabilities                            | 66,038,614            | 48,749,288           | 1,485,450            | (17,861,953)                    | 98,411,399            |
| Non Current Liabilities                        | 15,377,494            | 4,478,882            | -                    | -                               | 19,856,376            |
| <b>Total Liabilities</b>                       | <b>81,416,108</b>     | <b>53,228,170</b>    | <b>1,485,450</b>     | <b>(17,861,953)</b>             | <b>118,267,775</b>    |
| <b>Net Assets</b>                              | <b>82,203,594</b>     | <b>42,741,713</b>    | <b>24,254,347</b>    | <b>(39,294,556)</b>             | <b>109,905,098</b>    |
| <b>Total Liabilities &amp; Net Assets</b>      | <b>\$ 163,619,702</b> | <b>\$ 95,969,883</b> | <b>\$ 25,739,797</b> | <b>\$ (57,156,509)</b>          | <b>\$ 228,172,873</b> |

| Financial Position<br>At<br>December 31, 2009 | Wuhan<br>Blower       | Wuhan<br>Generating  | Wuhan<br>Sungreen    | Company,<br>UFG,<br>Adjustments | Total                 |
|---|-----------------------|----------------------|----------------------|---------------------------------|-----------------------|
| Current Assets                                | \$ 76,072,289         | \$ 58,026,006        | \$ 1,606,646         | \$ (26,049,354)                 | \$ 109,655,587        |
| Non Current Assets                            | 48,160,407            | 24,738,269           | 23,774,958           | (32,511,993)                    | 64,161,641            |
| <b>Total Assets</b>                           | <b>124,232,696</b>    | <b>82,764,275</b>    | <b>25,381,604</b>    | <b>(58,561,347)</b>             | <b>173,817,228</b>    |
| Current Liabilities                           | 46,177,178            | 45,457,059           | 1,279,778            | (21,760,479)                    | 71,153,536            |
| <b>Total Liabilities</b>                      | <b>46,177,178</b>     | <b>45,457,059</b>    | <b>1,279,778</b>     | <b>(21,760,479)</b>             | <b>71,153,536</b>     |
| <b>Net Assets</b>                             | <b>78,055,518</b>     | <b>37,307,216</b>    | <b>24,101,826</b>    | <b>(36,800,868)</b>             | <b>102,663,692</b>    |
| <b>Total Liabilities &amp; Net Assets</b>     | <b>\$ 124,232,696</b> | <b>\$ 82,764,275</b> | <b>\$ 25,381,604</b> | <b>\$ (58,561,347)</b>          | <b>\$ 173,817,228</b> |

The amounts carried in the column for the Company, UFG and adjustments reflect the corporate expenses of the Company and its wholly owned subsidiary, Universe Faith Group Limited, which has no operations and only serves to hold the Company's operating subsidiaries. Our corporate expenses include the costs for professional fees related to corporate matters and compliance efforts. The majority of the costs are directly a result of the Company being a U.S. public company. The Company believes that these costs are not costs which are directly attributable to the operations of our operating segments and thus any allocation of these costs would be discretionary and may misrepresent the performance of our operating segments. We discuss the reasons for the fluctuation in these costs in our selling and general and administrative expenses in the Management's Discussion and Analysis of Financial Condition and Results of Operations. The adjustments represent the eliminations necessary to consolidate the financial statements. See Note 2(b) - Consolidation.



Wuhan General Group (China), Inc.  
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21. STOCK COMPENSATION EXPENSE

On November 30, 2007, the Company's Board of Directors adopted the Wuhan General Group (China), Inc. 2007 Stock Option Plan (the "Plan"). The Plan provides that the maximum number of shares of the Company's common stock that may be issued under the Plan is 3,000,000 shares. The Company's employees, directors, and service providers are eligible to participate in the Plan.

On November 30, 2007, 40,000 stock options were awarded to two independent directors. These awards have fully vested.

On January 2, 2008, 40,000 stock options were awarded to two independent directors. These awards have fully vested.

For the nine months ended September 30, 2010 and year ended December 31, 2009, the Company recorded \$31,678 and \$0 of stock compensation expense, respectively. For the nine months ended September 30, 2010, 160,000 stock options were awarded to the four independent directors for service during 2009 and 2010. The 160,000 stock options vest in four equal installments beginning on June 10, 2010 and every three months thereafter.

The range of the exercise prices of the outstanding stock options are shown in the following table:

| Price Range      | Number<br>of<br>Shares |
|------------------|------------------------|
| \$ 9.99 - 10.00  | 240,000 shares         |
| \$ 19.99 - 20.00 | 0 shares               |
| \$ 29.99 -       | 0 shares               |

The Company has not accrued or realized tax benefit related to the expense of stock options in the United States because it does not currently have a plan to repatriate its earnings.

22. CONCENTRATION OF CREDIT RISK AND OTHER RISKS

Financial instruments, which potentially subject the Company to concentrations of credit risk, consist primarily of cash and cash equivalents, accounts receivable, other receivable, and advances to suppliers. The Company maintains cash and cash equivalents with several financial institutions. It invests with high credit quality financial institutions and, by policy, limits the amount of credit exposure to any one financial institution. Receivables are from customers and suppliers and concentrated in the People's Republic of China. The Company performs ongoing credit evaluations of its customers and suppliers. The Company generally does not require collateral, but in most cases can place liens against the property, plant, or equipment constructed or terminate the contract if a material default occurs. The Company maintains an allowance for doubtful accounts which has been within management's expectations.

The Company is subject to the concentration of supply risk because it contracted with a single vendor, Hubei Gongchuang Real Estate Co., Ltd. to perform all of the construction of its two campuses detailed in Note 9 - Property, Plant and Equipment.

Board of Directors and Stockholders  
Wuhan General Group (China), Inc.

Report of Registered Independent Public Accounting Firm

We have reviewed the accompanying interim consolidated Balance Sheets of Wuhan General Group (China), Inc. (the "Company") as of September 30, 2010 and December 31, 2009, and the related statements of income, stockholders' equity, and cash flows for the three-month and nine-month periods ended September 30, 2010 and 2009. These interim consolidated financial statements are the responsibility of the Company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying interim consolidated financial statements for them to be in conformity with U.S. generally accepted accounting principles.

/s/ Samuel H. Wong & Co.,  
LLP

San Mateo, California  
November 1, 2010

Samuel H. Wong & Co.,  
LLP  
Certified Public  
Accountants

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Cautionary Statement Regarding Forward-Looking Statements

The information contained in this report includes some statements that are not purely historical fact and that are "forward-looking statements" as defined by the Private Securities Litigation Reform Act of 1995. Such forward-looking statements include, but are not limited to, statements regarding our management's expectations, hopes, beliefs, intentions or strategies regarding the future, including our financial condition, results of operations, available liquidity, ability to refinance outstanding debt, ability to collect on our accounts receivable, completion of our turbine manufacturing facility on our main Wuhan campus and workshop and related facilities of Wuhan Sungreen Environment Protection Equipment Co., Ltd., the development of our industrial parts and machinery equipment business and growth of our businesses. The words "anticipates," "believes," "could," "estimates," "expects," "intends," "may," "projects," "should," and similar expressions, or the negatives of such terms, identify forward-looking statements.

The forward-looking statements contained in this report are based on our current expectations and beliefs concerning future developments. There can be no assurance that future developments actually affecting us will be those anticipated. These forward-looking statements involve a number of risks, uncertainties (some of which are beyond our control) or other assumptions that may cause actual results to be materially different from those expressed or implied by these forward-looking statements, including the following:

- vulnerability of our business to general economic downturn;
- our ability to obtain financing on favorable terms;
- our ability to comply with the covenants and other terms of our loan agreements;
- establishing our business segment relating to industrial parts and machinery equipment;
- operating in the PRC generally and the potential for changes in the laws of the PRC that affect our operations, including tax law;
  - our ability to remediate material weaknesses in our internal control over financial reporting;
  - our ability to meet or timely meet contractual performance standards and schedules;
    - our dependence on the steel and iron markets;
    - exposure to product liability and defect claims;
  - our ability to obtain all necessary government certifications and/or licenses to conduct our business;
- the cost of complying with current and future governmental regulations and the impact of any changes in the regulations on our operations; and
  - the other factors referenced in this report.

These risks and uncertainties, along with others, are also described in the Risk Factors section in Part II, Item 1A of this Form 10-Q. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as may be required under applicable securities laws.

## Overview

Wuhan General Group (China), Inc. (the “Company”) is a holding company whose primary business operations are conducted through our wholly owned subsidiary, Universe Faith Group, Ltd. (“UFG”), which has no operations of its own and only serves to hold our Chinese operating subsidiaries, Wuhan Blower Co., Ltd. (“Wuhan Blower”), Wuhan Generating Equipment Co., Ltd. (“Wuhan Generating”) and Wuhan Sungreen Environment Protection Equipment Co., Ltd. (“Wuhan Sungreen”), which we formerly referred to as Wuhan Xingelin Machinery Equipment Manufacturing Co., Ltd., or Wuhan Xingelin. Wuhan Blower is a manufacturer of industrial blowers that are principally components of steam-driven electrical power generation plants. Wuhan Generating manufactures industrial steam and water turbines, which also are principally used in electrical power generation plants. Wuhan Sungreen manufactures silencers, connectors and other general parts for industrial blowers and electrical equipment, and it produces general machinery equipment. Wuhan Blower, Wuhan Generating and Wuhan Sungreen conduct all of their operations in the People’s Republic of China, which we refer to in this report as the PRC or China. Prior to our acquisition of UFG in February 2007, we were a publicly held shell company with no operations other than efforts to identify suitable parties for a merger transaction. Our corporate structure is as follows:

The information and data contained in this Management’s Discussion and Analysis of Financial Condition and Results of Operations reflect the operating results for the three and nine month periods ended September 30, 2010 and 2009 and the financial condition at September 30, 2010.

Three Months Ended September 30, 2010 Compared to Three Months Ended September 30, 2009

**Sales.** Sales increased \$4.04 million, or 16.33%, to \$28.76 million for the three months ended September 30, 2010 from \$24.72 million for the same period in 2009. This increase was mainly attributable to the general economic recovery in 2010 as compared to the same period in 2009.

**Cost of Sales.** Our cost of sales increased \$2.82 million, or 15.77%, to \$20.67 million for the three months ended September 30, 2010 from \$17.86 million during the same period in 2009. This increase was primarily attributable to our increase in sales. As a percentage of sales, the cost of sales was 71.88% during the three months ended September 30, 2010 compared to 72.23% in the same period of 2009. This decrease as a percentage of sales was due to better cost controls despite increased market competition.

**Gross Profit.** Our gross profit increased \$1.22 million, or 17.79%, to \$8.09 million for the three months ended September 30, 2010 from \$6.86 million for the same period in 2009. Gross profit as a percentage of sales was 28.12% for the three months ended September 30, 2010 compared to 27.77% during the same period in 2009.

**Selling Expenses.** Our selling expenses decreased approximately \$447,916, or 58.96%, to approximately \$311,836 for the three months ended September 30, 2010 from approximately \$759,752 for the same period in 2009. As a percentage of sales, selling expenses were 1.08% for the three months ended September 30, 2010 compared to 3.07% for the same period in 2009. This decrease was primarily attributable to a decrease in the payment of sales commissions as a result of slower collection rates with respect to our accounts receivable.

