

WUHAN GENERAL GROUP (CHINA), INC  
Form 10-Q  
November 19, 2012

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, 2012

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 84-1092589  
(State or other jurisdiction (I.R.S. Employer Identification  
of incorporation or No.)  
organization)

**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)

N/A

(Former name, former address and former fiscal year, if changed since last report)

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 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.

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 16, 2012, 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 Financial Statements

**September 30, 2012 and December 31, 2011**

**(Stated in US Dollars)**

1

Wuhan General Group (China), Inc.

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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, 2012 and December 31, 2011, and the related statements of income, stockholders' equity, and cash flows for the three months and nine months ended September 30, 2012 and 2011. 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.

San Mateo, California WWC, P.C.  
November 12, 2012 Certified Public Accountants

**Wuhan General Group (China), Inc.****Consolidated Balance Sheets****As of September 30, 2012 and December 31, 2011****(Stated in US Dollars)**

|   | <b>Note</b>  | At<br>September 30,<br>2012 | At<br>December 31,<br>2011 |
|---|--------------|-----------------------------|----------------------------|
| <b>ASSETS</b>                                 |              |                             |                            |
| Current Assets                                |              |                             |                            |
| Cash  | 2(e)         | \$ 40,334,639               | \$ 57,522,050              |
| Restricted Cash                               | 3            | 24,925,028                  | 13,953,294                 |
| Notes Receivable                              | 4            | 13,420                      | -                          |
| Accounts Receivable                           | 2(f),5       | 64,149,814                  | 56,567,722                 |
| Other Receivable                              |              | 24,112,277                  | 18,487,992                 |
| Related Party Receivable                      |              | -                           | 7,041,613                  |
| Inventory                                     | 2(g),6       | 42,178,913                  | 13,300,792                 |
| Advances to Suppliers                         |              | 29,044,315                  | 25,184,728                 |
| Advances to Employees                         | 7            | 71,999                      | 30,158                     |
| Prepaid Expenses                              |              | 320,574                     | 7,041                      |
| Prepaid Taxes                                 |              | 43,227                      | 41,210                     |
| Deferred Tax Asset                            |              | 2,657,451                   | 1,238,831                  |
| Current assets held for sale                  | 2(bb)<br>,21 | 5,614,239                   | 2,223,395                  |
| Total Current Assets                          |              | 233,465,896                 | 195,598,826                |
| Non-Current Assets                            |              |                             |                            |
| Property, Plant & Equipment, <i>net</i>       | 2(h),8       | 33,674,285                  | 29,591,719                 |
| Land Use Rights, <i>net</i>                   | 2(j),9       | 1,950,293                   | 1,976,326                  |
| Construction in Progress                      | 10           | 10,957,701                  | 15,031,490                 |
| Deposits                                      |              | 6,559,575                   | 5,555,926                  |
| Intangible Assets, <i>net</i>                 | 2(i),11      | 120,458                     | 145,041                    |
| Long-term assets held for sale                | 2(bb)<br>,21 | 24,535,548                  | 24,672,213                 |
| Total Assets                                  |              | \$ 311,263,756              | \$ 272,571,541             |
| <b>LIABILITIES &amp; STOCKHOLDERS' EQUITY</b> |              |                             |                            |
| Liabilities                                   |              |                             |                            |
| Current Liabilities                           |              |                             |                            |
| Bank Loans & Notes                            | 12           | \$ 133,013,741              | \$ 113,966,333             |
| Accounts Payable                              |              | 7,909,373                   | 5,478,580                  |
| Taxes Payable                                 |              | 11,956,972                  | 10,841,233                 |
| Other Payable                                 |              | 12,082,461                  | 5,035,021                  |
| Related Party Payable                         |              | 775,440                     | -                          |
| Dividend Payable                              |              | 2,000,112                   | 1,454,257                  |



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|  |              |                       |                       |
|--|--------------|-----------------------|-----------------------|
| Accrued Liabilities                                      | 13           | 3,673,848             | 3,593,025             |
| Customer Deposits  |              | 9,973,343             | 7,177,771             |
| Current liabilities associated with assets held for sale | 2(bb),<br>21 | 13,015,249            | 1,401,330             |
| Total Current Liabilities                                |              | 194,400,539           | 148,947,550           |
| Long Term Liabilities                                    |              |                       |                       |
| Bank Loans and Notes                                     | 12           | 1,420,903             | 6,048,989             |
| Total Liabilities  |              | <b>\$ 195,821,442</b> | <b>\$ 154,996,539</b> |

**See Accompanying Notes to the Financial Statements**

**Wuhan General Group (China), Inc.****Consolidated Balance Sheets****As of September 30, 2012 and December 31, 2011****(Stated in US Dollars)**

|  | Note     | At<br>September 30,<br>2012 | At<br>December 31,<br>2011 |
|--|----------|-----------------------------|----------------------------|
| Stockholders' Equity   |          |                             |                            |
| Preferred Stock - \$0.0001 Par Value 50,000,000 Shares Authorized;<br>6,241,453 Shares of Series A Convertible Preferred Stock Issued &<br>Outstanding at September 30, 2012 and December 31, 2011 | 14       | \$ 624                      | \$ 624                     |
| Additional Paid in Capital – Preferred Stock   |          | 8,170,415                   | 8,170,415                  |
| Additional Paid in Capital – Warrants  |          | 63,171                      | 63,171                     |
| Additional Paid in Capital - Beneficial Conversion Feature   |          | 6,371,547                   | 6,371,547                  |
| Preferred Stock - \$0.0001 Par Value 50,000,000 Shares Authorized;<br>6,354,078 Shares of Series B Convertible Preferred Stock Issued &<br>Outstanding at September 30, 2012 and December 31, 2011 | 14       | 635                         | 635                        |
| Additional Paid in Capital - Preferred Stock   |          | 12,637,158                  | 12,637,158                 |
| Additional Paid in Capital - Beneficial Conversion Feature   |          | 4,023,692                   | 4,023,692                  |
| Common Stock - \$0.0001 Par Value 100,000,000 Shares Authorized;<br>32,505,000 and 28,327,607 Shares Issued & Outstanding at September 30,<br>2012 and December 31, 2011, respectively             | 14       | 3,251                       | 3,251                      |
| Additional Paid in Capital   |          | 42,090,417                  | 42,090,417                 |
| Statutory Reserve  | 2(u), 15 | 4,563,592                   | 4,563,592                  |
| Retained Earnings  |          | 18,939,189                  | 21,369,395                 |
| Accumulated Other Comprehensive Income   | 2(v)     | 18,578,623                  | 18,281,105                 |
| Total Stockholders' Equity   |          | 115,442,314                 | 117,575,002                |
| Total Liabilities & Stockholders' Equity   |          | \$ 311,263,756              | \$ 272,571,541             |

**See Accompanying Notes to the Financial Statements**

**Wuhan General Group (China), Inc.****Consolidated Statements of Income****For the three and nine months ended September 30, 2012 and 2011****(Stated in US Dollars)**

|  | Note     | Three Months<br>Ended<br>September 30,<br>2012 | Three Months<br>Ended<br>September 30,<br>2011 | Nine Months<br>Ended<br>September<br>30, 2012 | Nine Months<br>Ended<br>September 30,<br>2011 |
|--|----------|--|--|---|---|
| Sales  | 2(l)     | \$ 17,148,980                                  | \$ 33,239,853                                  | \$ 67,832,613                                 | \$ 92,883,756                                 |
| Cost of Sales  | 2(m)     | 15,645,826                                     | 26,243,925                                     | 56,486,870                                    | 69,793,910                                    |
| Gross Profit   |          | 1,503,154                                      | 6,995,928                                      | 11,345,743                                    | 23,089,846                                    |
| Operating Expenses                                       |          |  |  |   |   |
| Selling  | 2(n)     | 493,227  | 359,784  | 1,253,138                                     | 1,059,927                                     |
| General & Administrative                                 | 2(p)     | 2,071,873                                      | 6,658,126                                      | 5,742,349                                     | 11,732,453                                    |
| Warranty   | 2(w),14  | (70 )  | 74,455   | 227,139                                       | 270,160                                       |
| Total Operating Expenses                                 |          | 2,565,030                                      | 7,092,365                                      | 7,222,626                                     | 13,062,540                                    |
| Operating Income   |          | (1,061,876 )                                   | (96,437 )                                      | 4,123,117                                     | 10,027,306                                    |
| Other Income (Expenses)                                  |          |  |  |   |   |
| Other Income   |          | 175,223  | 14,195   | 982,634                                       | 151,460                                       |
| Interest Income  |          | 6,637  | 12,528   | 68,255  | 101,694                                       |
| Other Expenses   |          | (331 )   | -  | (3,578 )                                      | (48,682 )                                     |
| Interest Expense   |          | (2,429,828 )                                   | (2,020,637 )                                   | (5,747,673 )                                  | (6,245,014 )                                  |
| Expense for warrant recapitalization                     |          | -  | -  | -   | (3,455,260 )                                  |
| Total Other Income (Loss) & Expenses                     |          | (2,248,299 )                                   | (1,993,914 )                                   | (4,700,362 )                                  | (9,495,802 )                                  |
| Earnings from Continuing Operations before Taxes         |          | (3,310,175 )                                   | (2,090,351 )                                   | (577,245 )                                    | 531,504                                       |
| Income Taxes   | 2(t), 16 | (233 )   | 291,541  | 753,192                                       | 1,135,546                                     |
| Income (Loss) from Continuing Operations                 |          | (3,309,942 )                                   | (2,381,892 )                                   | (1,330,437 )                                  | (604,042 )                                    |
| Income (Loss) from Discontinued Operations, net of taxes |          | (188,109 )                                     | (138,604 )                                     | (553,915 )                                    | (336,974 )                                    |
| Net Income   |          | \$(3,498,051 )                                 | \$(2,520,496 )                                 | \$(1,884,352 )                                | \$(941,016 )                                  |
| Preferred Dividends Declared                             |          | (183,284 )                                     | (183,276 )                                     | (545,854 )                                    | (543,853 )                                    |
| Income Available to Common Stockholders                  |          | \$(3,681,335 )                                 | \$(2,703,772 )                                 | \$(2,430,206 )                                | \$(1,484,869 )                                |
| Earnings Per Share                                       | 17       |  |  |   |   |
| Basic - Net Income                                       |          | \$(0.11 )                                      | \$(0.08 )                                      | \$(0.07 )                                     | \$(0.05 )                                     |
| - Income from Continuing Operations                      |          | (0.11 )  | (0.08 )  | (0.06 )                                       | (0.04 )                                       |
| - Loss from Discontinued Operations                      |          | 0.01   | (0.00 )  | (0.02 )                                       | (0.01 )                                       |

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|                                     |            |            |            |            |   |
|-------------------------------------|------------|------------|------------|------------|---|
| Diluted - Net Income                | \$ (0.11   | ) \$ (0.08 | ) \$ (0.06 | ) \$ (0.03 | ) |
| - Income from Continuing Operations | (0.10      | ) (0.07    | ) (0.04    | ) (0.02    | ) |
| - Loss from Discontinued Operations | 0.01       | (0.01      | ) (0.02    | ) (0.01    | ) |
| Weighted Average Shares Outstanding |            |            |            |            |   |
| Basic                               | 32,505,000 | 32,505,000 | 32,505,000 | 32,226,507 |   |
| Diluted                             | 32,505,000 | 32,505,000 | 32,505,000 | 32,226,507 |   |

|   | Three Months<br>Ended<br>September 30,<br>2012 | Three Months<br>Ended<br>September 30,<br>2011 | Nine Months<br>Ended<br>September<br>30, 2012 | Nine Months<br>Ended<br>September 30,<br>2011 |
|---|--|--|---|---|
| Comprehensive Income                    |  |  |   |   |
| Net Income                              | \$ (3,498,051                                  | ) \$ (2,520,496                                | ) \$ (1,884,352                               | ) \$ (941,016                                 |
| Other Comprehensive Income              |  |  |   |   |
| Foreign Currency Translation Adjustment | 4,086,371                                      | 3,187,122                                      | 297,518                                       | 5,850,558                                     |
| Total Comprehensive Income              | \$ 588,320                                     | \$ 666,626                                     | \$ (1,586,834                                 | ) \$ 4,909,542                                |

