

WUHAN GENERAL GROUP (CHINA), INC
Form 10-Q
November 21, 2011

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, 2011

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)

84-1092589
(I.R.S. Employer Identification No.)

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

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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 15, 2011, the registrant had a total of 32,505,000 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
As of September 30, 2011 and December 31, 2010
(Stated in US Dollars)

	Note	At September 30, 2011	At December 31, 2010
ASSETS			
Current Assets			
Cash	2(e)	\$ 55,922,395	\$ 26,856,317
Restricted Cash	3	26,181,215	30,599,958
Short Term Investment		156,206	-
Notes Receivable	4	62,482	251,066
Accounts Receivable	2(f),5	56,047,280	49,485,978
Other Receivable		20,593,016	16,269,293
Inventory	2(g),6	17,117,310	9,867,301
Advances to Suppliers		26,366,751	35,433,751
Advances to Employees	7	464,780	322,205
Prepaid Expenses		1,800,543	517
Prepaid Taxes		864,958	1,351
Deferred Tax Asset		1,231,651	1,192,532
Current assets held for sale	2(bb), 21	2,318,002	1,756,460
Total Current Assets		209,126,589	172,036,729
Non-Current Assets			
Real Property Available for Sale		-	1,140,718
Property, Plant & Equipment, net	2(h),8	30,230,148	30,617,120
Land Use Rights, net	2(j),9	1,976,030	1,945,678
Construction in Progress	10	14,766,528	12,371,309
Other Assets		7,000	-
Intangible Assets, net	2(i),11	154,584	179,837
Long-term assets held for sale	2(bb), 21	24,886,404	24,215,927
Total Assets		\$ 281,147,283	\$ 242,507,318
LIABILITIES & STOCKHOLDERS' EQUITY			
Liabilities			
Current Liabilities			
Bank Loans & Notes	12	\$ 119,795,943	\$ 72,007,623
Accounts Payable		5,968,731	9,619,808
Taxes Payable		8,809,844	10,459,789
Other Payable		4,614,742	4,123,669
Dividend Payable		1,270,982	727,129

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Accrued Liabilities	13	3,225,103	2,885,931
Customer Deposits		9,687,735	8,005,336
Current liabilities associated with assets held for sale	2(bb), 21	1,376,653	726,232
Total Current Liabilities		154,749,733	108,555,517
Long Term Liabilities			
Bank Loans and Notes	12	6,248,244	21,627,999
Total Liabilities		\$ 160,997,977	\$ 130,183,516

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

Wuhan General Group (China), Inc.
Consolidated Balance Sheets
As of September 30, 2011 and December 31, 2010
(Stated in US Dollars)

	Note	At September 30, 2011	At December 31, 2010
STOCKHOLDERS' EQUITY			
Preferred Stock - \$0.0001 Par Value 50,000,000 Shares Authorized; 6,241,453 Shares of Series A Convertible Preferred Stock Issued & Outstanding at September 30, 2011 and December 31, 2010	14	\$ 624	\$ 624
Additional Paid in Capital - Preferred Stock		8,170,415	8,170,415
Additional Paid in Capital – Warrants		63,171	1,554,635
Additional Paid in Capital - Beneficial Conversion Feature		6,371,547	6,371,547
Preferred Stock - \$0.0001 Par Value 50,000,000 Shares Authorized; 6,354,078 Shares of Series B Convertible Preferred Stock Issued & Outstanding at September 30, 2011 and December 31, 2010	14	635	635
Additional Paid in Capital - Preferred Stock		12,637,158	12,637,158
Additional Paid in Capital – Warrants		-	1,244,366
Additional Paid in Capital - Beneficial Conversion Feature		4,023,692	4,023,692
Common Stock - \$0.0001 Par Value 100,000,000 Shares Authorized; 32,505,000 and 28,327,607 Shares Issued & Outstanding at September 30, 2011 and December 31, 2010, respectively	14	3,251	2,833
Additional Paid in Capital		42,090,417	35,895,190
Statutory Reserve	2(u),15	4,563,592	4,563,592
Retained Earnings		24,471,589	25,956,458
Accumulated Other Comprehensive Income	2(v)	17,753,215	11,902,657
Total Stockholders' Equity		120,149,306	112,323,802
Total Liabilities & Stockholders' Equity		\$ 281,147,283	\$ 242,507,318

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

Wuhan General Group (China), Inc.
Consolidated Statements of Income
For the three and nine months ended September 30, 2011 and 2010
(Stated in US Dollars)

	Note	Three Months Ended		Nine Months Ended	
		September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
Sales	2(l)	\$ 33,239,853	\$ 28,555,678	\$ 92,883,756	\$ 68,759,486
Cost of Sales	2(m)	26,243,925	20,521,753	69,793,910	51,067,511
Gross Profit		6,995,928	8,033,925	23,089,846	17,691,975
Operating Expenses					
Selling	2(n)	359,784	291,909	1,059,927	928,412
General & Administrative	2(p),23	6,658,126	3,204,036	11,732,453	4,657,472
Warranty	2(w),13	74,455	231,843	270,160	608,393
Total Operating Expenses		7,092,365	3,727,788	13,062,540	6,194,277
Operating Income (Loss)		(96,437)	4,306,137	10,027,306	11,497,698
Other Income (Expenses)					
Other Income		14,195	32,725	151,460	165,118
Interest Income		12,528	75,320	101,694	101,187
Other Expenses		-	(32,387)	(48,682)	(33,948)
Interest Expense		(2,020,637)	(1,811,846)	(6,245,014)	(5,946,623)
Expense for warrant recapitalization		-	-	(3,455,260)	-
Total Other Income (Loss) & Expenses		(1,993,914)	(1,736,188)	(9,495,802)	(5,714,266)
Earnings from Continuing Operations before Taxes					
		(2,090,351)	2,569,949	531,504	5,783,432
Income Taxes	2(t), 16	291,541	543,384	1,135,546	1,011,066
Income (Loss) from Continuing Operations		(2,381,892)	2,026,565	(604,042)	4,772,366
Income (Loss) from Discontinued Operations, net of taxes		(138,604)	(195,124)	(336,974)	(341,961)
Net Income		\$ (2,520,496)	\$ 1,831,441	\$ (941,016)	\$ 4,430,405
Preferred Dividends Declared		(183,276)	(177,300)	(543,853)	(531,900)
Income Available to Common Stockholders		\$ (2,703,772)	\$ 1,654,141	\$ (1,484,869)	\$ 3,898,505
Earnings Per Share	17				
Basic - Net Income		\$ (0.08)	\$ 0.06	\$ (0.05)	\$ 0.15
- Income from Continuing Operations		(0.08)	0.07	(0.04)	0.16
- Loss from Discontinued Operations		(0.00)	(0.01)	(0.01)	(0.01)