**General and Administrative Expenses.** Our general and administrative expenses increased approximately \$2.00 million, or 136.47%, to \$3.46 million for the three months ended September 30, 2010 from approximately \$1.46 million for the same period in 2009. As a percentage of sales, general and administrative expenses were 12.04% for the three months ended September 30, 2010 compared to 5.92% for the same period in 2009. This increase as a percentage of sales was primarily attributable to an increase in legal fees, auditor fees and a management and consultancy fee incurred in connection with the early termination of the Standard Chartered Loan Agreement.

**Warranty Expense.** Our warranty expense increased to approximately \$231,843 for the three months ended September 30, 2010 from approximately \$178,610 for the same period in 2009. As a percentage of sales, warranty expense was 0.81% for the three months ended September 30, 2010 compared to 0.72% for the same period in 2009.

**Operating Income.** Our operating income decreased \$0.38 million, or 8.57%, to \$4.08 million for the three months ended September 30, 2010 from \$4.46 million for the same period in 2009. As a percentage of sales, operating income was 14.19% for the three months ended September 30, 2010 compared to 18.05% for the same period in 2009. This decrease as a percentage of sales was primarily attributable to our increase in general & administration expenses mentioned above.

**Interest Income.** Our interest income decreased to approximately \$75,307 for the three months ended September 30, 2010 from approximately \$288,862 for the same period in 2009. This decrease was due to our decrease in bank deposits during the period.

**Interest Expense.** Our interest expense increased approximately \$0.54 million, or 41.99%, to approximately \$1.81 million for the three months ended September 30, 2010 from approximately \$1.28 million for the same period in 2009. This increase was due to a significant increase in our bank loans and a financing consultancy fee in connection with the Company's loan agreement with Standard Chartered Bank.

**Income Tax.** The Company's income tax liability was approximately \$543,384 for the three months ended September 30, 2010 compared to \$586,053 for the same period in 2009.

**Net Income.** Net income decreased approximately \$1.18 million, or 39.09%, to approximately \$1.83 million during the three months ended September 30, 2010 from approximately \$3.01 million during the same period in 2009, as a result of the factors described above.

#### Nine Months Ended September 30, 2010 Compared to Nine Months Ended September 30, 2009

**Sales.** Sales increased \$9.45 million, or 15.76%, to \$69.40 million for the nine months ended September 30, 2010 from \$59.95 million for the same period in 2009. This increase was mainly attributable to the general economic recovery in 2010 as compared to the same period in 2009.

**Cost of Sales.** Our cost of sales increased \$6.33 million, or 14.00%, to \$51.54 million for the nine months ended September 30, 2010 from \$45.21 million during the same period in 2009. As a percentage of sales, the cost of sales was 74.27% during the nine months ended September 30, 2010 compared to 75.42% in the same period of 2009. This decrease as a percentage of sales was primarily attributable to more efficient production of scale.

**Gross Profit.** Our gross profit increased \$3.12 million, or 21.17%, to \$17.86 million for the nine months ended September 30, 2010 from \$14.74 million for the same period in 2009. Gross profit as a percentage of sales was 25.73% for the nine months ended September 30, 2010 compared to 24.58% during the same period in 2009.

**Selling Expenses.** Our selling expenses decreased approximately \$499,924, or 33.78%, to approximately \$979,818 for the nine months ended September 30, 2010 from approximately \$1,479,742 for the same period in 2009. As a percentage of sales, selling expenses were 1.41% for the nine months ended September 30, 2010 compared to 2.47% for the same period in 2009. This decrease as a percentage of sales was primarily attributable to fewer commissions paid out in connection with our sales.

**General and Administrative Expenses.** Our general and administrative expenses increased approximately \$0.76 million, or 17.34%, to \$5.16 million for the nine months ended September 30, 2010 from \$4.40 million for the same period in 2009. As a percentage of sales, general and administrative expenses were 7.43% for the nine months ended September 30, 2010 compared to 7.33% for the same period in 2009. This increase as a percentage of sales was primarily attributable to the expenses related to the early termination of the Standard Chartered Bank Loan in the current year.

**Warranty Expense.** Our warranty expense increased to approximately \$608,393 for the nine months ended September 30, 2010 from approximately \$482,346 for the same period in 2009. As a percentage of sales, warranty expense was 0.88% for the nine months ended September 30, 2010 compared to 0.80% for the same period in 2009.

**Operating Income.** Our operating income increased \$2.73 million, or 32.61%, to \$11.11 million for the nine months ended September 30, 2010 from \$8.38 million for the same period in 2009. As a percentage of sales, operating income was 16.01% for the nine months ended September 30, 2010 compared to 13.98% for the same period in 2009. This increase as a percentage of sales was primarily attributable to increase in sales over expenses.

**Interest Income.** Our interest income decreased to approximately \$101,374 for the nine months ended September 30, 2010 from approximately \$494,258 for the same period in 2009. This decrease was due to a decrease in bank deposits.

**Interest Expense.** Our interest expense increased approximately \$3.37 million, or 131.12%, to approximately \$5.95 million for the nine months ended September 30, 2010 from approximately \$2.57 million for the same period in 2009. This increase was due to the significant increase in bridge loans, related interest expenses and a one-time financing consultancy fee in connection with the Company's loan agreement with Standard Chartered Bank.

**Income Tax.** Our income tax liability for the nine months ended September 30, 2010 was \$1.01 million compared to \$1.09 million for the same period in 2009. Two of the Company's subsidiaries, Wuhan Blower and Wuhan Generating, were subject to 12.5% PRC income tax during the nine months ended September 30, 2010 and September 30, 2009. Wuhan Sungreen was in a loss position and consequently did not incur any tax liability. Wuhan General did not incur any U.S. income tax liability during the nine months ended September 30, 2010 and September 30, 2009.

**Net Income.** Net income increased \$0.29 million, or 7.01%, to \$4.43 million during the nine months ended September 30, 2010 from \$4.14 million during the same period in 2009, as a result of the factors described above.



## Liquidity and Capital Resources

Our primary capital needs have been to fund the working capital requirements necessitated by the expansion of our manufacturing facilities and the development of our new industrial parts and machinery equipment business. We finance our business operations primarily through cash generated by our operations, bank loans and various financing transactions. As of September 30, 2010, we had cash and cash equivalents of \$39.80 million, including restricted cash of \$9.37 million. Our cash at September 30, 2010 included \$36.22 million that we received from our new loan facility from Hankou Bank Company Limited, Wuhan Branch (“Hankou Bank”). To date, we have used proceeds from the Hankou Bank loan facility to repay all amounts owed under our loan facility with Standard Chartered Bank (China) Limited, Guangzhou Branch (“Standard Chartered Bank”) and fund our ongoing construction projects. Following this repayment, our loan facility with Standard Chartered Bank was terminated.

As discussed above, for the nine months ended September 30, 2010, our sales increased 15.76% compared to the same period in 2009. The collection of our accounts receivable and other receivables is important to solidifying our liquidity position. Although we are still experiencing some payment delays, we continue to focus on the collection of accounts receivable. Our accounts receivable ratio decreased to 198 days at September 30, 2010, compared to 209 days at December 31, 2009. Our working capital for the quarter ended September 30, 2010 was sufficient primarily due to our continuing efforts to collect on our accounts receivable and the additional funding we obtained from the Hankou Bank loan facility.

On June 28, 2010, we closed a new loan facility with Hankou Bank. This loan facility will provide up to RMB 320,000,000 (approximately \$47 million) in secured debt financing. As described in more detail below, the proceeds received to date from this new loan facility have been used to repay our existing bank loans and notes and fund our ongoing construction projects. In addition, the loan proceeds should allow us to use our operating income to fund our working capital needs.

The majority of our customers pay us in installments at various stages of project completion. The percentage of the purchase price due at the various stages varies somewhat between contracts. In our standard sales contract, our customers are required to pay us 60% of the purchase price of a piece of equipment at the time of delivery. Alternatively, some sales contracts provide for 15% due upon signing and 45% due upon delivery. Our customers are generally required to pay us an additional 30% of the purchase price when the equipment has been installed and has performed properly for 72 hours. However, since our equipment is generally a component of a larger project, there are times that customers do not allow us to install the equipment immediately upon delivery. Our standard sales contract generally requires payment of the remaining 10% no later than 18 months following the installation. Due to the global economic crisis, some customers have not strictly adhered to the contractual payment terms. This increased our accounts receivable, which is discussed in detail below. Although the payment terms in our standard sales contract result in a long payment cycle, we believe our payment terms are typical in our industry in China. Nonetheless, we are seeking more aggressive payment schedules on new sales contracts in order to improve our liquidity position.

Accounts receivable are recognized and carried at the original invoice amount less allowance for any uncollectible amounts. Pursuant to the Company's accounting policies, the allowance for doubtful accounts is determined by applying a rate of five percent on outstanding accounts receivable. In addition, the Company uses a specific review process to determine if any additional allowances for doubtful accounts are required. Bad debts are charged against the allowance when outstanding accounts receivable have been determined to be uncollectible. We provide for bad debts principally based upon the aging of accounts receivable, the collectability of specific customer accounts, our experience in the collection of bad debts and the general condition of the industry.

Accounts receivable decreased from approximately \$53.96 million to \$50.28 million from December 31, 2009 to September 30, 2010. We are still experiencing difficulty collecting debts from our customers. We continue to focus on collecting outstanding accounts receivable in a timely manner while monitoring the financial positions of our customers to avoid unnecessary delay of payments.

The allowance for bad debt provided in accordance with the Company's accounting policy was approximately \$3.13 million at September 30, 2010. The Company applied a rate of 5% on outstanding accounts receivable, which results in an allowance of \$1.08 million. The Company made an assessment of its outstanding receivables and provided a specific write off during the quarter ended September 30, 2010 of approximately \$792,173 to reflect actual unrecoverable amounts.

We will continue to employ additional resources in collecting on outstanding accounts receivable and have aligned more closely our sales commission structure with the collection on sales. The Company generally experiences a longer collection period with respect to its turbine customers compared to its blower customers due to the longer installation period needed for the turbines.

At September 30, 2010, we had approximately \$9.80 million in other receivables, which is an increase of approximately \$5.11 million compared to the balance at December 31, 2009.

We also had advances to suppliers of approximately \$35.23 million at September 30, 2010, which increased by \$10.62 million compared to the balance at December 31, 2009. The increase was mainly due to significant advance payments made to suppliers for purchasing equipment and materials that are scheduled to be furnished and put into use in the next quarter of this year. We typically need to place a deposit in advance with our suppliers on a portion of the purchase price, and for some suppliers, we must maintain a deposit for future orders.

We had inventory turnover of 3.4 times and 2.9 times for the nine months ended September 30, 2010 and September 30, 2009, respectively. We calculate inventory turnover as sales divided by average inventory. Inventory increased approximately \$1.89 million in raw materials, decreased approximately \$3.42 million in work in progress, and increased approximately \$588,888 in finished goods for the nine months ended September 30, 2010. The raw materials increase resulted from the Company's effort to increase stock levels in order to meet growing demand in the coming quarters.

Net cash provided by operating activities for the nine months ended September 30, 2010 was approximately \$5.36 million, as compared to an approximately \$3.79 million shortfall in the same period in 2009. This change was primarily due to an increase in collections of accounts receivable.

Net cash consumed by investing activities for the nine months ended September 30, 2010 was approximately \$11.75 million, as compared to approximately \$4.40 million generated in the same period in 2009. This change was mainly a result of an increase in restricted cash and an increase in the amount we invested in our construction projects for plant and equipment costs.

Net cash provided by financing activities for the nine months ended September 30, 2010 was approximately \$33.40 million, as compared to an approximately \$2.66 million shortfall in the same period in 2009. This change was primarily due to an increase in proceeds from bank loans, partially offset by the repayment of debt.