**See Accompanying Notes to the Financial Statements**

**Wuhan General Group (China), Inc.**

**Consolidated Statements of Stockholders' Equity**

**For the periods ended September 30, 2012 and December 31, 2011**

**(Stated in US Dollars)**

|  | Series A<br>Convertible<br>Preferred Stock<br>Shares<br>Out-<br>standing | Series A<br>Preferred<br>Stock<br>Additional<br>Paid in<br>Capital | Series<br>A, J, C<br>Warrants<br>Additional<br>Paid in<br>Capital | Beneficial<br>Conversion<br>Feature<br>Additional<br>Paid in<br>Capital | Series B<br>Convertible<br>Preferred Stock<br>Shares<br>Out-<br>standing | Series B<br>Preferred<br>Stock<br>Additional<br>Paid in<br>Capital | Series<br>B, J<br>Warrants<br>Additional<br>Paid in<br>Capital | Beneficial<br>Conversion<br>Feature<br>Additional<br>Paid in<br>Capital | Common<br>Stock<br>Shares<br>Out-<br>stand- |           |        |
|--|--|--|---|---|--|--|--|---|---|-----------|--------|
| Balance,<br>January 1, 2012                              | 6,241,453  | 624  | 8,170,415   | 63,171  | 6,371,547  | 6,354,078  | 635  | 12,637,158  | -   | 4,023,692 | 32,500 |
| Stock Option<br>Compensation                             |  |  |   |   |  |  |  |   |   |           |        |
| Recapitalization<br>of Warrants                          |  |  |   |   |  |  |  |   |   |           |        |
| Expense related<br>to<br>recapitalization<br>of warrants |  |  |   |   |  |  |  |   |   |           |        |
| Net Income   |  |  |   |   |  |  |  |   |   |           |        |
| Preferred<br>Dividends<br>Declared                       |  |  |   |   |  |  |  |   |   |           |        |
| Appropriations<br>of Retained<br>Earnings                |  |  |   |   |  |  |  |   |   |           |        |
| Foreign<br>Currency<br>Translation<br>Adjustment         |  |  |   |   |  |  |  |   |   |           |        |
| Balance,<br>September 30,<br>2012                        | 6,241,453  | 624  | 8,170,415   | 63,171  | 6,371,547  | 6,354,078  | 635  | 12,637,158  | -   | 4,023,692 | 32,500 |

**See Accompanying Notes to the Financial Statements**

**Wuhan General Group (China), Inc.****Consolidated Statements of Stockholders' Equity****For the periods ended September 30, 2012 and December 31, 2011****(Stated in US Dollars)**

|  | Series A<br>Convertible<br>Preferred Stock<br>Shares<br>Out-<br>standing | Series A<br>Preferred<br>Stock<br>Additional<br>Paid in<br>Capital | Series A<br>Preferred<br>Stock<br>Additional<br>Paid in<br>Capital | Series<br>A, J, C<br>Warrants<br>Additional<br>Paid in<br>Capital | Beneficial<br>Conversion<br>Feature<br>Additional<br>Paid in<br>Capital | Series B<br>Convertible<br>Preferred Stock<br>Shares<br>Out-<br>standing | Series B<br>Preferred<br>Stock<br>Additional<br>Paid in<br>Capital | Series<br>B, JJ<br>Warrants<br>Additional<br>Paid in<br>Capital | Series<br>B, JJ<br>Warrants<br>Additional<br>Paid in<br>Capital | Ben<br>Con<br>Feat<br>Add<br>Paid<br>Cap |
|--|--|--|--|---|---|--|--|---|---|--|
| Balance,<br>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   | 4,0                                      |
| Stock Option<br>Compensation                             | -  | -  | -  | -   | -   | -  | -  | -   | -   | -  |
| Recapitalization<br>of Warrants                          | -  | -  | -  | (1,491,464)   | -   | -  | -  | -   | (1,244,366)   | -  |
| Expense related<br>to<br>recapitalization<br>of warrants | -  | -  | -  | -   | -   | -  | -  | -   | -   | -  |
| Net Income   | -  | -  | -  | -   | -   | -  | -  | -   | -   | -  |
| Preferred<br>Dividends<br>Declared                       | -  | -  | -  | -   | -   | -  | -  | -   | -   | -  |
| Appropriations<br>of Retained<br>Earnings                | -  | -  | -  | -   | -   | -  | -  | -   | -   | -  |
| Foreign<br>Currency<br>Translation<br>Adjustment         | -  | -  | -  | -   | -   | -  | -  | -   | -   | -  |
| Balance,<br>December 31,<br>2011                         | 6,241,453  | 624  | 8,170,415  | 63,171  | 6,371,547   | 6,354,078  | 635  | 12,637,158  | -   | 4,0                                      |

**See Accompanying Notes to the Financial Statements**

**Wuhan General Group (China), Inc.****Consolidated Statements of Cash Flows****For the three and nine months ended September 30, 2012 and 2011****(Stated in US Dollars)**

|   | Three Months<br>Ended<br>September 30,<br>2012 | Three Months<br>Ended<br>September 30,<br>2011 | Nine Months<br>Ended<br>September 30,<br>2012 | Nine Months<br>Ended<br>September 30,<br>2011 |
|---|--|--|---|---|
| <b>Cash Flows from Operating Activities</b>                     |  |  |   |   |
| Cash Received from Customers                                    | \$ 15,807,346                                  | \$ 38,211,741                                  | \$ 64,088,536                                 | \$ 83,962,452                                 |
| Cash Paid to Suppliers & Employees                              | (46,148,642 )                                  | (40,300,779 )                                  | (75,454,822 )                                 | (83,628,635 )                                 |
| Interest Received   | 6,734  | 12,527   | 68,416  | 101,694                                       |
| Interest Paid   | (2,429,885 )                                   | (1,710,691 )                                   | (5,866,204 )                                  | (5,935,069 )                                  |
| Taxes Paid  | 438,919  | (184,464 )                                     | (2,169,680 )                                  | (3,978,630 )                                  |
| Miscellaneous Receipts  | 175,181  | 13,272   | 1,120,779                                     | 151,460                                       |
| Cash Provided by operating activities – continuing operations   | (32,150,347 )                                  | (3,958,394 )                                   | (18,212,975 )                                 | (9,326,728 )                                  |
| Cash Provided by operating activities – discontinued operations | -  | 327,356  | 219,982                                       | 232,067                                       |
| Cash Sourced/(Used) in Operating Activities                     | (32,150,347 )                                  | (3,631,038 )                                   | (17,992,993 )                                 | (9,094,661 )                                  |
| <b>Cash Flows from Investing Activities</b>                     |  |  |   |   |
| Cash Released/(Invested in) Restricted Time Deposits            | 818,243  | (2,104,824 )                                   | (15,708,078 )                                 | 4,418,744                                     |
| Purchase of Short Term Investment Fund or Investment Property   |  | (1,503 )                                       | -   | 984,512                                       |
| Payments for Purchases and Construction of Plant & Equipment    | (229,980 )                                     | (569,439 )                                     | (1,602,807 )                                  | (4,796,914 )                                  |
| Payments for Deposits   | 14,863   | (14,468 )                                      | (1,003,591 )                                  | (22,411 )                                     |
| Cash Used in investing activities – continuing operations       | 603,126  | (2,690,234 )                                   | (18,314,476 )                                 | 583,931                                       |
| Cash Used in investing activities – discontinued operations     | -  | (232,497 )                                     | (318,482 )                                    | (231,278 )                                    |
| Cash Sourced/(Used) in Investing Activities                     | 603,126  | (2,922,731 )                                   | (18,632,958 )                                 | 352,653                                       |
| <b>Cash Flows from Financing Activities</b>                     |  |  |   |   |
| Proceeds from Bank Loans and Notes                              | 2,132,837                                      | 4,269,658                                      | 19,155,665                                    | 32,408,564                                    |
| (Repayment of Bank Loans and Notes)                             | -  | -  | -   | -   |
| Dividends Paid  | -  | -  | -   | -   |
| Cash provided by financing activities – continuing operations   | 2,132,837                                      | 4,269,658                                      | 19,155,665                                    | 32,408,564                                    |
|   | -  | -  | -   | -   |

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Cash provided by financing activities – discontinued operations

|   |               |              |               |              |
|---|---------------|--------------|---------------|--------------|
| Cash Sourced/(Used) in Financing Activities   | 2,132,837     | 4,269,658    | 19,155,665    | 32,408,564   |
| Net Increase/(Decrease) in Cash & Cash Equivalents for the Period – continuing operations   | (29,414,384 ) | (2,378,970 ) | (17,371,786 ) | 23,665,767   |
| Net Increase/(Decrease) in Cash & Cash Equivalents for the Period – discontinued operations | -             | 94,859       | (98,500 )     | 789          |
| Net Increase/(Decrease) in Cash & Cash Equivalents for the Period                           | (29,414,384 ) | (2,284,111 ) | (17,470,286 ) | 23,666,556   |
| Effect of Currency Translation – continuing operations                                      | 4,121,307     | 3,049,479    | 184,375       | 5,404,782    |
| Effect of Currency Translation – discontinued operations                                    | (2,915 )      | 2,592        | 81,305        | 13           |
|   | 4,118,392     | 3,052,071    | 265,680       | 5,404,795    |
| Cash & Cash Equivalents at Beginning of Period - continuing operations                      | 65,627,716    | 55,251,886   | 57,522,050    | 26,851,846   |
| Cash & Cash Equivalents at Beginning of Period – discontinued operations                    | 7,221         | 44,094       | 21,501        | 140,743      |
|   | 65,634,937    | 55,295,980   | 57,543,551    | 26,992,589   |
| Cash & Cash Equivalents at End of Period - continuing operations                            | 40,334,639    | 55,922,395   | 40,334,639    | 55,922,395   |
| Cash & Cash Equivalents at End of Period - discontinued operations                          | 4,306         | 141,545      | 4,306         | 141,545      |
| Cash & Cash Equivalents at End of Period  | \$40,338,945  | \$56,063,940 | \$40,338,945  | \$56,063,940 |

**See Accompanying Notes to the Financial Statements**



**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, 2012 and 2011**  
**(Stated in US Dollars)**

|  | Three Months<br>Ended<br>September 30,<br>2012 | Three Months<br>Ended<br>September 30,<br>2011 | Nine Months<br>Ended<br>September 30,<br>2012 | Nine Months<br>Ended<br>September 30,<br>2011 |
|--|--|--|---|---|
| Net Income   | \$ (3,498,051 )                                | \$ (2,520,496 )                                | \$ (1,884,352 )                               | \$ (941,016 )                                 |
| Adjustments to Reconcile Net Income to<br>Net Cash Provided by / <Used in> Operating<br>Activities : |  |  |   |   |
| Stock Compensation   |  | -  |   | 4,555   |
| Expense for warrant recapitalization   |  | -  |   | 3,455,260                                     |
| Amortization   | 97,080   | 116,462  | 276,657                                       | 347,248                                       |
| Depreciation   | 701,093  | 828,300  | 1,854,920                                     | 2,458,299                                     |
| Decrease/(Increase) in Notes Receivable  | 29,304   | 30,340   | 14,777  | 203,708                                       |
| Decrease/(Increase) in Accounts Receivable   | (2,746,521 )                                   | 1,816,908                                      | (7,530,916 )                                  | (6,547,214 )                                  |
| Decrease/(Increase) in Other Receivable  | (228,254 )                                     | 6,931,630                                      | (5,891,113 )                                  | (4,479,587 )                                  |
| Decrease/(Increase) in Related Party Receivable  | -  | -  | 7,113,376                                     | -   |
| Decrease/(Increase) in Inventory   | (19,298,264 )                                  | (1,834,312 )                                   | (27,424,670 )                                 | (7,523,179 )                                  |
| Decrease/(Increase) in Advances to Suppliers   | (2,522,529 )                                   | 915,669  | (3,869,213 )                                  | 8,976,264                                     |
| Decrease/(Increase) in Advances to Employees   | (5,179 )                                       | (168,004 )                                     | (41,841 )                                     | (142,575 )                                    |
| Decrease/(Increase) in Prepaid Expenses  | 488,642  | (24,170 )                                      | (303,857 )                                    | (1,855,697 )                                  |
| Decrease/(Increase) in Prepaid Taxes   | (3,823 )                                       | (452,652 )                                     | (11,526 )                                     | (864,371 )                                    |
| Decrease/(Increase) in Deferred Tax Asset  | 6,013  | (14,663 )                                      | (1,418,620 )                                  | (48,399 )                                     |
| Increase/(Decrease) in Accounts Payable  | (2,345,389 )                                   | (3,049,248 )                                   | 2,568,712                                     | (3,640,755 )                                  |
| Increase/(Decrease) in Taxes Payable   | (1,508,349 )                                   | 461,123  | 1,113,546                                     | (1,623,791 )                                  |
| Increase/(Decrease) in Other Payable   | (2,390,301 )                                   | (476,000 )                                     | 12,933,765                                    | 1,118,733                                     |
| Increase/(Decrease) in Related Party Payable   | (297,900 )                                     | (2,287,549 )                                   | 1,630,008                                     | -   |
| Increase/(Decrease) in Accrued Liabilities   | (198,985 )                                     | 131,478  | 80,823  | 339,172                                       |
| Increase/(Decrease) in Customer Deposits   | 1,571,066                                      | (4,035,854 )                                   | 2,796,531                                     | 1,668,684                                     |
| Total of all adjustments   | (28,652,296 )                                  | (1,110,542 )                                   | (16,108,641 )                                 | (8,153,645 )                                  |
| Net Cash Provided by Operating Activities  | \$ (32,150,347 )                               | \$ (3,631,038 )                                | \$ (17,992,993 )                              | \$ (9,094,661 )                               |

**See Accompanying Notes to the Financial Statements**

**Wuhan General Group (China), Inc.**

**As of September 30, 2012 and December 31, 2011**

**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, 2012 and December 31, 2011**

**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.

**Wuhan General Group (China), Inc.**

**As of September 30, 2012 and December 31, 2011**

**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 June 30, 2011 and December 31, 2010, there were no significant impairments of its long-lived assets.