Diluted - Net Income	(0.08)	0.05	(0.03)	0.14
- Income from Continuing Operations	(0.07)	0.06	(0.02)	0.15
- Loss from Discontinued Operations	\$ (0.01)	\$ (0.01)	\$ (0.01)	\$ (0.01)
Weighted Average Shares Outstanding				
Basic	32,505,000	25,351,950	32,226,507	25,351,950
Diluted	32,505,000	31,706,028	32,226,507	31,706,028

	Three Months Ended		Nine Months Ended	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
Comprehensive Income				
Net Income (Loss)	\$ (2,520,496)	\$ 1,831,441	\$ (941,016)	\$ 4,430,405
Other Comprehensive Income				
Foreign Currency Translation Adjustment	3,187,122	3,681,033	5,850,558	3,311,224
Total Comprehensive Income	\$ 666,626	\$ 5,512,474	\$ 4,909,542	\$ 7,741,629

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, 2011 and December 31, 2010
 (Stated in US Dollars)

	Series A Convertible Preferred Stock Shares Out- standing	Series A Preferred Stock Additional Paid in Capital	Series A, J, C Warrants Additional Paid in Capital	Beneficial Conversion Feature Additional Paid in Capital	Series B Convertible Preferred Stock Shares Out- standing	Series B Preferred Stock Additional Paid in Capital	Series B, JJ Warrants Additional Paid in Capital		
Balance, January 1, 2011	6,241,453	\$624	\$8,170,415	\$1,554,635	\$6,371,547	6,354,078	\$635	\$12,637,158	\$1,244,366
Stock Option Compensation Recapitalization of Warrants				(1,491,464)					(1,244,366)
Expense related to recapitalization of warrants									
Net Income									
Preferred Dividends Declared									
Appropriations of Retained Earnings									
Foreign Currency Translation Adjustment									
Balance, September 30, 2011	6,241,453	\$624	\$8,170,415	\$63,171	\$6,371,547	6,354,078	\$635	\$12,637,158	\$-

Wuhan General Group (China), Inc.
Consolidated Statements of Stockholders' Equity
For the periods ended September 30, 2011 and December 31, 2010
(Stated in US Dollars)

	Series A Convertible Preferred Stock Shares Out- standing	Series A Preferred Stock Additional Paid in Capital	Series A, J, C Warrants Additional Paid in Capital	Beneficial Conversion Feature Additional Paid in Capital	Series B Convertible Preferred Stock Shares Out- standing	Series B Preferred Stock Additional Paid in Capital	Series B, JJ Warrants Additional Paid in Capital		
Balance, January 1, 2010	6,241,453	\$624	\$8,170,415	\$3,484,011	\$6,371,547	6,354,078	\$635	\$12,637,158	\$2,274,181
Stock Option Compensation	-	-	-	-	-	-	-	-	-
Recapitalization of Warrants	-	-	-	(1,929,376)	-	-	-	-	(1,029,815)
Expense related to recapitalization of warrants	-	-	-	-	-	-	-	-	-
Net Income	-	-	-	-	-	-	-	-	-
Preferred Dividends Declared	-	-	-	-	-	-	-	-	-
Appropriations of Retained Earnings	-	-	-	-	-	-	-	-	-
Foreign Currency Translation Adjustment	-	-	-	-	-	-	-	-	-
Balance, December 31, 2010	6,241,453	\$624	\$8,170,415	\$1,554,635	\$6,371,547	6,354,078	\$635	\$12,637,158	\$1,244,366

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

Wuhan General Group (China), Inc.
Consolidated Statements of Cash Flows
For the three and nine months ended September 30, 2011 and 2010
(Stated in US Dollars)

	Three Months Ended		Nine Months Ended	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
Cash Flows from Operating Activities				
Cash Received from Customers	\$38,211,741	\$ 29,133,710	\$83,962,452	\$ 69,530,723
Cash Paid to Suppliers & Employees	(40,300,779)	(24,526,500)	(83,628,635)	(57,599,203)
Interest Received	12,527	75,307	101,694	101,173
Interest Paid	(1,710,691)	(1,811,846)	(5,935,069)	(5,946,623)
Taxes Paid	(184,464)	(545,482)	(3,978,630)	(1,017,162)
Miscellaneous Receipts	13,272	31,970	151,460	164,304
Cash Provided/(Used) in by operating activities – continuing operations	(3,958,394)	2,357,160	(9,326,728)	5,233,213
Cash Provided by operating activities – discontinued operations	327,356	83,742	232,067	124,221
Cash Sourced/(Used) in Operating Activities	(3,631,038)	2,440,902	(9,094,661)	5,357,434
Cash Flows from Investing Activities				
Cash Released/(Invested in) Restricted Time Deposits	(2,104,824)	1,048,452	4,418,744	(1,606,992)
Purchase of Short Term Investment Fund or Investment Property	(1,503)	-	984,512	-
Payments for Purchases and Construction of Plant & Equipment	(569,439)	(9,140,708)	(4,796,914)	(10,074,712)
Payments for Deposits	(14,468)	-	(22,411)	-
Cash Used in investing activities – continuing operations	(2,690,234)	(8,092,256)	583,931	(11,681,704)
Cash Used in investing activities – discontinued operations	(232,497)	(59,528)	(231,278)	(72,320)
Cash Sourced/(Used) in Investing Activities	(2,922,731)	(8,151,784)	352,653	(11,754,024)
Cash Flows from Financing Activities				
Net increase of Bank Loans and Notes	4,269,658	8,119,467	32,408,564	34,129,984
Dividends Paid	-	-	-	(727,129)
Cash provided by financing activities – continuing operations	4,269,658	8,119,467	32,408,564	33,402,855
Cash provided by financing activities – discontinued operations	-	-	-	-
Cash Sourced/(Used) in Financing Activities	4,269,658	8,119,467	32,408,564	33,402,855
Net Increase/(Decrease) in Cash & Cash Equivalents for the Period – continuing operations				
Net Increase/(Decrease) in Cash & Cash Equivalents for the Period – discontinued operations	(2,378,970)	2,384,371	23,665,767	26,954,364
Net Increase/(Decrease) in Cash & Cash Equivalents for the Period – discontinued operations	94,859	24,214	789	51,901