We intend to expend a significant amount of capital to complete our facilities and the installation of equipment and to make deposits for performance bonds for new projects that we have obtained. In light of the completion of the credit facility with Hankou Bank, which is discussed below, the Company believes that its currently available working capital, combined with cash from operations and bank financing, should be adequate to sustain operations at current levels through at least the next 12 months. For our long-term strategic growth, the Company will continue to rely upon debt and capital markets for any necessary long-term funding not provided by operating cash flows. Funding decisions will be guided by our capital structure planning objectives. The primary objectives of the Company's capital structure planning are to maximize financial flexibility and preserve liquidity while reducing interest expense.

#### Bank Loans and Notes Generally

As of September 30, 2010, we had bank loans and debt from other non-bank entities totaling approximately \$80.89 million (based on an exchange rate of 6.6981 RMB per 1 U.S. dollar). The Company had \$11.70 million available under its bank facilities and loan facilities as of September 30, 2010. The Company will be eligible to draw on these additional funds if the Company satisfies certain requirements under its Loan Agreement with Hankou Bank. Information regarding these loans and notes is set forth below in U.S. dollars.

## Short Term Bank Loans and Notes

| Subsidiary       | Type          | Name of Creditor                   | Due Date   | Interest Rate Per Annum | At September 30, 2010 | At December 31, 2009 |
|------------------|---------------|------------------------------------|------------|-------------------------|-----------------------|----------------------|
| Wuhan Blower     | Bank Loans    | China Citic Bank                   | 4/19/2010  | 5.31%                   | - \$                  | 3,656,467            |
| Wuhan Blower     | Bank Loans    | Bank of China Ltd.                 | 3/2/2010   | 5.40%                   | -                     | 804,423              |
| Wuhan Blower     | Bank Loans    | Guangdong Development Bank         | 6/15/2010  | 6.37%                   | -                     | 1,608,846            |
| Wuhan Blower     | Bank Loans    | Agricultural Bank of China         | 8/6/2010   | 5.84%                   | -                     | 7,312,935            |
| Wuhan Blower     | Bank Loans    | Hankou Bank                        | 7/5/2010   | 5.31%                   | -                     | 833,675              |
| Wuhan Blower     | Bank Loans    | Standard Chartered Bank            | 12/16/2013 | 9.40%                   | -                     | 7,094,145            |
| Wuhan Blower     | Bank Loans    | Hankou Bank                        | 6/29/2011  | 5.31%                   | \$ 19,050,178         | -                    |
| Wuhan Blower     | Bank Loans    | Hankou Bank                        | 7/27/2011  | 5.31%                   | 5,971,843             | -                    |
| Wuhan Blower     | Bank Loans    | Hankou Bank                        | 9/30/2011  | 4.43%                   | 746,480               | -                    |
| Wuhan Blower     | Bank Loans    | Hubei Zhongjing Credit Co., Ltd.   | 12/28/2010 | 4.80%                   | 1,080,530             | -                    |
| Wuhan Blower     | Bank Loans    | Wuhan Kangfuman Investment Limited | 12/05/2010 | 4.43%                   | 298,592               | -                    |
| Subtotal         |               |                                    |            |                         | \$ 27,147,623         | \$ 21,310,491        |
| Wuhan Blower     | Notes Payable | Standard Chartered Bank            | 4/21/2010  |                         | - \$                  | 1,828,234            |
| Wuhan Blower     | Notes Payable | Standard Chartered Bank            | 3/3/2010   |                         | -                     | 417,047              |
| Wuhan Blower     | Notes Payable | Standard Chartered Bank            | 3/18/2010  |                         | -                     | 1,462,587            |
| Wuhan Blower     | Notes Payable | Standard Chartered Bank            | 2/11/2010  |                         | -                     | 731,294              |
| Wuhan Blower     | Notes Payable | Bank of Communications             | 1/24/2010  |                         | -                     | 892,178              |
| Subtotal         |               |                                    |            |                         | - \$                  | 5,331,340            |
| Wuhan Generating | Bank Loans    | Hankou Bank                        | 10/13/2010 | 5.31%                   | - \$                  | 1,462,587            |
| Wuhan Generating | Bank Loans    | Bank of Communications             | 12/23/2010 | 5.67%                   | -                     | 1,462,587            |
| Wuhan Generating | Bank Loans    | Bank of Communications             | 12/23/2010 | 5.67%                   | -                     | **1,462,587          |

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|                     |            |                               |            |       |               |              |
|---------------------|------------|-------------------------------|------------|-------|---------------|--------------|
| Wuhan<br>Generating | Bank Loans | Standard<br>Chartered Bank    | 12/17/2012 | 9.40% | -             | 2,925,714    |
| Wuhan<br>Generating | Bank Loans | Hankou Bank                   | 10/13/2010 | 5.31% | \$ 1,492,961  | -            |
| Wuhan<br>Generating | Bank Loans | Hankou Bank                   | 6/29/2011  | 5.31% | 4,478,882     | -            |
| Wuhan<br>Generating | Bank Loans | Xingye Bank                   | 4/27/2011  | 6.37% | 8,957,764     | -            |
| Wuhan<br>Generating | Bank Loans | Agricultural Bank<br>of China | 8/19/2011  | 5.31% | 1,492,961     | -            |
| Wuhan<br>Generating | Bank Loans | Agricultural Bank<br>of China | 8/22/2011  | 5.31% | 6,419,730     | -            |
| Wuhan<br>Generating | Bank Loans | Agricultural Bank<br>of China | 8/26/2011  | 5.31% | 1,194,369     | -            |
| Subtotal            |            |                               |            |       | \$ 24,036,667 | \$ 7,313,475 |

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|  |                |                                 |            |       |               |               |
|--|----------------|---------------------------------|------------|-------|---------------|---------------|
| Wuhan Generating                         | Notes Payable  | Bank of Communications          | 1/6/2010   |       | -             | \$ 1,462,587  |
| Wuhan Generating                         | Notes Payable  | Bank of Communications          | 1/12/2010  |       | -             | 1,462,587     |
| Wuhan Generating                         | Notes Payable  | Bank of Communications          | 1/17/2010  |       | -             | 1,462,587     |
| Wuhan Generating                         | Notes Payable  | Bank of Communications          | 1/22/2010  |       | -             | 1,462,587     |
| Wuhan Generating                         | Notes Payable  | Hankou Bank                     | 4/13/2010  |       | -             | 1,462,587     |
| Wuhan Generating                         | Notes Payable  | Hankou Bank                     | 4/21/2010  |       | -             | 530,188       |
| Wuhan Generating                         | Notes Payable  | Hankou Bank                     | 4/26/2010  |       | -             | 917,773       |
| Wuhan Generating                         | Notes Payable  | Bank of Communications          | 4/8/2010   |       | -             | 3,948,985     |
| Wuhan Generating                         | Notes Payable  | Hankou Bank                     | 10/22/2010 |       | \$ 895,776    | -             |
| Wuhan Generating                         | Notes Payable  | Hankou Bank                     | 10/27/2010 |       | 597,185       | -             |
| Wu han Generating                        | Notes Payable  | Pudong Development Bank         | 11/27/2010 |       | 8,211,285     | -             |
| Subtotal                                 |                |                                 |            |       | \$ 9,704,246  | \$ 12,709,881 |
| Wuhan Sungreen                           | Notes Payable  | Various vendors and individuals | On Demand  |       | \$ 143,324    | \$ *93,066    |
| Subtotal                                 |                |                                 |            |       | \$ 143,324    | \$ 93,066     |
| Total of Short Term Bank Loans and Notes |                |                                 |            |       | \$ 61,031,860 | \$ 46,758,253 |
| Long Term Bank Loans                     |                |                                 |            |       |               |               |
| Wuhan Blower                             | Long Term Loan | China Construction Bank         | 7/1/2012   | 5.40% | \$ 3,135,217  | -             |
| Wuhan Blower                             | Long Term Loan | Agricultural Bank of China      | 6/20/2012  | 5.40% | 2,538,033     | -             |
| Wuhan Blower                             | Long Term Loan | Agricultural Bank of China      | 8/17/2012  | 5.40% | 4,478,882     | -             |
| Wuhan Blower                             | Long Term Loan | Agricultural Bank of China      | 9/16/2012  | 5.40% | 5,225,362     | -             |
| Subtotal                                 |                |                                 |            |       | \$ 15,377,494 | -             |
| Wuhan Generating                         | Long Term Loan | Hankou Bank                     | 9/30/2013  | 5.60% | \$ 4,478,882  | -             |
| Subtotal                                 |                |                                 |            |       | 4,478,882     | -             |
| Total of Long Term Loan                  |                |                                 |            |       | \$ 19,856,376 | -             |

We plan to either repay this debt as it matures or refinance this debt with other debt. As described in more detail below, our Chinese operating subsidiaries obtained a loan facility with Hankou Bank for up to RMB 320,000,000

(approximately \$47 million). To date, we have used the installments that we have received under this loan facility to repay our prior bank debt with Standard Chartered Bank and to fund our operating activities as well as our ongoing construction projects.

#### Loan Facilities with Hankou Bank

On June 28, 2010, Wuhan Blower, Wuhan Generating and Wuhan Sungreen (collectively, the “Borrowers”), entered into a Loan Facility Agreement with Hankou Bank for a loan facility totaling RMB 320,000,000 (approximately \$47 million) in secured debt financing. The Borrowers, upon application, may access this loan facility from June 28, 2010 to June 28, 2013. Pursuant to certain Financial Consulting Service Agreements entered into between the Borrowers and Hankou Bank, dated June 29, 2010, the Borrowers must pay financial consultancy fees that aggregate to approximately RMB 2.84 million (approximately \$417,000) in connection with the bank loan facility with Hankou Bank.

Under this loan facility, Wuhan Generating entered into a Loan Agreement with Hankou Bank for a short-term loan for RMB 30,000,000 (approximately \$4.41 million) on June 29, 2010. On the same date, Wuhan Blower entered into a Loan Agreement with Hankou Bank for a short-term loan for RMB 127,600,000 (approximately \$18.75 million). These short-term loans were obtained for the purpose of repaying the Borrowers’ debt with Standard Chartered Bank. These short-term loans mature on June 29, 2011 and have a floating rate that is currently at 5.31% per annum. If either Wuhan Generating or Wuhan Blower fails to make timely payments on these loans, then it will be subject to a penalty rate of 150% of the effective interest rate. In addition, Wuhan Generating and Wuhan Blower are subject to a penalty rate of the effective interest rate plus 100% if they fail to use the loan for the agreed upon purpose. Upon Hankou Bank’s request, Wuhan Generating and Wuhan Blower must provide copies of financial statements and other requested information. If Wuhan Generating or Wuhan Blower breach the terms of the short-term loan, among other rights, Hankou Bank may charge compound interest and penalty interest, accelerate the maturity date of the loan and withhold or deduct such amounts from Wuhan Generating’s or Wuhan Blower’s other accounts with Hankou Bank. These short-term loans are subject to an early repayment fee.