**Wuhan General Group (China), Inc.**

**As of September 30, 2012 and December 31, 2011**

**Notes to Financial Statements**

**(Stated in US Dollars)**

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.

(1)

*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.

**Wuhan General Group (China), Inc.**

**As of September 30, 2012 and December 31, 2011**

**Notes to Financial Statements**

**(Stated in US Dollars)**

*(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,<br>2012 | December 31,<br>2011 | September 30,<br>2011 |
|---|-----------------------|----------------------|-----------------------|
| Period end RMB : US\$ exchange rate     | 6.3340                | 6.3647               | 6.40180               |
| Average period RMB : US\$ exchange rate | 6.3275                | 6.4735               | 6.50600               |

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.

**Wuhan General Group (China), Inc.****As of September 30, 2012 and December 31, 2011****Notes to Financial Statements****(Stated in US Dollars)**

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 June 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: -

| 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, statutory reserve refers to the appropriation 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 prescribe 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 out of statutory reserves or paid in capital registered in 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 14 – Warranty Liability.

**Wuhan General Group (China), Inc.**

**As of September 30, 2012 and December 31, 2011**

**Notes to Financial Statements**

**(Stated in US Dollars)**

*(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 18 – 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.

**Wuhan General Group (China), Inc.**

**As of September 30, 2012 and December 31, 2011**

**Notes to Financial Statements**

**(Stated in US Dollars)**

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 22 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 banking facilities, which are comprised of loans and notes payables in addition to other collateral.

**4. NOTES RECEIVABLE**

|                          |            |              |
|--------------------------|------------|--------------|
| As of September 30, 2012 | Continuing | Discontinued |
|                          | Operations | Operations   |
| Notes Receivable         | \$ 13,420  | \$ -         |



|                                      |           |      |
|--------------------------------------|-----------|------|
| <u>Less:</u> Allowance for Bad Debts | -         | -    |
|                                      | \$ 13,420 | \$ - |

|                                      |                          |                            |
|--------------------------------------|--------------------------|----------------------------|
| As of December 31, 2011              | Continuing<br>Operations | Discontinued<br>Operations |
| Notes Receivable                     | \$ -                     | \$ 28,196                  |
| <u>Less:</u> Allowance for Bad Debts | -                        | -                          |
|                                      | \$ -                     | \$ -                       |

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.

## 5. ACCOUNTS RECEIVABLE

|                                     |                          |                            |
|-------------------------------------|--------------------------|----------------------------|
| As of September 30, 2012            | Continuing<br>Operations | Discontinued<br>Operations |
| Total Accounts Receivable-Trade     | \$67,601,834             | \$ 181,941                 |
| <u>Less:</u> Allowance for Bad Debt | (3,452,020 )             | (9,097 )                   |
|                                     | \$64,149,814             | \$ 172,844                 |
| Allowance for Bad Debts             |                          |                            |
| Beginning Balance                   | \$(2,977,248 )           | \$ (11,960 )               |
| Allowance Provided                  | (3,452,021 )             | (57,621 )                  |
| Reversal                            | -                        | -                          |
| <u>Less:</u> Bad Debt Written Off   | 2,977,249                | 60,484                     |
| Ending Balance                      | \$(3,452,020 )           | \$ (9,097 )                |

**Wuhan General Group (China), Inc.****As of September 30, 2012 and December 31, 2011****Notes to Financial Statements****(Stated in US Dollars)**

| As of December 31, 2011             | Continuing<br>Operations | Discontinued<br>Operations |
|-------------------------------------|--------------------------|----------------------------|
| Total Accounts Receivable-Trade     | \$ 59,544,970            | \$ 235,978                 |
| <u>Less:</u> Allowance for Bad Debt | (2,977,248 )             | (11,960 )                  |
|                                     | \$ 56,567,722            | \$ 224,018                 |

| Allowance for Bad Debts           |                |              |
|-----------------------------------|----------------|--------------|
| Beginning Balance                 | \$(2,604,525 ) | \$ (11,513 ) |
| Allowance Provided                | (4,474,152 )   | (447 )       |
| Reversal                          | -              | -            |
| <u>Less:</u> Bad Debt Written Off | 4,101,429      | -            |
| Ending Balance                    | \$(2,977,248 ) | \$ (11,960 ) |

**6. INVENTORY**

| As of September 30, 2012 | Continuing<br>Operations | Discontinued<br>Operations |
|--------------------------|--------------------------|----------------------------|
| Raw Materials            | \$ 12,642,515            | \$ -                       |
| Work in Progress         | 22,657,464               | -                          |
| Finished Goods           | 6,878,934                | -                          |
|                          | \$ 42,178,913            | \$ -                       |

| As of December 31, 2011 | Continuing<br>Operations | Discontinued<br>Operations |
|-------------------------|--------------------------|----------------------------|
| Raw Materials           | \$ 9,663,871             | \$ 131,081                 |
| Work in Progress        | 1,409,831                | 420,139                    |
| Finished Goods          | 2,227,090                | 902,232                    |
|                         | \$ 13,300,792            | \$ 1,453,452               |

**7. ADVANCES TO EMPLOYEES**

Advances to Employees of \$71,999 and \$30,158 as of September 30, 2012 and December 31, 2011, 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.

**Wuhan General Group (China), Inc.****As of September 30, 2012 and December 31, 2011****Notes to Financial Statements****(Stated in US Dollars)****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, 2012              | Wuhan<br>Blower | Wuhan<br>Generating | Other<br>Subsidiaries | Total<br>Continuing<br>Operations | Total<br>Discontinued<br>Operations |
|---------------------------------------|-----------------|---------------------|-----------------------|-----------------------------------|-------------------------------------|
| Category of Asset                     |                 |                     |                       |                                   |                                     |
| Buildings                             | 15,521,723      | 9,383,507           | -                     | 24,905,230                        | 13,191,699                          |
| Machinery & Equipment                 | 2,116,316       | 18,266,229          | -                     | 20,382,545                        | 1,991,855                           |
| Furniture & Fixtures                  | 424,042         | 33,056              | 1,433                 | 458,531                           | 63,320                              |
| Auto                                  | 1,227,807       | 261,426             | -                     | 1,489,232                         | 15,588                              |
| Other                                 | 80,570          | -                   | -                     | 80,570                            | -                                   |
|                                       | 19,370,458      | 27,944,218          | 1,433                 | 47,316,108                        | 15,262,462                          |
| <i>Less: Accumulated Depreciation</i> |                 |                     |                       |                                   |                                     |
| Buildings                             | 4,060,683       | 794,370             | -                     | 4,855,053                         | 104,434                             |
| Machinery & Equipment                 | 1,414,112       | 6,011,007           | -                     | 7,425,119                         | 704,614                             |
| Furniture & Fixtures                  | 375,101         | 19,919              | 395                   | 395,415                           | 14,069                              |
| Auto                                  | 731,988         | 172,724             | -                     | 904,712                           | 8,286                               |
| Other                                 | 61,524          | -                   | -                     | 61,524                            | -                                   |
|                                       | 6,643,408       | 6,998,020           | 395                   | 13,641,823                        | 831,403                             |
| Property, Plant, & Equipment, Net     | 12,727,050      | 20,946,198          | 1,038                 | 33,674,285                        | 14,431,059                          |
| <br>                                  |                 |                     |                       |                                   |                                     |
| As of December 31, 2011               | Wuhan<br>Blower | Wuhan<br>Generating | Other<br>Subsidiaries | Total<br>Continuing<br>Operations | Total<br>Discontinued<br>Operations |
| Category of Asset                     |                 |                     |                       |                                   |                                     |
| Buildings                             | 14,626,746      | 9,370,675           | -                     | 23,997,421                        | -                                   |
| Machinery & Equipment                 | 2,101,219       | 13,512,971          | -                     | 15,614,190                        | 1,829,258                           |
| Furniture & Fixtures                  | 415,778         | 32,698              | 1,433                 | 449,909                           | 34,837                              |
| Auto                                  | 1,193,582       | 359,452             | -                     | 1,553,034                         | 15,513                              |
| Other                                 | 80,181          | -                   | -                     | 80,181                            | -                                   |
|                                       | 18,417,506      | 23,275,796          | 1,433                 | 41,694,735                        | 1,879,608                           |
| <i>Less: Accumulated Depreciation</i> |                 |                     |                       |                                   |                                     |
| Buildings                             | 3,710,590       | 887,133             | -                     | 4,597,723                         | -                                   |

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|                                   |            |            |       |            |           |
|-----------------------------------|------------|------------|-------|------------|-----------|
| Machinery & Equipment             | 1,250,561  | 5,007,564  | -     | 6,258,125  | 503,206   |
| Furniture & Fixtures              | 357,712    | 14,795     | 215   | 372,722    | 6,175     |
| Auto                              | 674,136    | 148,910    | -     | 823,046    | 5,911     |
| Other                             | 51,400     | -          | -     | 51,400     | -         |
|                                   | 6,044,399  | 6,058,402  | 215   | 12,103,016 | 515,292   |
| Property, Plant, & Equipment, Net | 12,373,107 | 17,217,394 | 1,218 | 29,591,719 | 1,364,316 |

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.

**Wuhan General Group (China), Inc.****As of September 30, 2012 and December 31, 2011****Notes to Financial Statements****(Stated in US Dollars)**

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, 2012                 | Wuhan<br>Blower | Wuhan<br>Generating | Total<br>Continuing<br>Operations | Total<br>Discontinued<br>Operations |
|---------------------------------------|-----------------|---------------------|-----------------------------------|-------------------------------------|
| Category of Asset                     |                 |                     |                                   |                                     |
| Land Use Rights                       | 2,374,100       | -                   | 2,374,100                         | 11,333,959                          |
| <u>Less:</u> Accumulated Amortization | (423,807 )      | -                   | (423,807 )                        | (1,247,278 )                        |
| Land Use Rights, <i>Net</i>           | 1,950,293       | -                   | 1,950,293                         | 10,086,681                          |

| At December 31, 2011                  | Wuhan<br>Blower | Wuhan<br>Generating | Total<br>Continuing<br>Operations | Total<br>Discontinued<br>Operations |
|---------------------------------------|-----------------|---------------------|-----------------------------------|-------------------------------------|
| Category of Asset                     |                 |                     |                                   |                                     |
| Land Use Rights                       | 2,362,648       | -                   | 2,362,648                         | 11,279,290                          |
| <u>Less:</u> Accumulated Amortization | (386,322 )      | -                   | (386,322 )                        | (998,406 )                          |
| Land Use Rights, <i>Net</i>           | 1,976,326       | -                   | 1,976,326                         | 10,280,884                          |

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.