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Net Increase/(Decrease) in Cash & Cash Equivalents for the Period	(2,284,111)	2,408,585	23,666,556	27,006,265
Effect of Currency Translation – continuing operations	3,049,479	3,444,463	5,404,782	3,014,666
Effect of Currency Translation – discontinued operations	2,592	594	13	747
	3,052,071	3,445,057	5,404,795	3,015,413
Cash & Cash Equivalents at Beginning of Period - continuing operations	55,251,886	24,511,089	26,851,846	370,893
Cash & Cash Equivalents at Beginning of Period - discontinued operations	44,094	64,341	140,743	36,501
	55,295,980	24,575,431	26,992,589	407,394
Cash & Cash Equivalents at End of Period - continuing operations	55,922,395	30,339,923	55,922,395	30,339,923
Cash & Cash Equivalents at End of Period - discontinued operations	141,545	89,149	141,545	89,149
Cash & Cash Equivalents at End of Period	\$56,063,940	\$ 30,429,073	\$56,063,940	\$ 30,429,073

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, 2011 and 2010
 (Stated in US Dollars)

	Three Months Ended		Nine Months Ended	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
Net Income	\$(2,520,496)	\$ 1,831,441	\$(941,016)	\$ 4,430,405
Adjustments to Reconcile Net Income to Net Cash Provided by / <Used in> Operating Activities :				
Prepaid Interest in Other Non Current Assets	-	-	-	-
Stock Compensation	-	15,103	4,555	31,678
Expense for warrant recapitalization	-	-	3,455,260	-
Amortization	116,462	231,207	347,248	422,383
Depreciation	828,300	774,167	2,458,299	1,988,464
Decrease/(Increase) in Notes Receivable	30,340	(2,826,185)	203,708	(2,970,241)
Decrease/(Increase) in Accounts Receivable	1,816,908	3,909,934	(6,547,214)	3,681,819
Decrease/(Increase) in Other Receivable	6,931,630	(2,732,273)	(4,479,587)	(5,113,350)
Decrease/(Increase) in Inventory	(1,834,312)	1,989,428	(7,523,179)	947,244
Decrease/(Increase) in Advances to Suppliers	915,669	(3,500,722)	8,976,264	(10,617,440)
Decrease/(Increase) in Advances to Employees	(168,004)	389,423	(142,575)	(212,552)
Decrease/(Increase) in Prepaid Expenses	(24,170)	(1,060,288)	(1,855,697)	(278,467)
Decrease/(Increase) in Prepaid Taxes	(452,652)	(84,977)	(864,371)	(95,045)
Decrease/(Increase) in Deferred Tax Asset	(14,663)	(10,757)	(48,399)	(36,948)
Increase/(Decrease) in Accounts Payable	(3,049,248)	332,369	(3,640,755)	5,762,282
Increase/(Decrease) in Taxes Payable	461,123	906,917	(1,623,791)	932,673
Increase/(Decrease) in Other Payable	(476,000)	(246,153)	1,118,733	1,093,205
Increase/(Decrease) in Related Party Payable	(2,287,549)	-	-	-
Increase/(Decrease) in Accrued Liabilities	131,478	277,096	339,172	242,661
Increase/(Decrease) in Customer Deposits	(4,035,854)	2,245,172	1,668,684	5,148,663
Total of all adjustments	(1,110,542)	609,461	(8,153,645)	927,029
Net Cash Provided/(Used) in Operating Activities	\$(3,631,038)	\$ 2,440,902	\$(9,094,661)	\$ 5,357,434

Wuhan General Group (China), Inc.
As of September 30, 2011 and December 31, 2010
Notes to Financial Statements
(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 U.S. 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. However, due to the limitation of insufficient resources and the Company’s plan to dispose of Wuhan Sungreen, the Company has ceased any further construction of the workshop and buildings. See also Note 8 – Property, Plant and Equipment, and Note 10 – Construction in Progress.

Wuhan General Group (China), Inc.
As of September 30, 2011 and December 31, 2010
Notes to Financial Statements
(Stated in US Dollars)

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.

(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 and inventories, deferred income taxes, warranty liability 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 U.S. and 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.

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Wuhan General Group (China), Inc.
As of September 30, 2011 and December 31, 2010
Notes to Financial Statements
(Stated in US Dollars)

(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

(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

Annually, the Company reviews the intangible assets for impairment, in accordance with ASC 350 Impairment of Long-Lived Assets. The company considers whether the estimated future benefits of the technical licenses and trademarks will be fully realized over the course of their estimated useful lives. If the technical licenses become obsolete, or trademarks are unsuccessfully defended against infringement by third-parties, the Company will consider future cash flows and relevant factors to quantify the level of impairment and record impairment adjustments accordingly. The Company has not yet recognized any impairment upon the intangible assets.

(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, 2011 and December 31, 2010, there were no significant impairments of its long-lived assets.

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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.

(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.

- Revenue from product sales is recognized when the goods are delivered and title has passed. 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, client entertainment, commissions, depreciation, and travel and lodging expenses.

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(o) Advertising expenses

All advertising costs are expensed as incurred.

(p) 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.

(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	September 30, 2011	December 31, 2010	September 30, 2010
Period end RMB : US\$ exchange rate	6.40180	6.61180	6.69810
Average period RMB : US\$ exchange rate	6.50600	6.77875	6.81640

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.