On July 27, 2010, Wuhan Blower executed a Loan Agreement for a short-term loan for RMB 40,000,000 (approximately \$5.89 million) under its loan facility with Hankou Bank. This short-term loan was obtained for working capital purposes. This short-term loan matures on July 28, 2011 and has a floating interest rate that is currently at 5.31%. If Wuhan Blower fails to make timely payments on this short-term loan, then it will be subject to a penalty rate of 150% of the effective interest rate. In addition, Wuhan Blower is subject to a penalty rate of the effective interest rate plus 100% if it fails to use the loan for the agreed upon purpose. Upon Hankou Bank’s request, Wuhan Blower must provide copies of financial statements and other requested information. If Wuhan Blower breaches the terms of the short-term loan, among other rights, Hankou Bank may charge compound interest and penalty interest, accelerate the maturity date of the loan and withhold or deduct such amounts from Wuhan Blower’s other accounts with Hankou Bank. This short-term loan is subject to an early repayment fee.

The obligations under the Loan Facility Agreement and Loan Agreements with Hankou Bank are secured by the real property of the Borrowers and guaranteed by Wuhan Blower and Wuhan Sungreen. The Loan Facility Agreement and the Loan Agreements are governed by the laws of the People’s Republic of China.



As of September 30, 2010, the Company had received approximately \$36.22 million under the term loan facility with Hankou Bank. We have used this amount to repay the bank loans with Standard Chartered Bank and to fund our ongoing construction projects.

The foregoing is only a summary of the agreements and is qualified by the exact terms of the Loan Facility Agreement, the Loan Agreements and the Financial Consulting Service Agreements, which were filed as Exhibits 10.1, 10.2, 10.3, 10.4, 10.5, 10.6 and 10.7 to our Current Report on Form 8-K filed with the Securities and Exchange Commission (the "SEC") on October 22, 2010.

#### Loan Facilities with Standard Chartered Bank

On July 13, 2010, the Borrowers entered into an Early Loan Repayment and Termination Agreement, as supplemented, with Standard Chartered Bank (the "Termination Agreement") to repay all amounts owed to Standard Chartered Bank and terminate the Loan Agreement and Financing Letter with Standard Chartered Bank. Pursuant to the Termination Agreement, the Borrowers agreed to repay Standard Chartered Bank a total amount of RMB 157.6 million (approximately \$23.24 million) in principal under the Loan Agreement, and a total amount of RMB 21.8 million (approximately \$3.21 million) in principal under the Financing Letter for a bank note payable. In addition, the Borrowers agreed to pay, in consideration of the early repayment of the loan, approximately RMB 8.16 million (approximately \$1.20 million) for loss on interest revenue to Standard Chartered Bank and for penalty charges. The Borrowers also agreed to pay RMB 263,713 (approximately \$39,000) in legal fees to King & Wood Law Firm and RMB 295,820 (approximately \$44,000) in auditing service fees to PricewaterhouseCoopers LLP. The Borrowers previously paid Standard Chartered Bank and its affiliates a consulting fee of RMB 12.61 million (approximately \$1.86 million) in connection with its financing. Under the Termination Agreement, Standard Chartered Bank agreed to refund approximately RMB 8.16 million (approximately \$1.20 million) to the Borrowers for various fees paid, if the Borrowers fully satisfy their debt with Standard Chartered Bank. As of July 15, 2010, the Borrowers fully repaid their debt under the Loan Agreement with Standard Chartered Bank of RMB 157.6 million (approximately \$23.24 million) in principal and RMB 1,145,905 (approximately \$169,000) in interest. As of August 16, 2010, the Borrowers fully repaid their bank note payable under the Financing Letter of RMB 21.8 million (approximately \$3.21 million) in principal and approximately RMB 380,380 (approximately \$56,000) in interest.

The foregoing summary of the Termination Agreement is qualified in its entirety by the exact terms of the Termination Agreement, which was filed as Exhibit 10.8 to our Current Report on Form 8-K filed with the SEC on October 22, 2010. The Loan Agreement with Standard Chartered Bank, and a summary of its material terms, was filed on a Current Report on Form 8-K with the SEC on November 16, 2009.

### Critical Accounting Policies

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires our management to make assumptions, estimates and judgments that affect the amounts reported in the financial statements, including the notes thereto, and related disclosures of commitments and contingencies, if any. We consider our critical accounting policies to be those that require the more significant judgments and estimates in the preparation of financial statements, including the following:

#### Method of Accounting

The Company maintains its general ledger and journals with the accrual method of accounting for financial reporting purposes. The financial statements and notes are representations of management. Accounting policies adopted by the Company conform to generally accepted accounting principles in the United States of America and have been consistently applied in the presentation of financial statements, which are compiled on the accrual basis of accounting.

#### Consolidation

The interim consolidated financial statements include the accounts of the Company and its subsidiaries, UFG, Wuhan Blower, Wuhan Generating and Wuhan Sungreen. Inter-company transactions, such as sales, cost of sales, due to/due from balances, investment in subsidiaries, and subsidiaries' capitalization have been eliminated.

#### Economic and Political Risks

The Company's operations are conducted in the PRC. Accordingly, the Company's business, financial condition and results of operations may be influenced by the political, economic and legal environment in the PRC, and by the general state of the PRC economy.

#### Use of Estimates

In preparing the financial statements in conformity with accounting principles generally accepted in the United States of America, management makes estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the dates of the financial statements, as well as the reported amounts of revenues and expenses during the reporting periods. These estimates and assumptions include, but are not limited to, the valuation of accounts receivable, inventories, deferred income taxes and the estimation of useful lives of property, plant and equipment. Actual results could differ from these estimates.

#### Cash and Cash Equivalents

The Company considers all cash and other highly liquid investments with initial maturities of three months or less to be cash equivalents. The Company maintains bank accounts in the U.S. and in the PRC.

#### Accounts Receivable-Trade

Trade receivables are recognized and carried at the original invoice amount less allowance for any uncollectible amounts. An allowance for doubtful accounts is made when collection of the full amount is no longer probable. Pursuant to the Company's accounting policies, the allowance for doubtful accounts is determined by applying a rate of five percent on outstanding trade receivables. In addition, the Company uses a specific review process to determine if any additional allowances for doubtful accounts are required. Bad debts are charged against the allowance when outstanding trade receivables have been determined to be uncollectible.

#### Inventory

Inventory, consisting of raw materials, work in progress, and finished products, is stated at the lower of cost or market value. Finished products are comprised of direct materials, direct labor and an appropriate proportion of overhead.

#### Property, Plant, and Equipment

Property, plant, and equipment are carried at cost less accumulated depreciation. Depreciation is provided over their estimated useful lives, using the straight-line method with 5% salvage value. Estimated useful lives of the property, plant and equipment are as follows:

|                            |          |
|----------------------------|----------|
| Buildings                  | 30 years |
| Machinery and<br>Equipment | 10 years |
| Furniture and<br>Fixtures  | 5 years  |
| Motor Vehicles             | 5 years  |

#### Intangible Assets

Intangible assets are stated at cost less accumulated amortization. Amortization is provided over the respective useful lives, using the straight-line method. Estimated useful lives of intangibles are as follows:

|                    |          |
|--------------------|----------|
| Technical Licenses | 10 years |
| Trademark          | 20 years |

In accordance with ASU 350 Impairment of Long-Lived Assets, the Company reviews its technical licenses and trademarks for impairment on an annual basis. The Company's review process focuses on estimating future cash flows generated by these intangible assets. The estimation of future cash flows includes consideration of obsolescence of technical licenses and potential trademark infringement. The Company has not yet recognized any impairment upon the intangible assets.

### Land Use Rights

The Company carries land use rights at cost less accumulated amortization. Land use rights are amortized straight-line over the useful life of 50 years for the Wuhan Blower and Wuhan Generating campus, and of 30 years for the Wuhan Sungreen campus.

### Accounting for Impairment of Long-Lived Assets

The Company adopted Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"), which addresses financial accounting and reporting for the impairment or disposal of long-lived assets. The Company periodically evaluates the carrying value of long-lived assets to be held and used in accordance with SFAS 144. SFAS 144 requires impairment losses to be recorded on long-lived assets used in operations when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amounts. In that event, a loss is recognized based on the amount by which the carrying amount exceeds the fair market value of the long-lived assets. Loss on long-lived assets to be disposed of is determined in a similar manner, except that fair market values are reduced for the cost of disposal. The Company's long-lived assets are grouped by their presentation on the financial statements according to the balance sheet and further segregated by their operating and asset type. Long-lived assets subject to impairment include buildings, equipment, vehicles, trademarks, software licenses, land use rights and real property available for sale. The Company considers annually whether these assets are impaired. The Company makes its determinations based on various factors that impact those assets. For example, the Company considers real property impaired if property prices decrease drastically and it is unlikely that the prices will recover within the foreseeable future. Although property values in the PRC have experienced a decline during the last year, prices are increasing again. Therefore, the Company believes its real property has at least retained the value of its original cost to the Company. Equipment used for production, which undergo regular maintenance, are assessed annually. The Company has maintained a profitable business amidst the economic downturn and equipment has continued to be used for production, indicating that such equipment still retains its value to the Company. Based on its review, the Company believes that, as of September 30, 2010 and December 31, 2009, there were no significant impairments of its long-lived assets.

The Company believes that cash flows generated by its ongoing business, which incorporates significant use of the long-lived assets of the Company, provide sufficient profit so that it is unnecessary to record any impairment charges. The Company believes that current annual provision of depreciation and amortization provides sufficient expense related to the use of the long-lived assets carried on the Company's books.

### Revenue Recognition

Revenue from the sale of blower products, generating equipment and other general equipment is recognized at the time of the transfer of risks and rewards of ownership, which generally occurs when the goods are delivered to customers and the title passes. The Company believes that the installation is not essential to the functionality of the equipment. This is because the equipment is tested at the Company's facilities before it is shipped and consequently, the equipment is completed and functional at the point that it is delivered to the customer. Additionally, since the Company's products generally are a smaller component of a large project, after delivery, the Company has no control over how the customer will use the delivered products and sometimes other companies are used to install the equipment purchased from us. Finally, our customers do not have a contractual right to return products to the Company, and we historically have experienced virtually no returns.



Product sales revenue represents the invoiced value of goods, net of the value-added tax (VAT). All of the Company's products that are sold in the PRC are subject to a Chinese value-added tax at a rate of 17% of the gross sales price. This VAT may be offset by VAT paid by the Company on raw materials and other materials included in the cost of producing the finished product.

Revenue from "Turn-Key" construction projects is recognized using the percentage-of-completion method of accounting and therefore takes into account the costs, estimated earnings and revenue to date on contracts not yet completed. Revenue recognized is that percentage of the total contract price that cost expended to date bears to anticipated final total cost, based on current estimates of costs to complete. Contract costs include all direct material and labor costs and those indirect costs related to contract performance, such as indirect labor, supplies, tools, repairs, and depreciation costs. Selling, general, and administrative costs are charged to expense as incurred. At the time a loss on a contract becomes known, the entire amount of the estimated ultimate loss is recognized in the consolidated financial statements. Claims for additional contract costs are recognized upon a signed change order from the customer or in accordance with paragraphs 62 and 65 of AICPA Statement of Position 81-1, "Accounting for Performance of Construction – Type and Certain Production – Type Contracts."

Revenue from the rendering of maintenance services is recognized when such services are provided.

Provision is made for foreseeable losses as soon as they are anticipated by management.

#### Cost of Sales

The Company's cost of sales is comprised of raw materials, factory worker salaries and related benefits, machinery supplies, maintenance supplies, depreciation, utilities, inbound freight, purchasing and receiving costs, inspection and warehousing costs.

#### Selling Expenses

Selling expenses are comprised of outbound freight, salary for the sales force, client entertainment, commissions, depreciation, advertising and travel and lodging expenses.