## **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.

**Wuhan General Group (China), Inc.****As of September 30, 2012 and December 31, 2011****Notes to Financial Statements****(Stated in US Dollars)**

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, 2012 and December 31, 2011:

| September 30,<br>2012 |                                  | Total<br>Continuing<br>Operations | Total<br>Discontinued<br>Operations |
|-----------------------|----------------------------------|-----------------------------------|-------------------------------------|
| Subsidiary            | Description                      |                                   |                                     |
| Wuhan Blower          | Dormitory                        | -                                 | -                                   |
| Wuhan Blower          | Testing Facility                 | -                                 | -                                   |
| Wuhan Blower          | Badminton Courts                 | 26,050                            | -                                   |
| Wuhan Blower          | Technological Remodeling         | -                                 | -                                   |
| Wuhan Blower          | Lighting                         | -                                 | -                                   |
| Wuhan Blower          | Dining Hall                      | -                                 | -                                   |
| Wuhan Generating      | Capitalized Interest             | 33,460                            | -                                   |
| Wuhan Generating      | Equipment Requiring Installation | 2,895,925                         | -                                   |
| Wuhan Generating      | Generating Workshop              | 6,543,967                         | -                                   |
| Wuhan Generating      | Huangli Project                  | 1,458,299                         | -                                   |
| Wuhan Sungreen        | Landscaping                      | -                                 | -                                   |
| Wuhan Sungreen        | Workshop                         | -                                 | -                                   |
| Wuhan Sungreen        | Office Building                  | -                                 | -                                   |
| Wuhan Sungreen        | Utility Systems Setup            | -                                 | -                                   |
| Wuhan Sungreen        | Others                           | -                                 | 2,019                               |
|                       |                                  | 10,957,701                        | 2,019                               |



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| December 31,<br>2011 |  | Total<br>Continuing<br>Operations | Total<br>Discontinued<br>Operations |
|----------------------|--|-----------------------------------|-------------------------------------|
| Subsidiary           | Description                            |                                   |                                     |
| Wuhan Blower         | Dormitory                              | 164,399                           | -                                   |
| Wuhan Blower         | Testing Facility                       | 945                               | -                                   |
| Wuhan Blower         | Badminton<br>Courts                    | 25,924                            | -                                   |
| Wuhan Blower         | Technological<br>Remodeling            | 448,191                           | -                                   |
| Wuhan Blower         | Lighting                               | 117,837                           | -                                   |
| Wuhan Blower         | Dining Hall                            | 13,593                            | -                                   |
| Wuhan Blower         | Wall                                   | 22,990                            | -                                   |
| Wuhan Generating     | Capitalized<br>Interest                | 1,424,214                         | -                                   |
| Wuhan Generating     | Equipment<br>Requiring<br>Installation | 6,522,831                         | -                                   |
| Wuhan Generating     | Generating<br>Workshop                 | 6,290,566                         | -                                   |
| Wuhan Sungreen       | Landscaping                            | -                                 | 317,366                             |
| Wuhan Sungreen       | Workshop                               | -                                 | 5,236,110                           |
| Wuhan Sungreen       | Office Building                        | -                                 | 6,302,744                           |
| Wuhan Sungreen       | Utility Systems<br>Setup               | -                                 | 1,099,816                           |
| Wuhan Sungreen       | Gate<br>Remodeling                     | -                                 | 55,264                              |
|                      |  | 15,031,490                        | 13,011,300                          |

**Wuhan General Group (China), Inc.****As of September 30, 2012 and December 31, 2011****Notes to Financial Statements****(Stated in US Dollars)****11. INTANGIBLE ASSETS**

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

| Category of Asset                     | At<br>September 30,<br>2012 | At<br>December 31,<br>2011 |
|---------------------------------------|-----------------------------|----------------------------|
| Trademarks                            | 98,674                      | 113,910                    |
| Mitsubishi License                    | 305,912                     | 325,373                    |
| Tianyu CAD License                    | 7,839                       | 4,252                      |
| Microsoft License                     | 11,685                      | 13,130                     |
| Sunway CAD License                    | 16,340                      | 18,068                     |
|                                       | 440,450                     | 474,733                    |
| <u>Less: Accumulated Amortization</u> |                             |                            |
| Trademarks                            | (66,456 )                   | (78,165 )                  |
| Mitsubishi License                    | (232,303 )                  | (229,287 )                 |
| Tianyu CAD License                    | (3,429 )                    | (3,306 )                   |
| Microsoft License                     | (10,538 )                   | (11,116 )                  |
| Sunway CAD License                    | (7,266 )                    | (7,818 )                   |
|                                       | (319,992 )                  | (329,692 )                 |
| Intangible Assets, <i>Net</i>         | 120,458                     | 145,041                    |

The weighted average amortization period for the Company's intangible assets at September 30, 2012 and December 31, 2011 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.

## **12. BANK LOANS AND NOTES**

The following table provides the name of the lender, due date, interest rate, and amounts outstanding at September 30, 2012 and December 31, 2011 for the Company's bank loans and notes payable.

**Wuhan General Group (China), Inc.****As of September 30, 2012 and December 31, 2011****Notes to Financial Statements****(Stated in US Dollars)**

## Continuing Operations

| Subsidiary   | Type       | Name of Lender  | Due Date   | Interest Rate Per Annum |            | At September 30, 2012 | At December 31, 2011 |
|--------------|------------|---|------------|-------------------------|------------|-----------------------|----------------------|
| Short-term   |            |   |            |                         |            |                       |                      |
| Wuhan Blower | Bank Loans | Hankou Bank   | 7/13/2012  | 5.47 %                  | -          |                       | 1,571,166            |
| Wuhan Blower | Bank Loans | Hankou Bank   | 7/18/2013  | 7.80 %                  | 3,473,319  |                       | -                    |
| Wuhan Blower | Bank Loans | Hankou Bank   | 7/20/2013  | 7.80 %                  | 3,315,440  |                       | -                    |
| Wuhan Blower | Bank Loans | Hankou Bank   | 10/14/2012 | 5.47 %                  | 1,578,781  |                       | 1,571,166            |
| Wuhan Blower | Bank Loans | Gansu Trust Co., Ltd.                                 | 12/15/2012 | 8.53 %                  | 11,051,468 |                       | 10,998,162           |
| Wuhan Blower | Bank Loans | China Minsheng Banking Corp., Ltd.                    | 1/8/2012   | 9.6 %                   |            |                       | 3,927,915            |
| Wuhan Blower | Bank Loans | China Minsheng Banking Corp., Ltd.                    | 5/14/2013  | 12 %                    | 3,157,562  |                       | -                    |
| Wuhan Blower | Bank Loans | Shenzhen Development Bank                             | 6/3/2013   | 7.2 %                   | 4,736,344  |                       | -                    |
| Wuhan Blower | Bank Loans | Wuhan Jiang Han District Fu Bang Petty Loan Co., Ltd. | 12/09/2012 | 18 %                    | 827,281    |                       | 1,571,166            |
| Wuhan Blower | Bank Loans | Wuhan Min Ze Investment Co., Ltd.                     | 12/1/2012  | 0.00 %                  | 3,757,499  |                       | 3,739,375            |
| Wuhan Blower | Bank Loans | Agricultural Bank of China                            | 9/21/2012  | 5.40 %                  | -          |                       | 12,883,561           |
| Wuhan Blower | Bank Loans | Agricultural Bank of China                            | 2/13/2013  | 6.72 %                  | 2,052,416  |                       | -                    |
| Wuhan Blower | Bank Loans | Agricultural Bank of China                            | 4/24/2013  | 7.2 %                   | 2,683,928  |                       | -                    |
| Wuhan Blower | Bank Loans | Agricultural Bank of China                            | 6/29/2013  | 7.2 %                   | 2,683,928  |                       | -                    |
| Wuhan Blower | Bank Loans | Agricultural Bank of China                            | 9/14/2013  | 7.2 %                   | 2,683,928  |                       | -                    |
| Wuhan Blower | Bank Loans | Agricultural Bank of China                            | 9/19/2013  | 7.2 %                   | 2,841,806  |                       | -                    |

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|                  |            |  |            |       |   |              |              |
|------------------|------------|--|------------|-------|---|--------------|--------------|
| Wuhan Blower     | Bank Loans | China Construction Bank                              | 7/1/2012   | 5.40  | % | 3,310,552    | 3,299,449    |
| Wuhan Generating | Bank Loans | Hankou Bank  | 6/13/2012  | 6.56  | % | -            | 4,713,498    |
| Wuhan Generating | Bank Loans | Hankou Bank  | 6/13/2013  | 8.244 | % | 4,736,344    | -            |
| Wuhan Generating | Bank Loans | Hankou Bank  | 9/30/2013  | 6.15  | % | 4,420,587    | -            |
| Wuhan Generating | Bank Loans | Industrial Bank Co., Ltd.                            | 5/19/2012  | 8.30  | % | -            | 7,855,830    |
| Wuhan Generating | Bank Loans | Industrial Bank Co., Ltd.                            | 6/13/2012  | 8.30  | % | -            | 4,713,498    |
| Wuhan Generating | Bank Loans | Industrial Bank Co., Ltd.                            | 6/16/2012  | 8.30  | % | -            | 6,284,664    |
| Wuhan Generating | Bank Loans | Industrial Bank Co., Ltd.                            | 6/7/2013   | 7.872 | % | 4,736,344    | -            |
| Wuhan Generating | Bank Loans | Industrial Bank Co., Ltd.                            | 6/11/2013  | 7.572 | % | 6,315,125    | -            |
| Wuhan Generating | Bank Loans | Industrial Bank Co., Ltd.                            | 6/14/2013  | 7.572 | % | 3,157,562    | -            |
| Wuhan Generating | Bank Loans | Industrial Bank Co., Ltd.                            | 6/14/2013  | 7.572 | % | 4,736,344    | -            |
| Wuhan Generating | Bank Loans | Agricultural Bank of China                           | 6/15/2012  | 6.63  | % | -            | 6,756,014    |
| Wuhan Generating | Bank Loans | Agricultural Bank of China                           | 7/14/2012  | 6.89  | % | -            | 2,670,982    |
| Wuhan Generating | Bank Loans | Agricultural Bank of China                           | 12/18/2012 | 7.87  | % | 3,157,562    | -            |
| Wuhan Generating | Bank Loans | Agricultural Bank of China                           | 5/27/2013  | 6.15  | % | 3,631,197    | -            |
| Wuhan Generating | Bank Loans | Agricultural Bank of China                           | 7/16/2013  | 6.6   | % | 2,683,928    | -            |
| Wuhan Generating | Bank Loans | Shenzhen Development Bank                            | 6/2/2012   | 7.57  | % | -            | 4,713,498    |
| Wuhan Generating | Bank Loans | Shenzhen Development Bank                            | 3/12/2012  | 6.10  | % | -            | 3,142,331    |
| Wuhan Generating | Bank Loans | Shenzhen Development Bank                            | 6/5/2013   | 7.38  | % | 4,736,344    | -            |
| Wuhan Generating | Bank Loans | Wuhan Dong Xi Hu District Wu Yi Petty Loan Co., Ltd. | N/A        | N/A   |   | 2,368,172    | -            |
| Total            |            |  |            |       |   | \$92,833,761 | \$80,412,274 |