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Effective January 1, 2009, PRC government implemented a new 25% tax rate across the board for all enterprises regardless of whether domestic or foreign enterprise without any tax holiday which is defined as "two-year exemption followed by three-year half exemption" hitherto enjoyed by tax payers. As a result of the new tax law of a standard 25% tax rate, tax holidays terminated as of December 31, 2008. However, PRC government has established a set of transition rules to allow enterprises already started tax holidays before January 1, 2009, to continue enjoying the tax holidays until being fully utilized. For the period ended September 30, 2011, 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 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	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 the 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 13 – Warranty Liability.

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(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 17 – Earnings per Share.

(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. The recorded values of long-term liabilities approximate their fair values, as interest approximates market rates.

(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 January 2011, the FASB issued an Accounting Standard Update ("ASU") No. 2011-01, "Receivables Topic 310): Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses, to be concurrent with the effective date of the guidance for determining what constitutes a troubled debt restructuring, as presented in proposed Accounting Standards Update, Receivables (Topic 310): Clarifications to Accounting for Troubled Debt Restructurings by Creditors. The amendments in this Update apply to all public-entity creditors that modify financing receivables within the scope of the disclosure requirements about troubled debt restructurings in Update 2010-20. Under the existing effective date in Update 2010-20, public- entity creditors would have provided disclosures about troubled debt restructurings for periods beginning on or after December 15, 2010. The amendments in this Update temporarily defer that effective date, enabling public-entity creditors to provide those disclosures after the Board clarifies the guidance for determining what constitutes a troubled debt restructuring. The deferral in this Update will result in more consistent disclosures about troubled debt restructurings. This amendment does not defer the effective date of the other disclosure requirements in Update 2010-20. In the proposed Update for determining what constitutes a troubled debt restructuring, the Board proposed that the clarifications would be effective for interim and annual periods ending after June 15, 2011. For the new disclosures about troubled debt restructurings in Update 2010-20, those clarifications would be applied retrospectively to the beginning of the fiscal year in which the proposal is adopted. This new accounting pronouncement is not expected to have a material impact on the Company's consolidated financial position or results of the operations.

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In June 2011, the FASB issued an Accounting Standard Update (“ASU”) No. 2011-05, “Comprehensive Income (Topic 220). Under the amendments to Topic 220, Comprehensive Income, entities have the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. This Update eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity. The amendments in this Update should be applied retrospectively. For public entities, the amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. This new accounting pronouncement is not expected to have a material impact on the Company’s consolidated financial position or results of the operations.

(bb) Discontinued Operations

Certain amounts have been reclassified to present the Company’s Wuhan Sungreen operations as discontinued operations. Unless otherwise indicated, information presented in the notes to the financial statements relates only to the Company’s continuing operations. Information related to discontinued operations is included in Note 21 and in some instances, where appropriate, is included as a separate disclosure within the individual footnotes.

3. RESTRICTED CASH

Restricted Cash represents cash placed with banks to secure credit facilities, which are comprised of loans and notes payables, in addition to other collateral.

4. NOTES RECEIVABLE

As of September 30, 2011	Continuing Operations	Discontinued Operations
Notes Receivable	\$ 62,482	\$ -
Less: Allowance for Bad Debts	-	-
	\$ 62,482	\$ -
As of December 31, 2010	Continuing Operations	Discontinued Operations
Notes Receivable	\$ 251,066	\$ 15,124
Less: Allowance for Bad Debts	-	-
	\$ 251,066	\$ 15,124

Notes Receivable are typically in the form of bank drafts from customers. Bank drafts are liquid instruments that can be either (a) endorsed to the Company’s vendors, or (b) discounted to the Company’s own bank. The Company chooses to carry these instruments as notes receivable instead of cash primarily because of the associated time element of these notes, as they typically mature in the future; therefore, these bank drafts represent different risk and reward characteristics.

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5. ACCOUNTS RECEIVABLE		
As of September 30, 2011	Continuing Operations	Discontinued Operations
Total Accounts Receivable-Trade	\$ 59,005,358	\$ 215,423
Less: Allowance for Bad Debt	(2,958,078)	(10,771)
	\$ 56,047,280	\$ 204,652
Allowance for Bad Debts		
Beginning Balance	\$ (2,604,525)	\$ (11,513)
Allowance Provided	(353,553)	-
Reversal	-	742
Less: Bad Debt Written Off	-	-
Ending Balance	\$ (2,958,078)	(10,771)
As of December 31, 2010	Continuing Operations	Discontinued Operations
Total Accounts Receivable-Trade	\$ 52,090,503	\$ 230,253
Less: Allowance for Bad Debt	(2,604,525)	(11,513)
	\$ 49,485,978	\$ 218,740
Allowance for Bad Debts		
Beginning Balance	\$ (2,831,131)	\$ (8,985)
Allowance Provided	(4,423,656)	(2,528)
Reversal	-	-
Less: Bad Debt Written Off	4,650,262	-
Ending Balance	\$ (2,604,525)	\$ (11,513)

6. INVENTORY

As of September 30, 2011	Continuing Operations	Discontinued Operations
Raw Materials	\$ 9,127,374	\$ 328,915
Work in Progress	2,365,350	409,765
Finished Goods	5,624,586	606,572
	\$ 17,117,310	\$ 1,345,252
As of December 31, 2010	Continuing Operations	Discontinued Operations
Raw Materials	\$ 5,469,632	\$ 348,202
Work in Progress	517,300	361,423

Finished Goods	3,880,369	362,457
	\$ 9,867,301	\$ 1,072,082

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7. ADVANCES TO EMPLOYEES

Advances to Employees of \$464,780 and \$322,205 as of September 30, 2011 and December 31, 2010, 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.