#### General & Administrative Expenses

General and administrative expenses include outside consulting services, research & development, executive compensation, quality control, and general overhead such as the finance department, administrative staff, and depreciation and amortization expense.

#### Advertising

The Company expenses all advertising costs as incurred.

#### Research and Development

The Company expenses all research and development costs as incurred.

#### Shipping and Handling

Shipping and handling costs represent costs associated with shipping products to customers and handling finished goods. Shipping and handling costs billed to customers are recognized as revenue and shipping and handling costs incurred by the Company are included in cost of sales.

#### Foreign Currency Translation

The Company maintains its financial statements in the functional currency, which is the Renminbi (RMB). Monetary assets and liabilities denominated in currencies other than the functional currency are translated into the functional currency at rates of exchange prevailing at the balance sheet dates. Transactions denominated in currencies other than the functional currency are translated into the functional currency at the exchange rates prevailing at the dates of the transaction. Exchange gains or losses arising from foreign currency transactions are included in the determination of net income for the respective periods.

For financial reporting purposes, the financial statements of the Company, which are prepared using the functional currency, have been translated into United States dollars. Assets and liabilities are translated at the exchange rates at the balance sheet dates and revenue and expenses are translated at the average exchange rates and stockholders' equity is translated at historical exchange rates. Translation adjustments are not included in determining net income but are included in foreign exchange adjustment to other comprehensive income, a component of stockholders' equity.

| Exchange Rates                           | 9/30/2010 | 12/31/2009 | 9/30/2009 |
|--|-----------|------------|-----------|
| Period end RMB: U.S.\$ exchange rate     | 6.6981    | 6.83720    | 6.8376    |
| Average period RMB: U.S.\$ exchange rate | 6.8164    | 6.84088    | 6.8425    |

RMB is not freely convertible into foreign currency and all foreign exchange transactions must take place through authorized institutions. No representation is made that the RMB amounts could have been, or could be, converted into U.S. dollars at the rates used in translation.

## Income Taxes

The Company uses the accrual method of accounting to determine income taxes for the year. The Company has implemented Statement of Financial Accounting Standards (SFAS) No. 109, Accounting for Income Taxes. Income tax liabilities computed according to the United States and People's Republic of China (PRC) tax laws are provided for the tax effects of transactions reported in the financial statements and consist of taxes currently due plus deferred taxes related primarily to differences between the basis of fixed assets and intangible assets for financial and tax reporting. The deferred tax assets and liabilities represent the future tax return consequences of those differences, which will be either taxable or deductible when the assets and liabilities are recovered or settled. Deferred taxes also are recognized for operating losses that are available to offset future income taxes. A valuation allowance is created to evaluate deferred tax assets if it is more likely than not that these items will either expire before the Company is able to realize that tax benefit, or that future realization is uncertain.

Effective January 1, 2009, PRC government implemented a new 25% tax rate for all domestic and foreign enterprises abolishing any tax holiday, which was defined as "two-year exemption followed by three-year half exemption" enjoyed by many foreign-invested enterprises. As a result of the new tax law of a standard 25% tax rate, tax holidays terminated as of December 31, 2008. However, the PRC government established transition rules allowing enterprises already benefiting from tax holidays before January 1, 2009, to continue enjoying the tax holidays until being fully utilized. For the year ended December 31, 2009, Wuhan Blower and Wuhan Generating were subject to a 12.5% tax rate and Wuhan Sungreen was subject to a 25% tax rate.

The Company is also subject to United States Tax according to Internal Revenue Code Sections 951 and 957. Corporate income tax is imposed on progressive rates in the range of:

| Rate | Taxable Income |              |                |
|------|----------------|--------------|----------------|
|      | Over           | But Not Over | Of Amount Over |
| 15%  | 0              | 50,000       | 0              |
| 25%  | 50,000         | 75,000       | 50,000         |
| 34%  | 75,000         | 100,000      | 75,000         |
| 39%  | 100,000        | 335,000      | 100,000        |
| 34%  | 335,000        | 10,000,000   | 335,000        |
| 35%  | 10,000,000     | 15,000,000   | 10,000,000     |
| 38%  | 15,000,000     | 18,333,333   | 15,000,000     |
| 35%  | 18,333,333     | -            | -              |

## Statutory Reserve

In accordance with PRC laws, the Company maintains statutory reserves which are appropriations from net income, to the account "statutory reserve" to be used for future company development, recovery of losses, and increase of capital, as approved, to expand production or operations. PRC laws require that an enterprise operating at a profit, must appropriate, on an annual basis, an amount equal to 10% of its profit. Such an appropriation is necessary until the reserve reaches a maximum that is equal to 50% of the enterprise's PRC registered capital. The Company cannot pay dividends from statutory reserves or paid in capital registered in the PRC.



### Other Comprehensive Income

Comprehensive income is defined to include all changes in equity, except those resulting from investments by owners and distributions to owners. Among other disclosures, all items that are required to be recognized under current accounting standards as components of comprehensive income are required to be reported in a financial statement that is presented with the same prominence as other financial statements. The Company's current component of other comprehensive income is the foreign currency translation adjustment.

### Warranty Policy

The estimation of warranty obligations is determined in the same period that revenue from the sale of the related products is recognized. The warranty obligation is based on historical experience and reflects management's best estimate of expected costs at the time products are sold. Warranty accruals are adjusted for known or anticipated warranty claims as new information becomes available. Future events and circumstances could materially change our estimates and require adjustments to the warranty obligation. New product launches require a greater use of judgment in developing estimates until historical experience becomes available.

### Earnings Per Share

Basic earnings per share is computed on the basis of the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share is computed on the basis of the weighted average number of shares of common stock plus the effect of dilutive potential common shares outstanding during the period using the treasury stock method for warrants and the as-if method for convertible securities. Dilutive potential common shares include outstanding warrants, and convertible preferred stock.

### Financial Instruments

The Company's financial instruments are cash and cash equivalents, accounts receivable, other receivable, advances to suppliers, advances to employees, bank loans and notes, accounts payable, other payable, dividend payable, accrued liabilities, and long-term liabilities. The recorded values of cash and cash equivalents, accounts receivable, other receivable, advances to suppliers, advances to employees, bank loans and notes, accounts payable, other payable, dividend payable and accrued liabilities approximate their fair values based on their short-term nature.

### Retirement Plan

The employees of the Company participate in the defined contribution retirement plans managed by the local government authorities whereby the Company is required to contribute to the schemes at fixed rates of the employees' salary. The Company's contributions to this plan are charged to profit or loss when incurred. The Company has no obligations for the payment of retirement and other post-retirement benefits of staff other than the contributions described in the financial statements.

## Recent Accounting Pronouncements

In June 2009, FASB issued FASB Statement No. 166, Accounting for Transfers for Financial Assets (FASB ASC 860 Transfers and Servicing) and FASB Statement No. 167 (FASB ASC 810 Consolidation), a revision to FASB Interpretation No. 46 (Revised December 2003), Consolidation of Variable Interest Entities (FASB ASC 810 Consolidation).

Statement 166 is a revision to FASB Statement No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities (FASB ASC 860 Transfers and Servicing), and will require more information about transfers of financial assets, including securitization transactions, and where entities have continuing exposure to the risks related to transferred financial assets. It eliminates the concept of a “qualifying special-purpose entity,” changes the requirements for derecognizing financial assets, and requires additional disclosures. Statement No. 166 (FASB ASC 860 Transfers and Servicing) must be applied as of the beginning of each reporting entity’s first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period and for interim and annual reporting periods thereafter. Earlier application is prohibited. This Statement must be applied to transfers occurring on or after the effective date. The Company has adopted the new accounting standard. There was no material impact on the financial statements presented herein.

Statement 167 is a revision to FASB Interpretation No. 46 (Revised December 2003), Consolidation of Variable Interest Entities (FASB ASC 810 Consolidation), and changes how a reporting entity determines whether an entity that is insufficiently capitalized or is not controlled through voting (or similar) rights should be consolidated. The determination of whether a reporting entity is required to consolidate another entity is based on, among other things, the other entity’s purpose and design and the reporting entity’s ability to direct the activities of the other entity that most significantly impact the other entity’s economic performance. Statement No. 167 (FASB ASC 810 Consolidation) shall be effective as of the beginning of each reporting entity’s first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period, and for interim and annual reporting periods thereafter. Earlier application is prohibited. The Company has adopted the new accounting standard. There was no material impact on the financial statements presented herein.

On June 30, 2009, FASB issued FASB Statement No. 168, Accounting Standards Codification™ ( FASB ASC 105 Generally Accepted Accounting Principles) a replacement of FASB Statement No. 162 the Hierarchy of Generally Accepted Accounting Principles. On the effective date of this standard, FASB Accounting Standards Codification™ (ASC) became the source of authoritative U.S. accounting and reporting standards for nongovernmental entities, in addition to guidance issued by the Securities and Exchange Commission (SEC). This statement is effective for financial statements issued for interim and annual periods ending after September 15, 2009. If an accounting change results from the application of this guidance, an entity should disclose the nature and reason for the change in accounting principle in their financial statements. This new standard categorizes the GAAP hierarchy to two levels: one that is authoritative (in FASB ASC) and one that is non-authoritative (not in FASB ASC). Exceptions include all rules and interpretive releases of the SEC under the authority of federal securities laws, which are sources of authoritative GAAP for SEC registrants, and certain grandfathered guidance having an effective date before March 15, 1992. Statement No. 168 is the final standard that will be issued by FASB in that form. There will no longer be, for example, accounting standards in the form of statements, staff positions, Emerging Issues Task Force (EITF) abstracts, or AICPA Accounting Statements of Position. The Company has adopted the new accounting standard. There was no material impact on the financial statements presented herein.

#### Subsequent Event

The Company evaluates subsequent events that have occurred after the consolidated balance sheet date but before the consolidated financial statements are issued. There are two types of subsequent events: (1) recognized, or those that provide additional evidence with respect to conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements, and (2) nonrecognized, or those that provide evidence with respect to conditions that did not exist at the date of the balance sheet but arose subsequent to that date.

#### Off-Balance Sheet Arrangements

We do not have any off-balance arrangements.

#### Item 3. Quantitative and Qualitative Disclosures About Market Risk.

This item is not required for a smaller reporting company.

#### Item 4T. Controls and Procedures.

##### Disclosure Controls and Procedures

As required by Rule 15d-15 under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), our management carried out an evaluation, with the participation and under the supervision of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of September 30, 2010. Disclosure controls and procedures refer to controls and other procedures designed to ensure that information required to be disclosed in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating and implementing possible controls and procedures. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected.

Based upon this evaluation as of September 30, 2010, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures contained significant deficiencies and material weaknesses. Therefore, our management concluded that our disclosure controls and procedures were not effective. We believe that the deficiencies and weaknesses in our disclosure controls and procedures result from weaknesses in our internal control over financial reporting, which are described under Item 9A – “Controls and Procedures - Internal Control Over Financial Reporting” in the Company’s Annual Report on Form 10-K filed with the SEC on March 31, 2010.

Changes in Internal Control over Financial Reporting

During the quarter ended September 30, 2010, the Company had no significant changes to its internal control over financial reporting that have materially affected, or that are reasonably likely to materially affect, its internal control over financial reporting.

PART II

OTHER INFORMATION

Item 1. Legal Proceedings.

From time to time, the Company may become involved in various lawsuits and legal proceedings which arise in the ordinary course of business.

Item 1A. Risk Factors.

An investment in our common stock or other securities involves a number of risks. You should carefully consider each of the risks described below before deciding to invest in our common stock or other securities. If any of the following risks develops into actual events, our business, financial condition or results of operations could be negatively affected, the market price of our common stock or other securities could decline and you may lose all or part of your investment.