**Wuhan General Group (China), Inc.****As of September 30, 2012 and December 31, 2011****Notes to Financial Statements****(Stated in US Dollars)**

|                                       |               |                            |            |               |               |
|---------------------------------------|---------------|----------------------------|------------|---------------|---------------|
| Notes Payable                         |               |                            |            |               |               |
| Wuhan Blower                          | Notes Payable | Hankou Bank                | 1/11/2012  | -             | 2,670,982     |
| Wuhan Blower                          | Notes Payable | Hankou Bank                | 2/5/2012   | -             | 4,713,498     |
| Wuhan Blower                          | Notes Payable | Hankou Bank                | 4/7/2012   | -             | 4,713,498     |
| Wuhan Blower                          | Notes Payable | Hankou Bank                | 6/8/2012   | -             | 11,312,395    |
| Wuhan Blower                          | Notes Payable | Hankou Bank                | 10/18/2012 | - 3,157,562   | -             |
| Wuhan Blower                          | Notes Payable | Hankou Bank                | 10/19/2012 | - 1,578,781   | -             |
| Wuhan Blower                          | Notes Payable | Hankou Bank                | 12/7/2012  | - 4,736,344   | -             |
| Wuhan Blower                          | Notes Payable | Hankou Bank                | 12/11/2012 | - 3,315,440   | -             |
| Wuhan Blower                          | Notes Payable | Shenzhen Development Bank  | 1/1/2012   | -             | 442,211       |
| Wuhan Blower                          | Notes Payable | Shenzhen Development Bank  | 2/2/2012   | -             | 452,316       |
| Wuhan Blower                          | Notes Payable | Shenzhen Development Bank  | 3/19/2012  | -             | 693,970       |
| Wuhan Blower                          | Notes Payable | Shenzhen Development Bank  | 3/12/2012  | -             | 180,383       |
| Wuhan Blower                          | Notes Payable | Shenzhen Development Bank  | 6/10/2012  | -             | 384,815       |
| Wuhan Blower                          | Notes Payable | Shenzhen Development Bank  | 6/12/2012  | -             | 535,451       |
| Wuhan Blower                          | Notes Payable | Shenzhen Development Bank  | 2/18/2012  | -             | 227,176       |
| Wuhan Blower                          | Notes Payable | Shenzhen Development Bank  | 8/6/2012   | - 3,157,562   | -             |
| Wuhan Generating                      | Notes Payable | Hankou Bank                | 6/19/2012  | -             | 7,227,364     |
| Wuhan Generating                      | Notes Payable | Hankou Bank                | 12/21/2012 | - 5,525,734   | -             |
| Wuhan Generating                      | Notes Payable | Industrial Bank Co., Ltd.  | 10/13/2012 | - 7,893,906   | -             |
| Wuhan Generating                      | Notes Payable | Industrial Bank Co., Ltd.  | 10/18/2012 | - 7,893,906   | -             |
| Wuhan Generating                      | Notes Payable | Shenzhen Development Bank  | 12/5/2012  | - 1,105,147   | -             |
| Wuhan Generating                      | Notes Payable | Agricultural Bank of China | 11/3/2012  | - 1,499,842   | -             |
| Wuhan Generating                      | Notes Payable | Agricultural Bank of China | 1/23/2013  | - 315,756     | -             |
| Total                                 |               |                            |            | \$40,179,980  | \$33,554,059  |
| Total Short Term Bank Loans and Notes |               |                            |            | \$133,013,741 | \$113,966,333 |

**Wuhan General Group (China), Inc.**

**As of September 30, 2012 and December 31, 2011**

**Notes to Financial Statements**

**(Stated in US Dollars)**

Discontinued Operations

|                |               |                           |            |   |             |   |
|----------------|---------------|---------------------------|------------|---|-------------|---|
| Wuhan Sungreen | Notes Payable | Industrial Bank Co., Ltd. | 10/23/2012 | - | 4,736,343   | - |
| Total          |               |                           |            |   | \$4,736,343 | - |

Long-term

|                                      |            |             |            |       |             |             |
|--------------------------------------|------------|-------------|------------|-------|-------------|-------------|
| Wuhan Generating                     | Bank Loans | Hankou Bank | 9/30/2013  | 6.15% | -           | 4,556,380   |
| Wuhan Generating                     | Bank Loans | Hankou Bank | 10/11/2013 | 6.15% | 1,420,903   | 1,492,609   |
| Total Long Term Bank Loans and Notes |            |             |            |       | \$1,420,903 | \$6,048,989 |

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 2011 and 2012.

The loan from Wuhan Jiang Han District Fu Bang Petty Loan Co., Ltd was guaranteed by Wuhan Generating's equity pledge, and guaranteed by Wuhan Generating, Wuhan Sungreen and Jie Xu.

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 and Hubei Huaguang International Trade Co., Ltd. have guaranteed this loan, too.

Wuhan Generating's loan from Agricultural Bank of China is secured by Hubei Libang Investment and Guaranty Co., Ltd, and Hubei Huaguang International Trade Co., Ltd.

Wuhan Generating's loans from Shenzhen Development Bank and Industrial Bank Co., Ltd are guaranteed by Jie Xu, Hongsheng Xu, and Wuhan Blower.



**Wuhan General Group (China), Inc.****As of September 30, 2012 and December 31, 2011****Notes to Financial Statements****(Stated in US Dollars)**

Banking facilities extended by the Agricultural Bank of China were secured by the Company's mortgage of real property.

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, 2012, there were no bank loans 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 six months ended September 30, 2012 and the year ended December 31, 2011:

|   | September 30,<br>2012 | December 31,<br>2011 |
|---|-----------------------|----------------------|
| Balance at beginning of period                                      | \$ 1,012,771          | \$ 1,937,227         |
| Adjustment  |                       |                      |
| Accruals for current & pre-existing warranties issued during period | 2,675,024             | 38,947               |
| <u>Less:</u> Settlements made during period                         | 1,140,194             | (963,404 )           |
| <u>Less:</u> Reversals and warranty expirations                     | -                     | -                    |
| Balance at end of period  | \$ 2,547,601          | \$ 1,012,771         |

There was no outstanding warranty liability for discontinued operations.

#### 14. CAPITALIZATION

The Company's outstanding securities at September 30, 2012 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             |
| 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 | 45,340,531 |               |                 |

##### 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.

**Wuhan General Group (China), Inc.**

**As of September 30, 2012 and December 31, 2011**

**Notes to Financial Statements**

**(Stated in US Dollars)**

*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.

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.

**Wuhan General Group (China), Inc.**

**As of September 30, 2012 and December 31, 2011**

**Notes to Financial Statements**

**(Stated in US Dollars)**

*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.

### 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,<br>2012 | December 31,<br>2011 |
|--|-----------------------|----------------------|
| Unadjusted Registered Capital in PRC                   | \$ 52,575,256         | \$ 52,575,256        |
| 50% maximum thereof                                    | 26,287,628            | 26,287,628           |
| <u>Less:</u> Amounts Appropriated to Statutory Reserve | (4,563,592 )          | (4,563,592 )         |
| Unfunded Commitment                                    | \$ 21,724,036         | \$ 21,724,036        |

**Wuhan General Group (China), Inc.****As of September 30, 2012 and December 31, 2011****Notes to Financial Statements****(Stated in US Dollars)****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.

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

|  | September 30, 2012 | September 30, 2011 |
|--|--------------------|--------------------|
| Income (loss) before taxes:                          |                    |                    |
| US Federal   | \$ (47,336         | ) \$ (8,548,530    |
| US State   | -                  | -                  |
| BVI  | (4,111             | ) (4,332           |
| PRC  | (525,798           | ) 9,084,366        |
| Total income before taxes from continuing operations | (577,245           | ) 531,504          |

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|  |               |   |              |   |
|--|---------------|---|--------------|---|
| Income (Loss) before taxes from discontinued operation | (553,915      | ) | (336,974     | ) |
| Total income before taxes                              | \$ (1,131,160 | ) | \$ 194,530   |   |
| Provision for taxes:                                   |               |   |              |   |
| Current:   |               |   |              |   |
| U.S. Federal   | -             |   | -            |   |
| U.S. State   | -             |   | -            |   |
| BVI  | -             |   | -            |   |
| PRC  | 753,192       |   | 1,135,546    |   |
| Provision for taxes from continuing operations         | 753,192       |   | 1,135,546    |   |
| Provision for taxes from discontinued operations       | -             |   | -            |   |
| Currency effect  | -             |   | -            |   |
|  | \$ 753,192    |   | \$ 1,135,546 |   |
| Deferred:  |               |   |              |   |
| U.S. Federal   | \$ -          |   | \$ -         |   |
| U.S. State   | -             |   | -            |   |
| BVI  | -             |   | -            |   |
| PRC  | -             |   | -            |   |
| Deferred taxes from continuing operations              | -             |   | -            |   |
| Total provision for taxes from continuing operations   | -             |   | -            |   |
| Deferred taxes from discontinued operations            | -             |   | -            |   |
| Currency effect  | -             |   | -            |   |
| Total provision for taxes from discontinued operations | -             |   | -            |   |
| Total provision for taxes                              | \$ 753,192    |   | \$ 1,135,546 |   |
| Effective tax rate                                     | N/A           |   | 583.74       | % |



**Wuhan General Group (China), Inc.****As of September 30, 2012 and December 31, 2011****Notes to Financial Statements****(Stated in US Dollars)**

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, 2012 and December 31, 2011 are as follows:

|  | September 30,<br>2012 | December 31,<br>2011 |
|--|-----------------------|----------------------|
| Deferred tax assets  |                       |                      |
| Beginning balance – continuing operations  | \$ 1,238,831          | \$ 1,192,532         |
| Current year additions resulting bad debt expense & warranty accrual expense – continuing operations   | 2,857,534             | -                    |
| Reversals – continuing operations  | (1,908,593            | ) -                  |
| Valuation allowance – continuing operations  | -                     | -                    |
| Foreign currency effect – continuing operations  | 469,679               | 46,299               |
| Ending balance – continuing operations   | 2,657,451             | 1,238,831            |
| Beginning balance – discontinued operations  | -                     | 282,898              |
| Current year additions resulting bad debt expense & warranty accrual expense – discontinued operations | -                     | -                    |
| Reversals – discontinued operations  | -                     | -                    |
| Valuation allowance – discontinued operations  | -                     | (288,942             |
| Foreign currency effect – discontinued operations  | -                     | 6,044                |
| Ending balance – discontinued operations   | -                     | -                    |
| Beginning balance – continuing operations  | \$ 1,238,831          | \$ 1,192,532         |
| Beginning balance – discontinued operations  | -                     | 282,898              |
| Beginning balance  | 1,238,831             | 1,475,430            |
| Ending balance – continuing operations   | 2,657,451             | 1,238,831            |
| Ending balance – discontinued operations   | -                     | -                    |
| Ending balance   | 2,657,451             | 1,238,831            |
| Total deferred tax assets  | 2,657,451             | 1,238,831            |
| Deferred tax liabilities   |                       |                      |
| Total deferred tax liabilities   | -                     | -                    |
| Net deferred tax assets  | \$ 2,657,451          | \$ 1,238,831         |
| Reported as:   |                       |                      |

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|                                      |              |              |
|--------------------------------------|--------------|--------------|
| Current deferred tax assets          | 2,657,451    | 1,238,831    |
| Non-current deferred tax assets      | -            | -            |
| Non-current deferred tax liabilities | -            | -            |
| Net deferred taxes                   | \$ 2,657,451 | \$ 1,238,831 |

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**Wuhan General Group (China), Inc.****As of September 30, 2012 and December 31, 2011****Notes to Financial Statements****(Stated in US Dollars)**

The differences between the U.S. federal statutory income tax rates and the Company's effective tax rate for the six months ended September 30, 2012 and the year ended December 31, 2011 are shown in the following table:

|  | 9/30/2012 | 12/31/2011 |
|--|-----------|------------|
| U.S. federal statutory income tax rate | N/A       | N/A        |
| Lower rates in PRC, net                | N/A       | N/A        |
| Accruals in foreign jurisdictions      | N/A       | N/A        |
| Tax holiday                            | N/A       | N/A        |
| Effective tax rate                     | N/A       | N/A        |

**17. EARNINGS PER SHARE**

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

|   | 3 months<br>ended<br>September 30,<br>2012 | 3 months<br>ended<br>September 30,<br>2011 | 9 months<br>ended<br>September 30,<br>2012 | 9 months<br>ended<br>September 30,<br>2011 |
|---|--|--|--|--|
| Basic Earnings Per Share Numerator  |  |  |  |  |
| Net Income  | \$ (3,498,051 )                            | \$ (2,520,496 )                            | \$ (1,884,352 )                            | \$ (941,016 )                              |
| Income from Continuing Operations   | (3,309,942 )                               | (2,381,892 )                               | (1,330,437 )                               | (604,042 )                                 |
| Income (Loss) from Discontinued Operations                                  | (188,109 )                                 | (138,604 )                                 | (553,915 )                                 | (336,974 )                                 |
| Less:   |  |  |  |  |
| Preferred Dividends   | 183,284                                    | 183,276                                    | 545,854                                    | 543,853                                    |
| Income Available to Common Stockholders                                     | (3,681,335 )                               | (2,703,772 )                               | (2,430,206 )                               | (1,484,869 )                               |
| Income from Continuing Operations Available to Common Stockholders          | (3,493,226 )                               | (2,565,168 )                               | (1,876,291 )                               | (1,147,895 )                               |
| Income (Loss) from Discontinued Operations Available to Common Stockholders | (188,109 )                                 | (138,604 )                                 | (553,915 )                                 | (336,974 )                                 |
| Diluted Earnings Per Share Numerator  |  |  |  |  |
| Income Available to Common Stockholders                                     | \$ (3,681,335 )                            | \$ (2,703,772 )                            | \$ (2,430,206 )                            | \$ (1,484,869 )                            |