8. PROPERTY, PLANT AND EQUIPMENT

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

As of September 30, 2011

Category of Asset	Wuhan Blower	Wuhan Generating	Other Subsidiaries	Total Continuing Operations	Total Discontinued Operations
Buildings	\$14,541,980	\$9,316,369	\$-	\$23,858,349	\$-
Machinery & Equipment	2,089,042	13,422,977	-	15,512,020	2,096,539
Furniture & Fixtures	407,447	32,509	1,433	441,389	18,861
Auto	1,186,665	357,369	-	1,544,034	15,423
Other	79,717	-	-	79,717	-
	18,304,851	23,129,224	1,433	41,435,508	2,130,823
Less: Accumulated Depreciation					
Buildings	(3,475,371)	(687,713)	-	(4,163,084)	-
Machinery & Equipment	(1,196,969)	(4,673,890)	-	(5,870,859)	(535,014)
Furniture & Fixtures	(350,355)	(14,518)	(131)	(365,005)	(4,994)
Auto	(642,336)	(116,415)	-	(758,751)	(5,144)
Other	(47,662)	-	-	(47,662)	-
	(5,712,693)	(5,492,536)	(131)	(11,205,361)	(545,152)
Property, Plant, & Equipment, Net	\$12,592,158	\$17,636,688	\$1,302	\$30,230,148	\$1,585,671

As of December 31, 2010

Category of Asset	Wuhan Blower	Wuhan Generating	Total Continuing Operations	Total Discontinued Operations
Buildings	\$14,071,788	\$8,989,251	\$23,061,039	\$-
Machinery & Equipment	2,023,674	12,907,608	14,931,282	2,090,150
Furniture & Fixtures	391,080	29,107	420,187	8,715
Auto	766,557	252,710	1,019,267	15,088
Other	77,185	-	77,185	-
	17,330,284	22,178,676	39,508,960	2,113,954
Less: Accumulated Depreciation				
Buildings	(2,774,599)	(455,532)	(3,230,131)	-
Machinery & Equipment	(1,024,876)	(3,612,816)	(4,637,692)	(393,816)

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Furniture & Fixtures	(320,101)	(9,396)	(329,497)	(3,449)
Auto	(579,450)	(78,998)	(658,448)	(3,109)
Other	(36,072)	-	(36,072)	-
	(4,735,098)	(4,156,742)	(8,891,840)	(400,374)
Property, Plant, & Equipment, Net	\$ 12,595,186	\$ 18,021,934	\$ 30,617,120	\$ 1,713,580

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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 turbine manufacturing workshops provide approximately 401,622 square feet (37,312 square meters) of floor space. The office buildings that house the business operations of Wuhan Generating and Wuhan Sungreen provide an additional 287,650 square feet (26,723 square meters) of floor space.

The Company's original plans for the acquired campus of Wuhan Sungreen included the following buildings:

	Square Feet	Square Meters
Workshop 1	136,131	12,647
Dormitories	67,662	6,286
Commercial Shops	5,285	491
Warehouse	102,155	9,491
	311,233	28,915

The local government approved the architectural plans for all of the buildings. Currently Workshop 1, Warehouse, Dormitories, and Commercial Shops have not been built. In 2010, the Company ceased any further construction on the campus of Wuhan Sungreen in anticipation of the disposal of the subsidiary.

9. LAND USE RIGHTS

At September 30, 2011

Category of Asset	Wuhan Blower	Wuhan Generating	Total Continuing Operations	Total Discontinued Operations
Land Use Rights	\$2,348,956	\$-	\$2,348,956	\$ 11,213,924
Less: Accumulated Amortization	(372,926)	-	(372,926)	(912,137)
Land Use Rights, Net	\$1,976,030	\$-	\$1,976,030	\$ 10,301,787

At December 31, 2010

Category of Asset	Wuhan Blower	Wuhan Generating	Total Continuing Operations	Total Discontinued Operations
Land Use Rights	\$2,274,350	\$-	\$2,274,350	\$ 10,857,754
Less: Accumulated Amortization	(328,672)	-	(328,672)	(649,387)
Land Use Rights, Net	\$1,945,678	\$-	\$1,945,678	\$ 10,208,367

The Company acquired through Wuhan Hi-Tech Blower Manufacturing Co. Ltd. (WBM) 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 totals 792,547 square feet (73,630.05 square meters). The land has been used for Wuhan Sungreen's operations. The land use right will be amortized over 30 years.

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10. 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. By the end of the second quarter of 2010, all equipment had been fully installed and the workshop was operational. 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 suspended. The Company plans to complete the office building when its operations necessitate and there is sufficient working capital to do so.

The following table details the assets that are accounted for in the Construction-in-Progress account at September 30, 2011 and December 31, 2010:

September 30, 2011 Subsidiary	Description	Total Continuing Operations	Total Discontinued Operations
Wuhan Blower	Dormitory	\$ 163,447	\$ -
Wuhan Blower	Testing Facility	937	-
Wuhan Blower	Badminton Courts	25,774	-
Wuhan Blower	Technological Remodeling	445,593	-
Wuhan Blower	Lighting	117,155	-
Wuhan Blower	Dining Hall	33,247	-
Wuhan Generating	Capitalized Interest	35,500	-
Wuhan Generating	Equipment Requiring Installation	6,091,347	-
Wuhan Generating	Generating Workshop	6,254,112	-
Wuhan Generating	Construction Materials	1,599,416	-
Wuhan Sungreen	Landscaping	-	314,465
Wuhan Sungreen	Workshop	-	5,196,208
Wuhan Sungreen	Office Building	-	6,263,094
Wuhan Sungreen	Utility Systems Setup	-	1,148,532
		\$ 14,766,528	\$ 12,922,299

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December 31, 2010 Subsidiary	Description	Total Continuing Operations	Total Discontinued Operations
Wuhan Blower	Dormitory	\$ 7,562	\$ -
Wuhan Blower	Testing Facility	907	-
Wuhan Blower	Badminton Courts	24,955	-
Wuhan Blower	Technological Remodeling	431,442	-
Wuhan Generating	Capitalized Interest	34,373	-
Wuhan Generating	Equipment Requiring Installation	5,897,878	-
Wuhan Generating	Generating Workshop	5,974,192	-
Wuhan Sungreen	Landscaping	-	151,266
Wuhan Sungreen	Workshop	-	5,016,504
Wuhan Sungreen	Office Building	-	6,052,372
Wuhan Sungreen	Utility Systems Setup	-	1,058,713
		\$ 12,371,309	\$ 12,278,855