The risk factors presented below are all of the ones that we currently consider material. However, they are not the only ones facing our Company. Additional risks not presently known to us, or which we currently consider immaterial, may also adversely affect us. There may be risks that a particular investor views differently from us, and our analysis might be wrong. If any of the risks that we face actually occur, our business, financial condition and operating results could be materially adversely affected and could differ materially from any possible results suggested by any forward-looking statements that we have made or might make. In such case, the trading price of our common stock or the value of our other securities could decline, and you could lose part or all of your investment.

Risk Factors Related to Our Business

Our steam and water turbine business is a critical component of our growth and overall business strategy, yet our turbine facility is not fully operational and we have limited experience manufacturing turbines.

In late 2005, Wuhan Blower reached an understanding with many of the former management members of Wuhan Turbine Works, a business owned by China Chang Jiang Energy Corporation, whereby it would establish a new business utilizing their management and technology to manufacture small to mid-size steam and water turbines. At that time, we began producing turbines in our existing blower manufacturing facilities and in shared facilities. In March 2006, we broke ground on a new turbine manufacturing facility. The construction of the turbine manufacturing facility was completed in 2009 and substantially all of the equipment has been installed with the exception of two large pieces of equipment that are currently being installed. This installation delay is the result of a delay in the construction of the equipment. We expect that this equipment will be placed into operation by the end of the fourth quarter of 2010. We have begun production of turbines from this facility and will expand production once the installation is complete. The manufacture of turbines has become a critical component of our business. However, we have only four years experience manufacturing turbines.

Because we have had a limited operating history in the turbine manufacturing business, it is difficult to forecast accurately our future revenues and expenses related to this business. Additionally, our turbine operations will continue to be subject to risks inherent in the establishment of a new business, including, among other things, efficiently deploying our capital, developing our product and service offerings, developing and implementing our marketing campaigns and strategies and developing awareness and acceptance of our products. Our ability to generate future revenues from these operations will be dependent on a number of factors, many of which are beyond our control. To be successful, we must, among other things, complete the installation of the customized equipment and establish market recognition in this business. This will require us to expend significant resources, including capital and management time.

Wuhan Sungreen is not fully operational and we have little experience manufacturing and marketing parts for blowers and other industrial equipment.

Wuhan Sungreen currently produces industrial parts mainly for Wuhan Blower and Wuhan Generating. Because we have no experience in the parts and machinery equipment manufacturing business, we may not be successful in selling these products to third parties. In addition, it is difficult to forecast accurately our future revenues and expenses related to this business. We also have not completed construction of a workshop and other buildings to be used by Wuhan Sungreen. We expect all construction related to the Wuhan Sungreen manufacturing facility to be completed in 2011.

Our operations will continue to be subject to risks inherent in the establishment of a new business, including, among other things, efficiently deploying our capital, developing our product and service offerings, developing and implementing our marketing campaigns and strategies and developing awareness and acceptance of our products. Our ability to generate future revenues from these operations will be dependent on a number of factors, many of which are beyond our control. To be successful, we must, among other things, complete our remaining workshop, integrate our existing management and establish market recognition in this business. This will require us to expend significant resources, including capital and management time.

We have not paid the remaining balance in connection with the Sukong Assets and we may require additional financing to meet this obligation and to complete construction of various buildings for Wuhan Sungreen.

We owe a balance of approximately \$1.5 million in connection with the Sukong Assets. In addition, we must pay an additional \$3.9 million to complete construction on the acquired facilities. We may require financing to meet these obligations. There is no guarantee that we will obtain such financing, and, if we are not able to meet our financial commitment in a timely manner, we may not be able to continue Wuhan Sungreen's operations.

Our management has identified material weaknesses in our internal control over financial reporting and disclosure controls and procedures that, if not properly remediated, could result in material misstatements in our financial statements in future periods.

In conjunction with the preparation of this Form 10-Q, our management carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of September 30, 2010. Based upon this evaluation, our CEO and CFO concluded that our disclosure controls and procedures contained significant deficiencies and material weaknesses and therefore were not effective. For more detailed information regarding our disclosure controls and procedures, see Part I, Item 4T. Controls and Procedures.

The deficiencies and weaknesses in our disclosure controls and procedures resulted from weaknesses in our internal control over financial reporting. In conjunction with the preparation of the Company's Annual Report on Form 10-K for the year ended December 31, 2009, the Company's management carried out an evaluation of the effectiveness of the design and operation of the Company's internal control over financial reporting as of December 31, 2009. Based upon this evaluation, the Company's management concluded that the Company's internal control over financial reporting contained significant deficiencies and material weaknesses and therefore was not effective.

If we are unable to improve our financial and management controls and hire additional accounting and finance staff experienced in addressing complex accounting matters applicable to U.S. public reporting companies, in each case in a timely and effective manner, our ability to comply with the accounting and financial reporting requirements and other rules that apply to U.S. public reporting companies would be impaired.

If the remedial policies and procedures we implement are insufficient to address the identified material weaknesses, or if additional significant deficiencies or material weaknesses in our internal control over financial reporting or disclosure controls and procedures are discovered in the future, we may fail to meet our future reporting obligations, our financial statements may contain material misstatements and our operating results may be adversely affected.

We must implement additional and expensive procedures and controls in order to grow our business and organization and to satisfy reporting requirements, which will increase our costs and require additional management resources.

As a U.S. public reporting company, we are required to comply with the Sarbanes-Oxley Act and the related rules and regulations of the SEC, including the requirements that we maintain disclosure controls and procedures and adequate internal control over financial reporting. We also are required to comply with marketplace rules to maintain our NASDAQ listing. Compliance with the Sarbanes-Oxley Act and other SEC and NASDAQ requirements will increase our costs and require additional management resources. We have begun upgrading our procedures and controls and will need to continue to implement additional procedures and controls as we grow our business and organization and to satisfy new reporting requirements.

Our substantial indebtedness could adversely affect our results of operations and financial condition and prevent us from fulfilling our financial obligations.

We have incurred substantial debt to finance our growth. As of September 30, 2010, we had approximately \$80.89 million of outstanding bank loans and notes. This indebtedness could have important consequences to us, such as:

- limiting our ability to obtain additional financing to fund growth, working capital, capital expenditures, debt service requirements or other cash requirements;
  - limiting our operational flexibility due to the covenants contained in our debt agreements;
  - limiting our ability to invest operating cash flow in our business due to debt service requirements;
- limiting our ability to compete with companies that are not as highly leveraged and that may be better positioned to withstand economic downturns; and
  - increasing our vulnerability to fluctuations in market interest rates.

Our ability to meet our expenses and debt service obligations will depend on our future performance, which will be affected by financial, business, economic and other factors, including potential changes in customer preferences, the success of product and marketing innovation and pressure from competitors. If we do not have enough money to pay our debt service obligations, we may be required to raise additional equity capital, sell assets or borrow more money. We may not be able, at any given time, to raise additional equity capital, sell assets or borrow more money on terms acceptable to us or at all. In the past, we have refinanced our debt prior to maturity. However, we may not be able to refinance our debt on favorable terms, if at all, in the future.

Our Chairman of the Board and controlling stockholder personally guarantees certain of our financing arrangements, the loss of which would adversely affect our business prospects, results of operations and financial condition.

Our Chairman of the Board and controlling stockholder, Mr. Xu Jie, personally guarantees certain loan facilities that have become an important financing source to our businesses due to recent cash constraints, which we expect to continue in the near term. We have no agreement with Mr. Xu regarding his providing such personal guarantees. Therefore, Mr. Xu could discontinue his guarantee of our financing at any time. Furthermore, if Mr. Xu ceases to serve as our Chairman of the Board, or in some similar capacity, by reason of his death, resignation, termination or for any other reason, we would likely immediately lose our access to this financing. If this financing were not available to us and we were unable to replace it with another source of financing or cash on hand, in the near term we would have to significantly reduce our spending, which would have a material adverse effect on our business prospects, financial condition and results of operations.

Default in payment by one or more customers that have large account receivable balances could adversely impact our results of operations and financial condition.

A significant portion of our working capital consists of accounts receivable from customers. As of September 30, 2010, we had an aggregate amount of \$50.28 million in accounts receivable. If customers responsible for a significant amount of accounts receivable were to become insolvent or otherwise unable or unwilling to make timely payments, our business, results of operation, financial condition or liquidity could be adversely affected. The recent economic downturn has resulted in longer payment cycles and increased collection costs. The economic downturn also may result in higher defaults than we anticipate.



We rely on third-party relationships to augment our research and development capabilities. If we fail to establish new, or maintain existing, collaborative arrangements, or if our partners do not perform, we may be unable to research and develop new products and make technological advancements.

Although we maintain our own research and development facilities, we also rely on collaborative arrangements with third-parties to research and develop new products and make technological advancements. For example, we have relationships with the Science and Technology University of Central China, Jiaotong University and the Acoustic Institute of the China Science Academy that allow us to stay abreast of the latest developments in the fields of fluid dynamics, material sciences and acoustics. We would be harmed by the loss of such relationships. In addition, we license technological information, and receive related technical assistance, from Mitsubishi Heavy Industries, Ltd. in connection with the majority of axial flow fans that we produce. If we fail to retain our rights under the license agreement, we would not be able to produce axial flow fans using the technical information provided by Mitsubishi. Additional collaborations may be necessary in the future. If we fail to enter into additional collaborative arrangements or fail to maintain our existing collaborative arrangements, we may not be able to compete successfully with other companies that achieve technological advancements.

Our dependence on collaborative arrangements with third-parties subjects us to a number of risks, including, among others:

- collaborative arrangements may not be on terms favorable to us;
- disagreements with partners may result in delays in research and development, termination of our collaboration agreements or time consuming and expensive legal action;
- we cannot control the amount and timing of resources that our partners devote to our research and development and our partners may not allocate sufficient funds or resources to our projects, or may not perform their obligations as expected;
- partners may choose to research and develop, independently or with other companies, alternative products or technological advancements, including products or advancements that would compete with ours;
- agreements with partners may expire or be terminated without renewal, or partners may breach collaboration agreements with us;
- business combinations or significant changes in a partner's business strategy might adversely affect that partner's willingness or ability to complete its obligations to us; and
  - the terms and conditions of the relevant agreements may no longer be suitable.

The occurrence of any of these or similar events could adversely affect our research and development capabilities.

We have limited business insurance coverage.

The insurance industry in China is still at an early stage of development. Insurance companies in China offer limited business insurance products. As a result, we do not have any business liability insurance coverage for our operations. If we incur any losses, we will have to bear those losses without any assistance. As a result, we may not have sufficient capital to cover material damage to, or the loss of, our manufacturing facilities due to fire, severe weather, flood or other causes, and such damage or loss would have a material adverse effect on our financial condition, business and prospects.

Our results could be adversely impacted by product quality and performance.

We manufacture and install products based on specific requirements of each of our customers. We believe that future orders of our products or services will depend on our ability to maintain the performance, reliability and quality standards required by our customers. If our products or services have performance, reliability or quality problems, we may experience delays in the collection of accounts receivables, higher manufacturing or installation costs, additional warranty and service expense, and reduced, cancelled or discontinued orders. Additionally, performance, reliability or quality claims from our customers, with or without merit, could result in costly and time-consuming litigation that could require significant time and attention of management and involve significant monetary damages.

Price fluctuations and supply constraints in the steel and iron markets could reduce our profit margins or prevent us from meeting delivery schedules to our customers.