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|  |              |              |              |              |
|--|--------------|--------------|--------------|--------------|
| Income from Continuing Operations Available to Common Stockholders                             | (3,493,226 ) | (2,565,168 ) | (1,876,291 ) | (1,147,895 ) |
| Income (Loss) from Discontinued Operations Available to Common Stockholders                    | (188,109 )   | (138,604 )   | (553,915 )   | (336,974 )   |
| Add:   |              |              |              |              |
| Preferred Dividends  | 183,284      | 183,276      | 545,854      | 543,853      |
| Income Available to Common Stockholders on Converted Basis                                     | (3,498,051 ) | (2,520,496 ) | (1,884,352 ) | (941,016 )   |
| Income from Continuing Operations Available to Common Stockholders on Converted Basis          | (3,309,942 ) | (2,381,892 ) | (1,330,437 ) | (604,042 )   |
| Income (Loss) from Discontinued Operations Available to Common Stockholders on Converted Basis | \$(188,109 ) | \$(138,604 ) | \$(553,915 ) | \$(336,974 ) |
| Original Shares:   | 32,505,000   | 32,505,000   | 32,505,000   | 28,327,607   |
| Additions from Actual Events   | -            | -            | -            | -            |
| - Issuance of Common Stock resulting from the Recapitalization of Warrants                     | -            | -            | -            | 3,898,900    |
| Basic Weighted Average Shares Outstanding  | 32,505,000   | 32,505,000   | 32,505,000   | 32,226,507   |
| Dilutive Shares:   |              |              |              |              |
| Additions from Potential Events  |              |              |              |              |
| - Conversion of Series A Preferred Stock*  | -            | -            | -            | -            |
| - Conversion of Series B Preferred Stock*  | -            | -            | -            | -            |
| - Exercise of Employee & Director Stock Options*   | -            | -            | -            | -            |
| Diluted Weighted Average Shares Outstanding:   | 32,505,000   | 32,505,000   | 32,505,000   | 32,226,507   |
| Earnings Per Share   |              |              |              |              |
| Basic - Net Income   | \$(0.11 )    | \$(0.08 )    | \$(0.07 )    | \$(0.05 )    |
| -Income from Continuing Operations   | (0.11 )      | (0.08 )      | (0.06 )      | (0.04 )      |
| -Loss from Discontinued Operations, net of taxes   | (0.01 )      | (0.00 )      | (0.02 )      | (0.01 )      |
| Diluted - Net Income   | \$(0.11 )    | \$(0.08 )    | \$(0.06 )    | \$(0.03 )    |
| -Income from Continuing Operations   | (0.10 )      | (0.07 )      | (0.04 )      | (0.02 )      |
| -Income (Loss) from Discontinued Operations, net of taxes                                      | (0.01 )      | (0.01 )      | (0.02 )      | (0.01 )      |
| Weighted Average Shares Outstanding  |              |              |              |              |
| - Basic  | 32,505,000   | 32,505,000   | 32,505,000   | 32,226,507   |
| - Diluted  | 32,505,000   | 32,505,000   | 32,505,000   | 32,226,507   |

\* Potentially anti-dilutive

**Wuhan General Group (China), Inc.****As of September 30, 2012 and December 31, 2011****Notes to Financial Statements****(Stated in US Dollars)****18. 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 six months ended June 30, 2012 and 2011, and financial position at September 30, 2012 and December 31, 2011. 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, 2012 | Continuing Operations |                     |             | Company,<br>UFG,<br>Adjustments<br>Total | Discontinued<br>Operations |
|--|-----------------------|---------------------|-------------|--|----------------------------|
|  | Wuhan<br>Blower       | Wuhan<br>Generating |             |  | Wuhan<br>Sungreen          |
| Sales  | \$40,942,106          | \$26,890,507        | \$ -        | \$67,832,613                             | \$ 150,945                 |
| Cost of Sales  | 34,035,779            | 22,451,091          | -           | 56,486,870                               | 125,763                    |
| Gross Profit   | 6,906,327             | 4,439,416           | -           | 11,345,743                               | 25,182                     |
| Operating Expenses   | 4,656,651             | 2,502,055           | 63,920      | 7,222,626                                | 598,964                    |
| Other Income (Expenses)  | (2,401,960 )          | (2,310,874 )        | 12,472      | (4,700,362 )                             | 19,867                     |
| Earnings before Taxes  | (152,284 )            | (373,513 )          | (51,448 )   | (577,245 )                               | (553,915 )                 |
| Taxes  | 520,765               | 232,427             | -           | 753,192                                  | -                          |
| Net Income   | \$(673,049 )          | \$(605,940 )        | \$(51,448 ) | \$(1,330,437 )                           | \$(553,915 )               |
| Financial Position<br>At<br>September 30, 2012                           | Continuing Operations |                     |             | Company,<br>UFG,                         | Discontinued<br>Operations |
|  | Wuhan                 | Wuhan               |             |  | Wuhan                      |

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|                                | Blower         | Generating     | Adjustments     | Total          | Sungreen      |
|--------------------------------|----------------|----------------|-----------------|----------------|---------------|
| Current Assets                 | \$ 137,321,559 | \$ 108,893,595 | \$ (18,363,497) | \$ 227,851,657 | \$ 5,614,239  |
| Non Current Assets             | 50,421,852     | 37,927,304     | (35,086,844)    | 53,262,312     | 24,535,548    |
| Total Assets                   | 187,743,511    | 146,820,899    | (53,450,441)    | 281,113,969    | 30,149,787    |
| Current Liabilities            | 99,432,633     | 92,816,724     | (10,864,067)    | 181,385,290    | 13,015,249    |
| Total Long Term Liabilities    | -              | 1,420,903      | -               | 1,420,903      | -             |
| Total Liabilities              | 99,432,633     | 94,237,627     | (10,864,067)    | 182,806,193    | 13,015,249    |
| Net Assets                     | 88,310,878     | 52,583,272     | (42,586,374)    | 98,307,776     | 17,134,538    |
| Total Liabilities & Net Assets | \$ 187,743,511 | \$ 146,820,899 | \$ (53,450,441) | \$ 281,113,969 | \$ 30,149,787 |

**Wuhan General Group (China), Inc.****As of September 30, 2012 and December 31, 2011****Notes to Financial Statements****(Stated in US Dollars)**

| Results of Operations                        | Continuing Operations |                  |                                 |               | Discontinued Operations |
|--|-----------------------|------------------|---------------------------------|---------------|-------------------------|
|  | Wuhan Blower          | Wuhan Generating | Company, UFG, Adjustments       | Total         | Wuhan Sungreen          |
| For the nine months ended September 30, 2011 |                       |                  |                                 |               |                         |
| Sales  | \$48,659,958          | \$44,223,798     | \$-                             | 92,883,756    | \$ 579,613              |
| Cost of Sales                                | 37,028,254            | 32,765,656       | -                               | 69,793,910    | 421,872                 |
| Gross Profit                                 | 11,631,704            | 11,458,142       | -                               | 23,089,846    | 157,741                 |
| Operating Expenses                           | (5,692,203 )          | (2,273,569 )     | (5,096,768 )                    | (13,062,540 ) | (496,349 )              |
| Other Income (Expenses)                      | (3,090,745 )          | (2,948,965 )     | (3,456,092 )                    | (9,495,802 )  | 1,634                   |
| Earnings before Taxes                        | 2,848,756             | 6,235,608        | (8,552,860 )                    | 531,504       | (336,974 )              |
| Taxes/(Deferred Tax Benefit)                 | (356,095 )            | (779,451 )       | -                               | (1,135,546 )  | -                       |
| Net Income                                   | \$2,492,661           | \$5,456,157      | \$(8,552,860 )                  | \$(604,042 )  | \$(336,974 )            |
| Financial Position                           | Continuing Operations |                  |                                 |               | Discontinued Operations |
| At December 31, 2011                         | Wuhan Blower          | Wuhan Generating | Company, UFG, Admin Adjustments | Total         | Wuhan Sungreen          |
| Current Assets                               | 127,051,429           | 79,795,002       | (13,471,000 )                   | 193,375,431   | 2,223,395               |
| Non Current Assets                           | 50,213,959            | 37,003,930       | (34,917,387 )                   | 52,300,502    | 24,672,213              |
| Total Assets                                 | 177,265,388           | 116,798,932      | (48,388,387 )                   | 245,675,933   | 26,895,608              |
| Current Liabilities                          | 88,711,466            | 57,817,909       | 1,016,845                       | 147,546,220   | 1,401,330               |
| Total Long Term Liabilities                  | -                     | 6,048,989        | -                               | 6,048,989     | -                       |
| Total Liabilities                            | 88,711,466            | 63,866,898       | 1,016,845                       | 153,595,209   | 1,401,330               |
| Net Assets                                   | 88,553,922            | 52,932,034       | (49,405,232 )                   | 92,080,724    | 25,494,278              |
| Total Liabilities & Net Assets               | 177,265,388           | 116,798,932      | (48,388,387 )                   | 245,675,933   | 26,895,608              |

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. The 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 the Company's operating segments. Intercompany eliminations have not been applied to each individual operating segment for the purposes of reporting the results of operations and the financial position of each operating segment. The adjustments represent the eliminations necessary to consolidate the financial statements. See Note 2(b) - Consolidation.



**Wuhan General Group (China), Inc.**

**As of September 30, 2012 and December 31, 2011**

**Notes to Financial Statements**

**(Stated in US Dollars)**

**19. 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.

For the six months ended June 30, 2012 and year ended December 31, 2011, the Company recorded \$0 and \$4,555 of stock compensation expense, respectively. The entire stock option compensation expenses were recorded as general and administrative expenses given the nature of the work contribution of the grantees.

The range of the exercise prices of the outstanding stock options at September 30, 2012 are shown in the following table:

| Price Range       | Number of Shares |
|-------------------|------------------|
| \$0 - \$9.99      | 240,000 shares   |
| \$10.00 - \$19.99 | 0 shares         |
| \$20.00 - \$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.

The Company used the Black-Scholes Model to value the options granted. The following table shows the weighted average fair value of the grants as of September 30, 2012, and the assumptions that were employed in the model:

September 30,

|  |         |   |
|--|---------|---|
|  | 2012    |   |
| Weighted-average fair value of grants: | \$ 0.25 |   |
| Risk-free interest rate:               | 3.47    | % |
| Expected volatility:                   | 2.21    | % |
| Expected life in months:               | 111.00  |   |

## 20. 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.

## 21. DISCONTINUED OPERATIONS

In order to improve its cash flows from operations and working capital, the Company decided to redeploy its capital to meet requirements of its business plan. On December 29, 2010, the Company classified its subsidiary Wuhan Sungreen as a discontinued operation. Accordingly, Wuhan Sungreen's operations have been classified as discontinued operations in the consolidated statements of income and cash flows and the assets and associated liabilities have been classified as held for sale in the consolidated balance sheets. The Company reviewed its Wuhan Sungreen assets and plans to sell these assets for approximately \$20 million before 2012. Proceeds from the sales of Wuhan Sungreen assets will be used for working capital for Wuhan Blower and Wuhan Generating and potentially purchasing of equipment.

**Wuhan General Group (China), Inc.****As of September 30, 2012 and December 31, 2011****Notes to Financial Statements****(Stated in US Dollars)**

In accordance with SFAS No. 144 (ASC 360-10), "Accounting for the Impairment or Disposal of Long-lived Assets" ("SFAS 144"), the results of Wuhan Sungreen operations have been excluded from continuing operations and reported as discontinued operations for the current and prior periods. Furthermore, the assets of Wuhan Sungreen have been reclassified as held for sale in the Balance Sheet for prior periods. On December 29, 2010, the Company assessed its long-lived assets in Wuhan Sungreen based on the best estimation per the revenue guidance and current profit gross margin and determined that no write-down is necessary because undiscounted cash flow is substantially more than the carrying values of the assets.