11. INTANGIBLE ASSETS

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

Category of Asset	At September 30, 2011	At December 31, 2010
Trademarks	\$ 113,249	\$ 109,653
Mitsubishi License	323,488	313,213
Tianyu CAD License	4,227	4,093
Sunway CAD License	17,964	17,393
Microsoft License	13,053	12,639
	471,981	456,991
Less: Accumulated Amortization		
Trademarks	(76,296)	(69,761)
Mitsubishi License	(219,871)	(189,397)
Tianyu CAD License	(3,181)	(2,773)
Sunway CAD License	(7,324)	(5,787)
Microsoft License	(10,725)	(9,436)
	(317,397)	(277,154)
Intangible Assets, Net	\$ 154,584	\$ 179,837

The weighted average amortization period for the Company's intangible assets at September 30, 2011 and December 31, 2010 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.
The discontinued operations do not have any intangible assets.

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12. BANK LOANS AND NOTES

The following table provides the name of the lender, due date, interest rate, and amounts outstanding at September 30, 2011 and December 31, 2010 for the Company's bank loans and notes payable.

Continuing Operations					At September 30, 2011	At December 31, 2010
Subsidiary	Type	Name of Lender	Due Date	Interest Rate Per Annum		
Short-term						
W u h a n Blower	Bank Loans	Hankou Bank	6/29/2011	5.31 %	\$ -	\$ 19,298,829
W u h a n Blower	Bank Loans	Hankou Bank	7/27/2011	5.31 %	-	6,049,790
W u h a n Blower	Bank Loans	Hankou Bank	9/30/2011	5.31 %	-	756,224
W u h a n Blower	Bank Loans	Hankou Bank	10/11/2011	5.31 %	2,343,091	2,268,671
W u h a n Blower	Bank Loans	Hankou Bank	7/13/2012	6.56 %	1,562,061	-
W u h a n Blower	Bank Loans	Wuhan Rui Sheng Feng Investment Co., Ltd.	4/8/2012	9.60 %	-	2,268,671
W u h a n Blower	Bank Loans	Wuhan Zhong Jing Petty Loan Co., Ltd.	5/31/2012	20.40 %	-	1,134,336
W u h a n Blower	Bank Loans	Wuhan Jiang Han District Fu Bang Petty Loan Co., Ltd.	12/9/2011	18.00 %	-	1,512,447
W u h a n Blower	Bank Loans	China Minsheng Banking Corp., Ltd.	10/14/2011	9.60 %	3,905,152	-
W u h a n Blower	Bank Loans	Wuhan Min Ze Investment Co., Ltd.	12/1/2011	0.00 %	1,562,061	-
W u h a n Generating	Bank Loans	Hankou Bank	6/29/2011	5.36 %	-	4,537,342
W u h a n Generating	Bank Loans	Hankou Bank	10/19/2011	5.36 %	1,562,061	1,512,447
W u h a n Generating	Bank Loans	Hankou Bank	6/13/2012	6.31 %	4,686,182	-
W u h a n Generating	Bank Loans	Industrial Bank Co., Ltd.	4/27/2011	6.37 %	-	9,074,685
W u h a n Generating	Bank Loans	Industrial Bank Co., Ltd.	5/19/2012	8.20 %	7,810,303	-
			6/13/2012	8.20 %	4,686,182	-

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W u h a n Generating	Bank Loans	Industrial Bank Co., Ltd.						
W u h a n Generating	Bank Loans	Industrial Bank Co., Ltd.	6/16/2012	8.20	%	6,248,243	-	
W u h a n Generating	Bank Loans	Agricultural Bank of China	8/19/2011	5.35	%	-	1,512,448	
W u h a n Generating	Bank Loans	Agricultural Bank of China	8/22/2011	5.35	%	-	6,503,524	
W u h a n Generating	Bank Loans	Agricultural Bank of China	8/26/2011	5.35	%	-	1,209,958	
W u h a n Generating	Bank Loans	Agricultural Bank of China	6/15/2012	6.63	%	6,716,861	-	
W u h a n Generating	Bank Loans	Agricultural Bank of China	7/14/2012	6.89	%	2,655,503	-	
W u h a n Generating	Bank Loans	Shenzhen Development Bank	6/2/2012	7.57	%	4,686,182	-	
W u h a n Generating	Bank Loans	Shenzhen Development Bank	12/8/2011	6.10	%	1,562,061	-	
W u h a n Generating	Bank Loans	Shenzhen Development Bank	12/18/2011	6.10	%	1,874,471	-	
W u h a n Blower	Bank Loans	China Construction Bank	7/1/2012	5.40	%	3,280,327	-	
W u h a n Blower	Bank Loans	Agricultural Bank of China	9/21/2012	5.40	%	2,655,503	-	
W u h a n Blower	Bank Loans	Agricultural Bank of China	9/17/2012	5.40	%	10,153,394	-	
Total				Total		\$ 67,949,638	\$ 57,639,372	