Our business is dependent on the prices and supply of steel and iron, which are the principal raw materials used in our products. The steel and iron industries are highly cyclical in nature, and steel and iron prices have been volatile in recent years and may remain volatile in the future. Steel and iron prices are influenced by numerous factors beyond our control, including general economic conditions, competition, labor costs, production costs, import duties and other trade restrictions. In 2007 and early 2008, there were unusually rapid and significant increases in steel and iron prices and severe shortages in the steel and iron industries due in part to increased demand from China's expanding economy and high energy prices. These increases were followed in the second half of 2008 by significant decreases. We do not have any long-term contracts for the purchase of steel and iron and normally do not maintain inventories of steel and iron in excess of our current production requirements. Steel and iron may not remain available to us at competitive prices. If the available supply of steel and iron declines, we could experience price increases that we are not able to pass on to our customers, a deterioration of service from our suppliers or interruptions or delays that may cause us not to meet delivery schedules to our customers. Any of these problems could adversely affect our results of operations and financial condition.

Expansion of our business may strain our management and operational infrastructure and impede our ability to meet any increased demand for our products. In addition, we may need additional funding to support our growth, and this funding may not be available to us.

Our business plan is to grow significantly our operations by meeting the anticipated growth in demand for existing products, and by introducing new products. Our planned growth includes the continued development of our turbine manufacturing business and the development of our industrial parts and machinery equipment business. Growth in our businesses may place a significant strain on our personnel, management, financial systems and other resources. Our business growth also presents numerous risks and challenges, including:

- our ability successfully and rapidly to expand sales to potential customers in response to potentially increasing demand;
  - the costs associated with such growth, which are difficult to quantify, but could be significant; and
  - rapid technological change.

To accommodate this growth and compete effectively, we may need to obtain additional funding to improve and expand our manufacturing facilities, information systems, procedures and controls and to expand, train, motivate and manage existing and additional employees. Funding may not be available in a sufficient amount or on favorable terms, if at all. If we are not able to manage these activities and implement these strategies successfully to expand to meet any increased demand, our operating results could suffer.

We depend heavily on key personnel, and turnover of key employees and senior management could harm our business.

Our future business and results of operations depend in significant part upon the continued contributions of our key technical and senior management personnel. They also depend in significant part upon our ability to attract and retain additional qualified management, technical, marketing and sales and support personnel for our operations. If we lose a key employee, if a key employee fails to perform in his or her current position, or if we are not able to attract and retain skilled employees as needed, our business could suffer. Significant turnover in our senior management could significantly deplete institutional knowledge held by our existing senior management team. We depend on the skills and abilities of these key employees in managing the manufacturing, technical, marketing and sales aspects of our business, any part of which could be harmed by turnover in the future.

We enjoy certain preferential tax concessions, and the loss of these preferential tax concessions would cause our tax liabilities to increase and our profitability to decline.

On January 1, 2008, the Law of the People's Republic of China on Enterprise Income Tax, or the EIT Law, became effective. In accordance with the EIT Law, the corporate income tax rate was set at 25% for all enterprises. However, certain industries and projects, such as enterprises with foreign investors, may enjoy favorable tax treatment pursuant to the EIT Law and its implementing rules. For 2009, Wuhan Blower and Wuhan Generating were subject to a 12.5% income tax rate and Wuhan Sungreen was subject to a 25% income tax rate. We expect that our operating subsidiaries will be subject to the same rates in 2010.

We may not continue to qualify for this preferential tax treatment. Also, Chinese tax regulations could change. If we do not continue to receive our reduced income tax rate, our tax liabilities will increase and our net income will decrease accordingly.

Under the EIT Law, we may be classified as a “resident enterprise” for PRC tax purposes, which may subject us to PRC enterprise income tax for any dividends we receive from our Chinese subsidiaries and to PRC income tax withholding for any dividends we pay to our non-PRC stockholders.

Under the EIT Law, an enterprise established outside of China whose “de facto management bodies” are located in China is considered a “resident enterprise” and is subject to the 25% enterprise income tax rate on its worldwide income. The EIT Law and its implementing rules are relatively new and it is unclear how tax authorities will determine the tax residency of enterprises established outside of China.

Based on a recent Notice issued by the State Administration of Taxation, an enterprise incorporated in an offshore jurisdiction and controlled by a Chinese enterprise or group will be classified as a resident enterprise if (i) its senior management in charge of daily operations reside or perform their duties mainly in China; (ii) its financial or personnel decisions are made or approved by bodies or persons in China; (iii) substantial assets and properties, accounting books, corporate chops, board and shareholder minutes are kept in China; and (iv) at least half of its directors or senior management resides in China.

All of our management is currently based in China. If the PRC tax authorities determine that our U.S. holding company is a “resident enterprise” for PRC enterprise income tax purposes, we may be subject to an enterprise income tax rate of 25% on our worldwide taxable income. The “resident enterprise” classification also could subject us to a 10% withholding tax on any dividends we pay to our non-PRC stockholders if the relevant PRC authorities determine that such income is PRC-sourced income. In addition to the uncertainties regarding the interpretation and application of the new “resident enterprise” classification, the EIT Law may change in the future, possibly with retroactive effect. If we are classified as a “resident enterprise” and we incur these tax liabilities, our net income will decrease accordingly.

#### Risks Related to the Market for Our Stock and Our Capital Structure

The issuance of shares of common stock upon the exercise or conversion of outstanding securities may cause significant dilution to our stockholders and may have an adverse impact on the market price of our common stock.

As of September 30, 2010, there were 25,101,524 shares of our common stock issuable upon conversion of outstanding Series A Convertible Preferred Stock and Series B Convertible Preferred Stock and exercise of outstanding warrants and options. The issuance of our shares upon the exercise or conversion of these securities will increase the number of shares of our common stock outstanding, which could depress the market price of our common stock.

The perceived risk of dilution may cause our stockholders to sell their shares, which would contribute to a downward movement in the price of our common stock. Moreover, the perceived risk of dilution and the resulting downward pressure on our stock price could encourage investors to engage in short sales of our common stock. By increasing the number of shares offered for sale, material amounts of short selling could further contribute to progressive price declines in our common stock.

We are a holding company and rely on the receipt of dividends from our operating subsidiaries. We may encounter limitations on the ability of our subsidiaries to pay dividends to us.

As a holding company, we have no direct business operations other than the ownership of our operating subsidiaries. Our ability to pay dividends and meet other obligations depends upon the receipt of dividends or other payments from our operating subsidiaries. In addition, our operating subsidiaries, from time to time, may be subject to restrictions on their ability to make distributions to us, including as a result of restrictive covenants in loan agreements, restrictions on the conversion of local currency into U.S. dollars or other hard currency and other regulatory restrictions relating to doing business in China as discussed below. If future dividends are paid in Renminbi, fluctuations in the exchange rate for the conversion of Renminbi into U.S. dollars may reduce the amount received by U.S. stockholders upon conversion of the dividend payment into U.S. dollars.

The ability of our Chinese operating subsidiaries to pay dividends may be restricted due to their corporate structure.

All of our operations are conducted in China and substantially all of our revenues are generated in China. Chinese regulations currently permit the payment of dividends only out of accumulated profits as determined in accordance with Chinese accounting standards and regulations. This calculation may differ from the one performed under generally accepted accounting principles in the United States, or U.S. GAAP. As a result, we may not receive sufficient distributions from our Chinese subsidiaries to enable us to make dividend distributions to our stockholders in the future. The limitations on distributions of the profits of our Chinese operating subsidiaries could negatively affect our financial condition and assets, even if our U.S. GAAP financial statements indicate that our operations have been profitable.

Currently, our subsidiaries in China are the only significant sources of revenues or investment holdings for the payment of dividends. If they do not accumulate sufficient profits under Chinese accounting standards and regulations, we will be unable to pay any dividends.

We are prohibited from declaring dividends on our common stock or acquiring any of our equity securities so long as our Series A Convertible Preferred Stock remains outstanding.

Pursuant to the terms of the Series A Convertible Preferred Stock Purchase Agreement, which was entered into in connection with the February 2007 private placement, we cannot declare or pay any dividends or make any other distributions to any holders of common stock or acquire any of our equity securities so long as any of the Series A Convertible Preferred Stock is outstanding. While our Series A Convertible Preferred Stock remains outstanding, our holders of common stock will have to rely solely on stock price appreciation for any return on their investment.

Compliance with changing regulation of corporate governance and public disclosure will result in additional expenses and pose challenges for our management team.

Changing laws, regulations and standards relating to corporate governance and public disclosure, including the Dodd-Frank Wall Street Reform and Consumer Protection Act and the rules and regulations promulgated thereunder, the Sarbanes-Oxley Act and SEC regulations, have created uncertainty for public companies and significantly increased the costs and risks associated with accessing the U.S. public markets. Our management team, which has limited experience managing a U.S. public company, will need to devote significant time and financial resources to comply with both existing and evolving standards for public companies, which will lead to increased general and administrative expenses and a diversion of management time and attention from revenue generating activities to compliance activities.

Climate change and related regulatory responses may impact our business.

Climate change as a result of emissions of greenhouse gases is a significant topic of discussion and may generate U.S. federal and other regulatory responses in the near future, including the imposition of a so-called “cap and trade” system. It is impracticable to predict with any certainty the impact of climate change on our business or the regulatory responses to it, although we recognize that they could be significant. The most direct impact is likely to be an increase in energy costs, which would increase slightly our operating costs, primarily through increased utility and transportations costs. In addition, many of our consumers operate power plants and any restrictions or penalties on their operations could adversely affect their demand for our products. However, it is too soon for us to predict with any certainty the ultimate impact, either directionally or quantitatively, of climate change and related regulatory responses.

To the extent that climate change increases the risk of natural disasters or other disruptive events in the areas in which we operate, we could be harmed. While we maintain business recovery plans that are intended to allow us to recover from natural disasters or other events that can be disruptive to our business, our plans may not fully protect us from all such disasters or events.

Our principal stockholder has the ability to control our operations, including the election of our directors.

Fame Good International Limited, a holding company controlled by our Chairman of the Board, Xu Jie, is the owner of approximately 70.6% of our outstanding voting securities (excluding shares of our Series A and Series B Convertible Preferred Stock which, until converted into common stock, only vote as a class on certain matters affecting such preferred stock). As a result, Mr. Xu possesses significant influence, giving him the ability, among other things, to elect each member of our Board of Directors and to authorize or prevent proposed significant corporate transactions. His ownership and control also may have the effect of delaying or preventing a future change in control, impeding a merger, consolidation, takeover or other business combination or discouraging a potential acquirer from making a tender offer. Additionally, Mr. Xu’s interests may differ from the interests of our other stockholders.

Certain provisions of our Articles of Incorporation may make it more difficult for a third party to effect a change in control.

Our Articles of Incorporation authorize the Board of Directors to issue up to 50,000,000 shares of preferred stock. The preferred stock may be issued in one or more series, the terms of which may be determined at the time of issuance by the Board of Directors without further action by the stockholders. These terms may include voting rights including the right to vote as a series on particular matters, preferences as to dividends and liquidation, conversion rights, redemption rights and sinking fund provisions. The issuance of any preferred stock could diminish the rights of holders of our common stock, and therefore could reduce the value of such common stock. In addition, specific rights granted to future holders of preferred stock could be used to restrict our ability to merge with, or sell assets to, a third party. The ability of the Board of Directors to issue preferred stock could make it more difficult, delay, discourage, prevent or make it more costly to acquire or effect a change in control, which in turn could prevent the stockholders from recognizing a gain in the event that a favorable offer is extended and could materially and negatively affect the market price of our common stock.