The following table summarizes the amounts included in income/(loss) from discontinued operations for all periods presented. These revenues and expenses were historically reported under Wuhan Sungreen operating segment, and are now reported in discontinued operations:

| Discontinued Operations   | 9/30/2012 | 9/30/2011 |
|---------------------------|-----------|-----------|
| For the nine months ended | Wuhan     | Wuhan     |
|                           | Sungreen  | Sungreen  |
| Sales                     | \$150,945 | \$579,613 |
| Cost of Sales             | 125,763   | 421,872   |
| Gross Profit              | 25,182    | 157,741   |
| Operating Expenses        | 598,964   | (496,349) |
| Other Income (Expenses)   | 19,867    | 1,634     |
| Earnings before Taxes     | (553,915) | (336,974) |
| Taxes                     | -         | -         |
| Net Income                | (553,915) | (336,974) |

The following table summarizes the amounts included in financial position from discontinued operations for all periods presented. These amounts included in financial position were historically reported under Wuhan Sungreen operating segment, and are now reported in discontinued operations:

| Financial Position             | September 30,<br>2012 | December 31,<br>2011 |
|--------------------------------|-----------------------|----------------------|
| At                             | Wuhan<br>Sungreen     | Wuhan<br>Sungreen    |
| Current Assets                 | 5,614,239             | 2,223,395            |
| Non Current Assets             | 24,535,548            | 24,672,213           |
| Total Assets                   | 30,149,787            | 26,895,608           |
| Current Liabilities            | 13,015,249            | 1,401,330            |
| Total Long Term Liabilities    | -                     | -                    |
| Total Liabilities              | 13,015,249            | 1,401,330            |
| Net Assets                     | 17,134,538            | 25,494,278           |
| Total Liabilities & Net Assets | 30,149,787            | 26,895,608           |

**Wuhan General Group (China), Inc.**

**As of September 30, 2012 and December 31, 2011**

**Notes to Financial Statements**

**(Stated in US Dollars)**

The tax effects of temporary differences caused the deferred assets/(liabilities) associated with assets held for sale at September 30, 2012 and December 31, 2011 are as follows:

|   | 9/30/2012 | 12/31/2011 |
|---|-----------|------------|
| Non-current deferred tax assets                 | \$ -      | \$ -       |
| Loss carryover items net of valuation allowance | -         | -          |
| Total deferred tax assets                       | -         | -          |
| Non-current deferred tax liabilities            | -         | -          |
| Total deferred tax liabilities                  | -         | -          |
| Net deferred tax liabilities                    | \$ -      | \$ -       |

## 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” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. 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, and our ability to collect on our accounts receivable. 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;
- operating in the PRC generally and the potential for changes in the laws of the PRC that affect our operations, including tax law;
- remediating material weaknesses in our internal control over financial reporting;
- our failure 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 of this Report. 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 Limited (“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”). 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 month periods ended September 30, 2012 and 2011 and the financial condition at September 30, 2012. The amounts shown below that were originally denominated in RMB were translated into U.S. dollars at the rate of 6.3340RMB per 1 U.S. dollar, which is the September 30, 2012 period end exchange rate that the Company used in the accompanying financial statements.



## Recent Developments

Effective December 29, 2010, we decided to sell the assets and business of Wuhan Sungreen. Accordingly, the results of Wuhan Sungreen's operations have been excluded from continuing operations and reported as discontinued operations in the financial statements for the three month periods ended September 30, 2012 and 2011. Wuhan Sungreen is continuing its operations pending further action. As of September 30, 2012, we estimate that the fair market value of Wuhan Sungreen's assets is approximately \$18 to 24 million. We anticipate that all of the Wuhan Sungreen assets will be sold prior to June 1, 2013, and that any proceeds from the sale of such assets will be used to meet the working capital needs of Wuhan Blower and Wuhan Generating and/or to purchase new equipment for Wuhan Blower and Wuhan Generating.

Unless otherwise indicated, information presented in this Quarterly Report on Form 10-Q relates only to the Company's continuing operations, which include the businesses conducted by Wuhan Blower and Wuhan Generating. See Note 21 to the financial statements included in "Part I Financial Information—Item 1. Financial Statements" for information related to the business we have classified as discontinued operations, which includes the business conducted by Wuhan Sungreen.

## Results of Operations

### *Three Months Ended September 30, 2012 Compared to Three Months Ended September 30, 2011*

*Sales.* Sales decreased \$16 million, or 48.4%, to \$17.15 million for the three months ended September 30, 2012 from \$33.24 million for the same period in 2011. This decrease was the result of fewer sale orders due to the weak economy.

*Cost of Sales.* Our cost of sales decreased \$10.60 million, or 40.38%, to \$15.65 million for the three months ended September 30, 2012 from \$26.24 million during the same period in 2011. As a percentage of sales, the cost of sales was 91.23% during the three months ended September 30, 2012 compared to 78.95% in the same period of 2011. This increase as a percentage of sales was primarily attributable to inflationary pressures in the general economy of China relative to the overall cost of production.

*Gross Profit.* Our gross profit decreased \$5.49 million, or 78.51%, to \$1.50 million for the three months ended September 30, 2012 from \$7.00 million for the same period in 2011. Gross profit as a percentage of sales was 8.7% for the three months ended September 30, 2012 compared to 21.05% during the same period in 2011.

*Selling Expenses.* Our selling expenses for the three months ended September 30, 2012 increased by \$133,443 or 37.09%, to \$493,227 for the three months ended September 30, 2012 from \$359,784 for the same period in 2011. As a percentage of sales, selling expenses were 2.8% for the three months ended September 30, 2012 and 1.08% for the three months ended September 30, 2011. This increase as a percentage of sales was primarily attributable to the increase in transportation cost.

*General and Administrative Expenses.* Our general and administrative expenses decreased approximately \$4.59 million, or 68.88%, to \$2.07 million for the three months ended September 30, 2012 from approximately \$6.66 million for the same period in 2011. As a percentage of sales, general and administrative expenses were 12.08% for the three months ended September 30, 2012 compared to 20.03% for the same period in 2011.

*Warranty Expense.* Our warranty expense decreased to -\$70 for the three months ended September 30, 2012 from \$74,455 for the same period in 2011. As a percentage of sales, warranty expense was -0.00041% for the three months ended September 30, 2012 compared to 0.224% for the same period in 2011.

*Operating Income.* Our operating income decreased by approximately \$0.97 million, or 1001%, to -\$1.06 million for the three months ended September 30, 2012 from -\$0.10 million for the same period in 2011. As a percentage of sales, operating was -6.19% for the three months ended September 30, 2012 compared to -0.29% for the same period in 2011. This decrease as a percentage of sales was primarily attributable to a decrease in gross profit margin

*Interest Income.* Our interest income decreased to \$6,637 for the three months ended September 30, 2012 from \$12,528 for the same period in 2011. This decrease was due to decrease in interest earning bank deposits.

*Interest Expense.* Our interest expense increased \$409,191, or 20.25%, to approximately \$2.43 million for the three months ended September 30, 2012 from approximately \$2.02 million for the same period in 2011. This increase was due to an increase in loans from banks and other financial institutions in the current period.

*Income Tax.* Our income tax liability for the three months ended September 30, 2012 was -\$233, which is a decrease of \$291,774, or 100.07% over the prior year period. Wuhan Blower and Wuhan Generating were subject to 25% PRC income tax during the three months ended September 30, 2012.

*Net Income.* Net income decreased approximately \$0.98 million, or 38.78%, to being a net loss of \$3.50 million during the three months ended September 30, 2012 from a net loss of approximately \$2.52 million during the same period in 2011. This decrease was primarily the 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. We finance our business operations primarily through cash generated by our operations, bank loans and various financing transactions. As of September 30, 2012, we had cash and cash equivalents of approximately \$65.26 million, including restricted cash of approximately \$24.93 million.

The collection of our accounts receivable and other receivables is important to solidifying our liquidity position. Although we are still experiencing payment delays, we continue to focus on the collection of accounts receivable. Our accounts receivable ratio increased to 950 days at September 30, 2012, compared to 102 days at September 30, 2011.

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. Some customers have not strictly adhered to the contractual payment terms. This has 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 8% 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 increased from approximately \$56.57 million to \$64.15 million from December 31, 2011 to September 30, 2012. The allowance for bad debt provided in accordance with the Company's accounting policy was \$474,772 at September 30, 2012. The Company applied a rate of 8% on outstanding one year accounts receivable, which results in an ending balance of approximately \$3.45 million. The increase in accounts receivable is due to the increase in account receivable collection period. We remain committed to a sustained focus on debt collection and management of our accounts receivable levels.

We have devoted increased resources to our collection efforts with respect to our outstanding accounts receivable. We have also aligned more closely the sales commission structure with the collection on sales. The accounts receivable balance increased by approximately \$7.58 million from December 31, 2011 to September 30, 2012.

At September 30, 2012, we had approximately \$24.11 million in other receivables, which is an increase of \$5.62 million compared to the balance at December 31, 2011.

We also had advances to suppliers of approximately \$29.04 million at September 30, 2012, which increased by \$3.86 million compared to the balance at December 31, 2011. 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 478 times for the nine months ended September 30, 2012. We calculate inventory turnover as sales divided by average inventory. Inventory decreased approximately \$2.98 million in raw materials, increase approximately \$21.25 million in work in progress and \$4.65 million in finished goods for the nine month period ended September 30, 2012. The increased inventory related to the Company's decrease in sales.

Net cash sourced in operating activities for the three months ended September 30, 2012 was approximately -\$32.15 million, as compared to approximately -\$3.63 million provided in the three months ended September 30, 2011. This change was primarily due to a decrease in payments to suppliers and tax payments and increase in continue operation.

Net cash used by investing activities for the three months ended September 30, 2012 was approximately \$603,126, as compared to approximately -\$2.92 million used for the three months ended September 30, 2011. This change was mainly the result of an increase in restricted cash and a decrease in plant and equipment expenditures.

Net cash provided by financing activities for the three months ended September 30, 2012 was approximately \$2.13 million, as compared to approximately \$4.27 million for the three months ended September 30, 2011. This change was primarily due to the decrease in bank loans and notes.

We intend to maintain the current loan facilities with local banks and various financial institutions for new projects that we have obtained. 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, 2012, we had bank loans and debt from other non-bank entities totaling approximately \$134.43 million (based on an exchange rate of 6.3340RMB per 1 U.S. dollar). Information regarding these loans and notes is set forth below in U.S. dollars.

## Continuing Operations

| Subsidiary       | Type       | Name of Lender  | Due Date   | Interest Rate Per Annum |            | At September 30, 2012 | At December 31, 2011 |
|------------------|------------|---|------------|-------------------------|------------|-----------------------|----------------------|
| Wuhan Blower     | Bank Loans | Hankou Bank   | 7/13/2012  | 5.47 %                  | -          |                       | 1,571,166            |
| Wuhan Blower     | Bank Loans | Hankou Bank   | 7/18/2013  | 7.80 %                  | 3,473,319  |                       | -                    |
| Wuhan Blower     | Bank Loans | Hankou Bank   | 7/20/2013  | 7.80 %                  | 3,315,440  |                       | -                    |
| Wuhan Blower     | Bank Loans | Hankou Bank   | 10/14/2012 | 5.47 %                  | 1,578,781  |                       | 1,571,166            |
| Wuhan Blower     | Bank Loans | Gansu Trust Co., Ltd.                                 | 12/15/2012 | 8.53 %                  | 11,051,468 |                       | 10,998,162           |
| Wuhan Blower     | Bank Loans | China Minsheng Banking Corp., Ltd.                    | 1/8/2012   | 9.6 %                   |            |                       | 3,927,915            |
| Wuhan Blower     | Bank Loans | China Minsheng Banking Corp., Ltd.                    | 5/14/2013  | 12 %                    | 3,157,562  |                       | -                    |
| Wuhan Blower     | Bank Loans | Shenzhen Development Bank                             | 6/3/2013   | 7.2 %                   | 4,736,344  |                       | -                    |
| Wuhan Blower     | Bank Loans | Wuhan Jiang Han District Fu Bang Petty Loan Co., Ltd. | 12/09/2012 | 18 %                    | 827,281    |                       | 1,571,166            |
| Wuhan Blower     | Bank Loans | Wuhan Min Ze Investment Co., Ltd.                     | 12/1/2012  | 0.00 %                  | 3,757,499  |                       | 3,739,375            |
| Wuhan Blower     | Bank Loans | Agricultural Bank of China                            | 9/21/2012  | 5.40 %                  | -          |                       | 12,883,561           |
| Wuhan Blower     | Bank Loans | Agricultural Bank of China                            | 2/13/2013  | 6.72 %                  | 2,052,416  |                       | -                    |
| Wuhan Blower     | Bank Loans | Agricultural Bank of China                            | 4/24/2013  | 7.2 %                   | 2,683,928  |                       | -                    |
| Wuhan Blower     | Bank Loans | Agricultural Bank of China                            | 6/29/2013  | 7.2 %                   | 2,683,928  |                       | -                    |
| Wuhan Blower     | Bank Loans | Agricultural Bank of China                            | 9/14/2013  | 7.2 %                   | 2,683,928  |                       | -                    |
| Wuhan Blower     | Bank Loans | Agricultural Bank of China                            | 9/19/2013  | 7.2 %                   | 2,841,806  |                       | -                    |
| Wuhan Blower     | Bank Loans | China Construction Bank                               | 7/1/2012   | 5.40 %                  | 3,310,552  |                       | 3,299,449            |
| Wuhan Generating | Bank Loans | Hankou Bank   | 6/13/2012  | 6.56 %                  | -          |                       | 4,713,498            |
| Wuhan Generating | Bank Loans | Hankou Bank   | 6/13/2013  | 8.244 %                 | 4,736,344  |                       | -                    |
| Wuhan Generating | Bank Loans | Hankou Bank   | 9/30/2013  | 6.15 %                  | 4,420,587  |                       | -                    |
| Wuhan Generating | Bank Loans | Industrial Bank Co., Ltd.                             | 5/19/2012  | 8.30 %                  | -          |                       | 7,855,830            |