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N o t e s						
Payable						
W u h a n	Notes					
Blower	Payable	Hankou Bank	4/13/2011	-	\$ -	\$ 756,224
W u h a n	Notes					
Blower	Payable	Hankou Bank	4/13/2011	-	-	756,223
W u h a n	Notes					
Blower	Payable	Hankou Bank	4/13/2011	-	-	756,224
W u h a n	Notes					
Blower	Payable	Hankou Bank	12/23/2011	-	15,620,607	-
W u h a n	Notes					
Blower	Payable	Hankou Bank	1/11/2012	-	2,655,503	-
W u h a n	Notes					
Blower	Payable	Hankou Bank	2/5/2012	-	4,686,182	-
W u h a n	Notes	Shenzhen				
Blower	Payable	Development Bank	9/30/2011	-	73,482	-
W u h a n	Notes	Shenzhen				
Blower	Payable	Development Bank	10/23/2011	-	337,520	-
W u h a n	Notes	Shenzhen				
Blower	Payable	Development Bank	11/10/2011	-	430,416	-
W u h a n	Notes	Shenzhen				
Blower	Payable	Development Bank	11/25/2011	-	696,245	-
W u h a n	Notes	Shenzhen				
Blower	Payable	Development Bank	12/20/2011	-	368,890	-
W u h a n	Notes	Shenzhen				
Blower	Payable	Development Bank	1/1/2012	-	439,649	-
W u h a n	Notes	Shenzhen				
Blower	Payable	Development Bank	2/2/2012	-	449,695	-
W u h a n	Notes	Shenzhen				
Blower	Payable	Development Bank	2/18/2012	-	225,859	-
W u h a n	Notes	Shenzhen				
Blower	Payable	Development Bank	3/12/2012	-	179,337	-
W u h a n	Notes	Shenzhen				
Blower	Payable	Development Bank	3/19/2012	-	689,949	-
W u h a n	Notes	Industrial Bank Co.,				
Blower	Payable	Ltd.	12/22/2011	-	6,248,243	-
W u h a n	Notes					
Generating	Payable	Hankou Bank	4/12/2011	-	-	1,512,447
W u h a n	Notes	Industrial Bank Co.,				
Generating	Payable	Ltd.	5/8/2011	-	-	3,024,895
W u h a n	Notes					
Generating	Payable	Hankou Bank	4/20/2011	-	-	1,512,448
W u h a n	Notes	Industrial Bank Co.,				
Generating	Payable	Ltd.	5/5/2011	-	-	3,024,895

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W u h a n Generating	Notes Payable	Industrial Bank Co., Ltd.	5/5/2011	-	-	3,024,895
W u h a n Generating	Notes Payable	Shenzhen Development Bank	12/8/2011	-	3,124,121	-
W u h a n Generating	Notes Payable	Hankou Bank	12/23/2011	-	15,620,607	-
Total					\$ 51,846,305	\$ 14,368,251
Total Short Term Bank Loans and Notes					\$ 119,795,943	\$ 72,007,623

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Long-term							
W u h a n Blower	Bank Loans	China Construction Bank	7/1/2012	5.40	%	\$ -	\$ 3,176,140
W u h a n Blower	Bank Loans	Agricultural Bank of China	9/21/2012	5.40	%	-	2,571,161
W u h a n Blower	Bank Loans	Agricultural Bank of China	9/17/2012	5.40	%	-	9,830,908
W u h a n Generating	Bank Loans	Hankou Bank	9/30/2013	5.81	%	4,686,182	4,537,342
W u h a n Generating	Bank Loans	Hankou Bank	10/11/2013	5.81	%	1,562,062	1,512,448
Total Long Term Bank Loans and Notes						\$ 6,248,244	\$ 21,627,999

Banking facilities extended by the Hankou Bank were secured by the Company's and Wuhan Sungreen's mortgage of real property and Hubei Di Long Industrial Group's mortgage of real property in 2010. The \$1,562,061 loan with due date on July 13, 2012 was guaranteed by Wuhan Blower, Wuhan Sungreen, Hubei Dilong Industrial Group, Jie Xu, and Hanying Xu (son of Jie Xu).

The loan from Wuhan Rui Sheng Feng Investment Co., Ltd. was guaranteed by Wuhan Generating and Wuhan Sungreen.

The loan from China Minsheng Banking Corp., Ltd. is not secured with collateral.

The loan from Wuhan Min Ze Investment Co., Ltd. is not secured with collateral.

The loan from China Construction Bank is secured by the company's real property and land.

Wuhan Blower's loan from Agricultural Bank of China is secured by the Company's real property and the Company's equity interest in Wuhan Generating. To add further credit enhancements, Hubei Zhongzhou Investment Company has guaranteed \$2,655,503 of this loan, the remaining balance of \$10,153,394 has been guaranteed by Hubei Huaguang International Trade Co., Ltd.

Wuhan Generating's loan from Agricultural Bank of China is guaranteed by Hubei Libang Investment and Guaranty Co., Ltd, and Hubei Huaguang International Trade Co., Ltd. The \$6,716,861 loan with due date on June 15, 2012 and \$2,655,503 loan with due date on July 14, 2012 have covenants that require Wuhan Generating to maintain asset to liability ratio over 80% during the entire term of the loan, and to maintain non-occurrence of continuous 3 years record of negative cash flow from operating activities.

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Wuhan Generating's loan from Industrial Bank Co., Ltd. is secured by the Company's equipment and guaranteed by Jie Xu, Hongsheng Xu, Wuhan Blower, and Wuhan Sungreen.

Wuhan Generating's \$4,686,182 loan from Shenzhen Development Bank is guaranteed by Jie Xu, Hongsheng Xu, and Wuhan Blower; the \$1,562,061 and \$1,874,473 loans from Shenzhen Development Bank are guaranteed by Jie Xu and Wuhan Blower.

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.

As of September 30, 2011, there were no bank loans or notes associated with the discontinued operations.

13. 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, 2011 and the year ended December 31, 2010:

	September 30, 2011	December 31, 2010
Balance at beginning of period	\$ 1,937,227	\$ 1,469,358
Adjustment	-	-
Accruals for current & pre-existing warranties issued during period	270,160	541,533
Less: Settlements made during period	(62,937)	(73,664)
Less: Reversals and warranty expirations	-	-
Balance at end of period	\$ 2,144,450	\$ 1,937,227

There was no outstanding warranty liability for discontinued operations.

14. CAPITALIZATION

The Company's outstanding securities at September 30, 2011 are shown in the following table:

Type of Security	Number	Issuance Date	Expiration Date
Common Stock	32,505,000	N/A	N/A
Series A Preferred	6,241,453	02/07/2007	N/A
Series B Preferred	6,354,078	09/05/2009	N/A
Series A Warrants	128,755	02/07/2007	02/06/2012

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Options Issued to Directors	40,000	11/30/2007	11/30/2017
Options Issued to Directors	40,000	01/02/2008	01/02/2018
Options Issued to Directors	160,000	03/10/2010	03/10/2020
Total Shares on Fully Diluted Basis	45,469,286		

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Series A Convertible Preferred Stock

The Series A Convertible Preferred Stock, par value \$0.0001 per share (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 Series A 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 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 Preferred Stock will be mandatorily converted into common stock if the Company’s common stock achieves certain price and volume requirements.