#### Risks Related to Doing Business in China

The Chinese government exerts substantial influence over the manner in which we must conduct our business activities.

In the last 30 years, despite a process of devolution of regulatory control to provincial and local levels and resulting economic autonomy and private economic activities, the Chinese central government has exercised and continues to exercise substantial control over virtually every sector of the Chinese economy through regulation and state ownership. Our ability to operate in China may be harmed by changes in its laws and regulations, including those relating to taxation, import and export tariffs, environmental regulations, land use rights, property and other matters. We believe that our operations in China are in material compliance with all applicable legal and regulatory requirements. However, the central or local governments of the jurisdictions in which we operate may impose new, stricter regulations or interpretations of existing regulations that would require additional expenditures and efforts on our part to ensure our compliance with such regulations or interpretations.

Accordingly, government actions in the future, including any decision to adjust economic policies or even to return to a more centrally planned economy or regional or local variations in the implementation of economic policies, could have a significant effect on economic conditions in China or particular regions thereof, and could require us to divest ourselves of any interest we then hold in Chinese properties or joint ventures.

Restrictions on currency exchange may limit our ability to receive and use our revenues effectively.

The majority of our revenues are settled in Renminbi, and any future restrictions on currency exchanges may limit our ability to use revenue generated in Renminbi to fund any future business activities outside China or to make dividend or other payments in U.S. dollars. Although the Chinese government introduced regulations in 1996 to allow greater convertibility of the Renminbi for current account transactions, significant restrictions still remain, including primarily the restriction that foreign investment enterprises may only buy, sell or remit foreign currencies after providing valid commercial documents at those banks in China authorized to conduct foreign exchange business. In addition, conversion of Renminbi for capital account items, including direct investment and loans, is subject to governmental approval in China, and companies are required to open and maintain separate foreign exchange accounts for capital account items. We cannot be certain that the Chinese regulatory authorities will not impose more stringent restrictions on the convertibility of the Renminbi.

The foreign currency exchange rate between U.S. Dollars and Renminbi could adversely affect our financial condition and the value of our common stock.

The value of our common stock will be affected by the exchange rate between U.S. dollars and Renminbi, and between those currencies and other currencies in which our sales may be denominated. For example, to the extent that we need to convert U.S. dollars into Renminbi for our operational needs and should the Renminbi appreciate against the U.S. dollar at that time, our financial position, the business of the Company and the price of our common stock may be harmed. Conversely, if we decide to convert our Renminbi into U.S. dollars for the purpose of declaring dividends on our capital stock or for other business purposes and the U.S. dollar appreciates against the Renminbi, the U.S. dollar equivalent of our earnings from our subsidiaries in China would be reduced.

Until 1994, the Renminbi experienced a gradual but significant devaluation against most major currencies, including the U.S. dollar, and there was a significant devaluation of the Renminbi on January 1, 1994 in connection with the replacement of the dual exchange rate system with a unified managed floating rate foreign exchange system. Since 1994, the value of the Renminbi relative to the U.S. dollar has remained stable and has appreciated against the U.S. dollar. Countries, including the United States, have argued that the Renminbi is artificially undervalued due to China's current monetary policies and have pressured China to allow the Renminbi to float freely in world markets. In July 2005, the PRC government changed its policy of pegging the value of the Renminbi to the U.S. dollar. Under the new policy the Renminbi is permitted to fluctuate within a narrow and managed band against a basket of designated foreign currencies. Since then, the Renminbi has appreciated by almost 18% against the U.S. dollar. While the international reaction to the Renminbi revaluation has generally been positive, there remains significant international pressure on the PRC government to adopt an even more flexible currency policy, which could result in further and more significant appreciation of the Renminbi against the U.S. dollar.



Inflation in the PRC could negatively affect our profitability and growth.

While the PRC economy has experienced rapid growth, such growth has been uneven among various sectors of the economy and in different geographical areas of the country. Rapid economic growth can lead to growth in the money supply and rising inflation. During the past 15 years, the rate of inflation in China has been as high as approximately 17% and China has experienced deflation as low as approximately minus 2%. If prices for our products and services rise at a rate that is insufficient to compensate for the rise in the costs of supplies such as raw materials, it may have an adverse effect on our profitability.

PRC regulations relating to acquisitions of PRC companies by foreign entities may create regulatory uncertainties that could restrict or limit our ability to operate.

In October 2005, the PRC State Administration of Foreign Exchange, or SAFE, issued a Notice on Relevant Issues concerning Foreign Exchange Administration for Domestic Residents to Engage in Financing and in Return Investment via Overseas Special Purpose Companies.

In accordance with the notice, if an acquisition of a PRC company by an offshore company controlled by PRC residents has been confirmed by a Foreign Investment Enterprise Certificate prior to the promulgation of the notice, the PRC residents must each submit a registration form to the local provincial SAFE branch with respect to their establishment of an offshore company and also must file an amendment to such registration if the offshore company experiences material events, such as changes in the share capital, share transfer, mergers and acquisitions, spin-off transaction or use of assets in China to guarantee offshore obligations. The notice also provides that failure to comply with the registration procedures set forth therein may result in restrictions on our PRC resident stockholders and subsidiaries. Pending the promulgation of detailed implementation rules, the relevant government authorities are reluctant to commence processing any registration or application for approval required under the SAFE notices.

In addition, on August 8, 2006, the Ministry of Commerce (“MOFCOM”), joined by the State-Owned Assets Supervision and Administration Commission of the State Council, State Administration of Taxation, State Administration for Industry and Commerce, China Securities Regulatory Commission and SAFE, amended and released the Provisions for Foreign Investors to Merge and Acquire Domestic Enterprises, new foreign-investment rules which took effect September 8, 2006, superseding much, but not all, of the guidance in the prior SAFE circulars. These rules significantly revised China’s regulatory framework governing onshore-offshore restructurings and how foreign investors can acquire domestic enterprises. These rules signify greater PRC government attention to cross-border merger, acquisition and other investment activities, by confirming MOFCOM as a key regulator for issues related to mergers and acquisitions in China and requiring MOFCOM approval of a broad range of merger, acquisition and investment transactions. Further, the rules establish reporting requirements for acquisition of control by foreigners of companies in key industries, and reinforce the ability of the Chinese government to monitor and prohibit foreign control transactions in key industries.

These rules may significantly affect the means by which onshore-offshore restructurings are undertaken in China in connection with offshore private equity and venture capital financings, mergers and acquisitions. It is expected that such transactional activity in China in the near future will require significant case-by-case guidance from MOFCOM and other government authorities as appropriate. It is anticipated that application of the rules will be subject to significant administrative interpretation, and we will need to closely monitor how MOFCOM and other ministries apply the rules to ensure that our PRC and offshore activities continue to comply with PRC law. Given the uncertainties regarding interpretation and application of the rules, we may need to expend significant time and resources to maintain compliance.



It is uncertain how our business operations or future strategy will be affected by the interpretations and implementation of the SAFE notices and rules.

Failure to comply with the United States Foreign Corrupt Practices Act could subject us to penalties and other adverse consequences.

We are subject to the United States Foreign Corrupt Practices Act, which generally prohibits United States companies from engaging in bribery or other prohibited payments to foreign officials for the purpose of obtaining or retaining business. In addition, we are required to maintain records that accurately and fairly represent our transactions and have an adequate system of internal accounting controls. Chinese companies and some other foreign companies, including some that may compete with us, are not subject to these prohibitions, and therefore may have a competitive advantage over us. Corruption, extortion, bribery, pay-offs, theft and other fraudulent practices occur from time to time in the PRC, and our executive officers and employees were not subject to the United States Foreign Corrupt Practices Act prior to the completion of the share exchange in February 2007. If our employees or other agents are found to have engaged in such practices, we could suffer severe penalties and other consequences that may have a material adverse effect on our business, financial condition and results of operations.

We may have difficulty establishing adequate management, legal and financial controls in the PRC.

PRC companies historically have not adopted a Western style of management and financial reporting concepts and practices, which includes strong corporate governance, internal controls and computer, financial and other control systems. As a result, we may experience difficulty in establishing management, legal and financial controls, collecting financial data and preparing financial statements, books of account and corporate records and instituting business practices that meet standards required of U.S. public companies. Therefore, we may, in turn, experience difficulties in implementing and maintaining adequate internal controls as required under Section 404 of the Sarbanes-Oxley Act. This may result in significant deficiencies or material weaknesses in our internal controls which could impact the reliability of our financial statements and prevent us from complying with SEC rules and regulations and the requirements of the Sarbanes-Oxley Act. Any such deficiencies, weaknesses or lack of compliance could have a material adverse effect on our business.

Our business may be adversely affected as a result of China's entry into the World Trade Organization ("WTO") because the preferential tax treatments available to us may be discontinued and foreign manufacturers may compete with us in the PRC.

The PRC became a member of the WTO on December 11, 2001. The current tax benefits that we enjoy may be discontinued as a result of the PRC's membership in the WTO. If this happened, our profitability would be adversely affected. In addition, we may face additional competition from foreign manufacturers if they set up their production facilities in the PRC or form Sino-foreign joint ventures with our competitors in the PRC. In the event that we fail to maintain our competitiveness against these competitors, our profitability may be adversely affected.

You may experience difficulties in effecting service of legal process, enforcing foreign judgments or bringing original legal actions in China based upon U.S. laws, including the federal securities laws or other foreign laws, against us or our management.

All of our current operations are conducted in China. Moreover, the majority of our officers and directors are currently nationals and residents of China. All or substantially all of the assets of these persons are located outside the United States and in the PRC. As a result, it may not be possible to effect service of process upon these persons within the United States or elsewhere outside China. In addition, uncertainty exists as to whether the courts of China would recognize or enforce judgments of U.S. courts obtained against us or our officers and/or directors predicated upon the civil liability provisions of the securities laws of the United States or any state thereof, or be competent to hear original legal actions brought in China against us or such persons predicated upon the securities laws of the United States or any state thereof.

Any recurrence of severe acute respiratory syndrome, or SARS, the H1N1 virus (swine flu) or another widespread public health problem, could harm our operations.

A renewed outbreak of SARS or another widespread public health problem such as new strains of avian influenza or the H1N1 virus (swine flu) in China could have a negative effect on our operations.

Our operations may be impacted by a number of health-related factors, including the following:

- quarantines or closures of some of our manufacturing facilities or offices which would severely disrupt our operations,
- the sickness or death of our key officers and employees, and
- a general slowdown in the Chinese economy.

Any of the foregoing events or other unforeseen consequences of public health problems could damage our operations.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Reserved.

Item 5. Other Information.

None.

Item 6. Exhibits.

| Exhibit<br>Number | Description of Exhibit   |
|-------------------|--|
| 31.1*             | Certification of Principal Executive Officer pursuant to Rule 13a-14(a).         |
| 31.2*             | Certification of Principal Financial Officer pursuant to Rule 13a-14(a).         |
| 32.1*             | Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350. |
| 32.2*             | Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350. |

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\* Filed herewith

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: November 15, 2010

WUHAN GENERAL GROUP (CHINA), INC.

By: /s/ Qi Ruilong  
Name: Qi Ruilong  
Title: President and Chief Executive Officer  
(principal executive officer and duly authorized officer)

By: /s/ Philip Lo  
Name: Philip Lo  
Title: Chief Financial Officer and Treasurer  
(principal financial officer)

Exhibit Index

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