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|                             |  |            |       |   |           |              |              |
|-----------------------------|--|------------|-------|---|-----------|--------------|--------------|
| Wuhan Generating Bank Loans | Industrial Bank Co., Ltd.                            | 6/13/2012  | 8.30  | % | -         | 4,713,498    |              |
| Wuhan Generating Bank Loans | Industrial Bank Co., Ltd.                            | 6/16/2012  | 8.30  | % | -         | 6,284,664    |              |
| Wuhan Generating Bank Loans | Industrial Bank Co., Ltd.                            | 6/7/2013   | 7.872 | % | 4,736,344 | -            |              |
| Wuhan Generating Bank Loans | Industrial Bank Co., Ltd.                            | 6/11/2013  | 7.572 | % | 6,315,125 | -            |              |
| Wuhan Generating Bank Loans | Industrial Bank Co., Ltd.                            | 6/14/2013  | 7.572 | % | 3,157,562 | -            |              |
| Wuhan Generating Bank Loans | Industrial Bank Co., Ltd.                            | 6/14/2013  | 7.572 | % | 4,736,344 | -            |              |
| Wuhan Generating Bank Loans | Agricultural Bank of China                           | 6/15/2012  | 6.63  | % | -         | 6,756,014    |              |
| Wuhan Generating Bank Loans | Agricultural Bank of China                           | 7/14/2012  | 6.89  | % | -         | 2,670,982    |              |
| Wuhan Generating Bank Loans | Agricultural Bank of China                           | 12/18/2012 | 7.87  | % | 3,157,562 | -            |              |
| Wuhan Generating Bank Loans | Agricultural Bank of China                           | 5/27/2013  | 6.15  | % | 3,631,197 | -            |              |
| Wuhan Generating Bank Loans | Agricultural Bank of China                           | 7/16/2013  | 6.6   | % | 2,683,928 | -            |              |
| Wuhan Generating Bank Loans | Shenzhen Development Bank                            | 6/2/2012   | 7.57  | % | -         | 4,713,498    |              |
| Wuhan Generating Bank Loans | Shenzhen Development Bank                            | 3/12/2012  | 6.10  | % | -         | 3,142,331    |              |
| Wuhan Generating Bank Loans | Shenzhen Development Bank                            | 6/5/2013   | 7.38  | % | 4,736,344 | -            |              |
| Wuhan Generating Bank Loans | Wuhan Dong Xi Hu District Wu Yi Petty Loan Co., Ltd. | N/A        | N/A   |   | 2,368,172 | -            |              |
| <i>Total</i>                |  |            |       |   |           | \$92,833,761 | \$80,412,274 |

## Notes Payable

|                  |               |                            |            |   |              |              |
|------------------|---------------|----------------------------|------------|---|--------------|--------------|
| Wuhan Blower     | Notes Payable | Hankou Bank                | 1/11/2012  | - |              | 2,670,982    |
| Wuhan Blower     | Notes Payable | Hankou Bank                | 2/5/2012   | - |              | 4,713,498    |
| Wuhan Blower     | Notes Payable | Hankou Bank                | 4/7/2012   | - |              | 4,713,498    |
| Wuhan Blower     | Notes Payable | Hankou Bank                | 6/8/2012   | - |              | 11,312,395   |
| Wuhan Blower     | Notes Payable | Hankou Bank                | 10/18/2012 | - | 3,157,562    | -            |
| Wuhan Blower     | Notes Payable | Hankou Bank                | 10/19/2012 | - | 1,578,781    | -            |
| Wuhan Blower     | Notes Payable | Hankou Bank                | 12/7/2012  | - | 4,736,344    | -            |
| Wuhan Blower     | Notes Payable | Hankou Bank                | 12/11/2012 | - | 3,315,440    | -            |
| Wuhan Blower     | Notes Payable | Shenzhen Development Bank  | 1/1/2012   | - |              | 442,211      |
| Wuhan Blower     | Notes Payable | Shenzhen Development Bank  | 2/2/2012   | - |              | 452,316      |
| Wuhan Blower     | Notes Payable | Shenzhen Development Bank  | 3/19/2012  | - |              | 693,970      |
| Wuhan Blower     | Notes Payable | Shenzhen Development Bank  | 3/12/2012  | - |              | 180,383      |
| Wuhan Blower     | Notes Payable | Shenzhen Development Bank  | 6/10/2012  | - |              | 384,815      |
| Wuhan Blower     | Notes Payable | Shenzhen Development Bank  | 6/12/2012  | - |              | 535,451      |
| Wuhan Blower     | Notes Payable | Shenzhen Development Bank  | 2/18/2012  | - |              | 227,176      |
| Wuhan Blower     | Notes Payable | Shenzhen Development Bank  | 8/6/2012   | - | 3,157,562    | -            |
| Wuhan Generating | Notes Payable | Hankou Bank                | 6/19/2012  | - |              | 7,227,364    |
| Wuhan Generating | Notes Payable | Hankou Bank                | 12/21/2012 | - | 5,525,734    | -            |
| Wuhan Generating | Notes Payable | Industrial Bank Co., Ltd.  | 10/13/2012 | - | 7,893,906    | -            |
| Wuhan Generating | Notes Payable | Industrial Bank Co., Ltd.  | 10/18/2012 | - | 7,893,906    | -            |
| Wuhan Generating | Notes Payable | Shenzhen Development Bank  | 12/5/2012  | - | 1,105,147    | -            |
| Wuhan Generating | Notes Payable | Agricultural Bank of China | 11/3/2012  | - | 1,499,842    | -            |
| Wuhan Generating | Notes Payable | Agricultural Bank of China | 1/23/2013  | - | 315,756      | -            |
| Total            |               |                            |            |   | \$40,179,980 | \$33,554,059 |

*Total Short Term Bank Loans and Notes**\$133,013,741 \$113,966,333*

## Discontinued Operations

|                |               |                           |            |   |             |   |
|----------------|---------------|---------------------------|------------|---|-------------|---|
| Wuhan Sungreen | Notes Payable | Industrial Bank Co., Ltd. | 10/23/2012 | - | 4,736,343   | - |
| Total          |               |                           |            |   | \$4,736,343 | - |

## Long-term

|                  |            |             |            |       |           |           |
|------------------|------------|-------------|------------|-------|-----------|-----------|
| Wuhan Generating | Bank Loans | Hankou Bank | 9/30/2013  | 6.15% | -         | 4,556,380 |
| Wuhan Generating | Bank Loans | Hankou Bank | 10/11/2013 | 6.15% | 1,420,903 | 1,492,609 |

*Total Long Term Bank Loans and Notes**\$1,420,903 \$6,048,989*

We plan to either repay this debt as it matures or refinance this debt with other debt.

*Loan Facilities with Agricultural Bank of China*

On June 22, 2012, Wuhan Blower and Wuhan Generating entered into a Loan Facility Agreement with Agricultural Bank of China Bank for a loan facility totaling RMB 110,000,000 (approximately \$17.37 million) in secured debt financing. All are short term loans. This short-term loan was obtained for working capital purposes. This short-term loan matures on September 28, 2013 and has a floating interest rate, which was 7.872% per annum. If Wuhan Blower and Wuhan Generating fail 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 Agricultural Bank of China 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, Agricultural Bank of China 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 Agricultural Bank of China Bank. These short-term loans are subject to early repayment fees.

The obligations under the Loan Facility Agreement and Loan Agreements with Agricultural Bank of China 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.

*Loan Facilities with China Minsheng Banking Corp., Limited*

On August 14, 2012, Wuhan Blower entered into a Loan Agreement with China Minsheng Banking Corp., Limited for a short term loan for RMB 20,000,000 (approximately \$3.16 million). This short-term loan was obtained for working capital purposes. This short-term loan matures on May 14, 2013 and has a fixed interest rate, which was 1% per month as of each month end. If Wuhan Blower fails to make timely payments on this short-term loan, the interest rate will remain as stated in calculation for the extended period with no extra penalty rate.

## **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 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.

### *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.

*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.

*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 Equipment | 10 years |
| Furniture and 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<br>years |
| Trademark          | 20<br>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.

#### *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 March 31, 2012 and December 31, 2011, 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.

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.

### *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, client entertainment, commissions, depreciation and travel and lodging expenses.

*Advertising expenses*

All advertising costs are expensed as incurred.

*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.

*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                         | September<br>30,2012 | December 31,<br>2011 | September 30,<br>2011 |
|--|----------------------|----------------------|-----------------------|
| Period-end RMB: US\$ exchange rate     | 6.3340               | 6.3647               | 6.40180               |
| Average period RMB: US\$ exchange rate | 6.3275               | 6.4735               | 6.50600               |

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 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. For 2012, the Company's tax rate should be 25%.

The Company also 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:

| 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 - -

### *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 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.

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

### *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 Company's financial statements.

### **Recent Accounting Pronouncements**

None.

### **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.

### **Off-Balance Sheet Arrangements**

We do not have any off-balance sheet arrangements.

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

This item is not required for a smaller reporting company.

### **Item 4. 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 Principle Accounting Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of March 31, 2012. 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 Principle Accounting 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, 2012, our Chief Executive Officer and Principle Accounting 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 April 6, 2012.

### **Changes in Internal Control over Financial Reporting**

During the quarter ended September 30, 2012, 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.**

We believe there are no changes that constitute material changes from the risk factors previously disclosed in the Company's Quarterly Report on Form 10-Q filed with the U.S. Securities and Exchange Commission on August 21, 2012.

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

None.

### **Item 3. Defaults Upon Senior Securities.**

None.

### **Item 4. Mine Safety Disclosures.**

Not Applicable

### **Item 5. Other Information.**

None.

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**Item 6. Exhibits.**

| Exhibit Number | Description of Exhibit  |
|----------------|---|
| 31.1           | Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2           | Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1+          | Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2+          | Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101.INS*       | XBRL Instance Document  |
| 101.SCH*       | XBRL Taxonomy Extension Schema Document   |
| 101.CAL*       | XBRL Taxonomy Extension Calculation Linkbase Document   |
| 101.DEF*       | XBRL Taxonomy Extension Definitions Linkbase Document   |
| 101.LAB*       | XBRL Taxonomy Extension Label Linkbase Document   |
| 101.PRE*       | XBRL Taxonomy Extension Presentation Linkbase Document  |

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In accordance with SEC Release 33-8238, Exhibit 32.1 and 32.2 are being furnished and not filed.

\* Furnished herewith. XBRL (Extensible Business Reporting Language) information is furnished and not filed or a part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.

## 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 19, 2012

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/ Carol Pan

Name: Carol Pan

Title: Principle Accounting Officer  
(principal accounting officer, principal  
financial officer and duly authorized  
officer)



Exhibit Index

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