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 Preferred Stock. 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. In 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.

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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.

Warrant Recapitalization

On December 13, 2010, the Company entered into a series of agreements designed to reduce the overhang of the Company's Series A, B, C, AA, BB and JJ warrants and to simplify the Company's capital structure.

With respect to the Series A and Series B warrants, each Series A and Series B warrant holder was given the option to (i) sell all or part of such holder's warrant to Fame Good International Limited, the Company's controlling stockholder ("Fame Good"), for \$0.50 per share of warrant stock pursuant to a Warrant Purchase Agreement entered into by and among the Company, Fame Good and certain warrant holders (the "Warrant Purchase Agreement") and/or (ii) exchange all or part of such holder's warrant for the issuance by the Company of 0.5 shares of the Company's common stock, par value \$0.0001 per share, per share of warrant stock pursuant to a Warrant Exchange Agreement entered into by and among the Company and certain warrant holders (the "Series A and B Warrant Exchange Agreement"). The director and controlling stockholder of Fame Good is Mr. Xu Jie, who currently serves as the Chairman of the Company.

The Series A and Series B warrant holders sold warrants to purchase an aggregate of 3,913,905 shares of common stock to Fame Good under the Warrant Purchase Agreement and exchanged warrants to purchase an aggregate of 9,865,222 shares of common stock with the Company under the Series A and B Warrant Exchange Agreement. The warrant purchase closed on December 13, 2010, and the warrant exchange with the Series A and Series B warrant holders, other than Fame Good, closed on the same date. In total, the Company issued 4,932,609 shares of common stock in connection with the recapitalization of the Series A and Series B warrants. This amount includes 1,956,952 shares of common stock issued to Fame Good upon the exchange of the warrants that it purchased from certain Series A and B warrant holders. The Company closed on the warrant exchange with Fame Good on January 21, 2011.

With respect to its Series C, AA, BB and JJ warrants, the Company entered into a Warrant Exchange Agreement with Fame Good and all of the Series C, AA, BB and JJ warrant holders (the "Series C, AA, BB and JJ Warrant Exchange Agreement") pursuant to which the Company exchanged all of the outstanding Series C, AA, BB and JJ warrants for the issuance by the Company of (i) 1.372921615 shares of the Company's common stock per share of Series C warrant stock; (ii) 0.8203 shares of the Company's common stock per share of Series AA and Series BB warrant stock; and (iii) 0.8288 shares of the Company's common stock per share of Series JJ warrant stock. The Company closed on the warrant exchange with the Series C, AA, BB and JJ warrant holders on January 21, 2011. The Company issued 2,220,456 shares of common stock to the Series C, AA, BB and JJ warrant holders at this closing.

Upon completion of the warrant recapitalization on January 21, 2011, the Company had 32,505,000 shares of common stock outstanding. After the completion of the transactions, the Company had one Series A warrant outstanding representing the right to purchase 128,755 shares of the Company's common stock. The Company no longer has any Series B, C, AA, BB or JJ warrants outstanding.

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15. 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 the Company's registered Paid-in capital. The Company had future unfunded commitments, as provided below.

	September 30, 2011	December 31, 2010
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	(4,563,592)	(4,563,592)
Unfunded Commitment	\$ 21,724,036	\$ 21,724,036

16. 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.

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 years ended December 31, 2010 and 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 expects the tax rates to remain the same in 2011.

Effective January 1, 2008, the PRC income tax rules were changed. The PRC government implemented a new 25% tax rate for all enterprises whether domestic or foreign enterprise, and abolished the tax holiday. However, the PRC government has established grandfathering transition rules that permit enterprises that had received an income tax exemption prior to January 1, 2008 to continue to enjoy the exemption until the original expiration date.

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

	September 30, 2011	December 31, 2010
Income (loss) before taxes:		
US Federal	\$ (8,548,530)	\$ (5,681,700)
US State	-	-
BVI	(4,332)	(2,360)
PRC	9,084,366	10,412,529
Total income before taxes from continuing operations	531,504	4,728,469
Income (Loss) before taxes from discontinued operation		
	(336,974)	(286,109)
Total income before taxes	\$ 194,530	\$ 4,442,360
Provision for taxes:		
Current:		
U.S. Federal	\$ -	\$ -
U.S. State	-	-
BVI	-	-
PRC	1,135,546	1,922,215
Provision for taxes from continuing operations	1,135,546	1,922,215
Provision for taxes from discontinued operations	-	-
Currency effect	-	-
	\$ 1,135,546	\$ 1,922,215
Deferred:		
U.S. Federal	\$ -	\$ -
U.S. State	-	-
BVI	-	-
PRC	-	(620,649)
Deferred taxes from continuing operations	-	(620,649)
Total provision for taxes from continuing operations	-	1,301,566
Deferred taxes from discontinued operations	-	(70,986)
Currency effect	-	(1,792)
Total provision for taxes from discontinued operations	-	1,228,788
Total provision for taxes	\$ 1,135,546	\$ 1,228,788
Effective tax rate	583.74	% 27.76 %

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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, 2011 and December 31, 2010 are as follows:

	September 30, 2011	December 31, 2010
Deferred tax assets		
Beginning balance – continuing operations	\$ 1,192,532	\$ 537,876
Current year additions resulting bad debt expense & warranty accrual expense – continuing operations	-	620,649
Reversals – continuing operations	-	-
Valuation allowance – continuing operations	-	-
Foreign currency effect – continuing operations	39,119	34,007
Ending balance – continuing operations	1,231,651	1,192,532
Deferred tax liabilities		
Beginning balance – discontinued operations	282,898	211,155
Current year additions resulting bad debt expense & warranty accrual expense – discontinued operations	-	72,778
Reversals – discontinued operations	-	-
Valuation allowance – discontinued operations	(8,504)	(8,234)
Foreign currency effect – discontinued operations	17,784	7,199
Ending balance – discontinued operations	292,178	282,898