WUHAN GENERAL GROUP (CHINA), INC
Form 10-Q
August 23, 2010

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

Form 10-Q

(Mark One)

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

or

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

Commission file number 001-34125

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

Nevada (State or Other Jurisdiction of Incorporation or Organization)	84-1092589 (I.R.S. Employer Identification No.)
Canglongdao Science Park of Wuhan East Lake Hi-Tech Development Zone Wuhan, Hubei, People's Republic of China (Address of Principal Executive Offices)	430200 (Zip Code)

86-27-5970-0069
(Registrant's Telephone Number, Including Area Code)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ¨	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company x

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

As of August 13, 2010, the registrant had a total of 25,351,950 shares of common stock outstanding.

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PART I

FINANCIAL INFORMATION

Item 1. Financial Statements.

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

	Note	June 30, 2010	(Audited) December 31, 2009
ASSETS			
Current Assets			
Cash	2(e)	$ 24,575,431	$ 407,394
Restricted Cash	3	10,415,415	7,759,971
Notes Receivable	4	172,576	28,520
Accounts Receivable	2(f),5	54,190,316	53,962,201
Other Receivable		7,065,450	4,684,372
Inventory	2(g),6	16,672,654	15,630,470
Advances to Suppliers	7	31,732,837	24,616,120
Advances to Employees	8	944,804	342,829
Prepaid Expenses		146,808	928,629
Prepaid Taxes		556,118	546,050
Deferred Tax Asset		775,222	749,031
Total Current Assets		147,247,631	109,655,587
Non-Current Assets			
Real Property Available for Sale		1,107,746	1,103,113
Property, Plant & Equipment, net	2(h),9	32,137,014	32,908,334
Land Use Rights, net	2(j),10	11,885,575	12,073,139
Construction in Progress	11	18,368,076	17,864,257
Intangible Assets, net	2(i),12	264,387	212,798
Total Assets		$ 211,010,429	$ 173,817,228
LIABILITIES & STOCKHOLDERS' EQUITY			
Liabilities			
Current Liabilities			
Bank Loans & Notes	13	72,768,770	46,758,253
Accounts Payable		13,478,970	8,049,057
Taxes Payable		3,195,704	3,169,948
Other Payable	14	5,567,402	4,228,042
Dividend Payable		354,600	727,129
Accrued Liabilities	2(w),15	3,489,953	3,524,388
Customer Deposits		7,600,210	4,696,719
Total Current Liabilities		106,455,609	71,153,536
Total Liabilities		106,455,609	71,153,536

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

Stockholders' Equity	Note	June 30, 2010	(Audited) December 31, 2009
Preferred Stock - $0.0001 Par Value, 50,000,000 Shares Authorized; 6,241,453 Shares of Series A Convertible Preferred Stock Issued & Outstanding at June 30, 2010 and December 31, 2009		624	624
Additional Paid-in Capital - Preferred Stock		8,170,415	8,170,415
Additional Paid-in Capital - Warrants		3,484,011	3,484,011
Additional Paid-in Capital - Beneficial Conversion Feature		6,371,547	6,371,547
Preferred Stock - $0.0001 Par Value 50,000,000 Shares Authorized; 6,354,078 Shares of Series B Convertible Preferred Stock Issued & Outstanding at June 30, 2010 and December 31, 2009		635	635
Additional Paid in Capital - Preferred Stock		12,637,158	12,637,158
Additional Paid in Capital - Warrants		2,274,181	2,274,181
Additional Paid in Capital - Beneficial Conversion Feature		4,023,692	4,023,692
Common Stock - $0.0001 Par Value 100,000,000 Shares Authorized; 25,351,950 Shares Issued & Outstanding at June 30, 2010 and December 31, 2009	16	2,536	2,536
Additional Paid-in Capital		29,810,569	29,793,996
Statutory Reserve	2(u),17	5,454,773	4,563,592
Retained Earnings		24,830,422	23,477,239
Accumulated Other Comprehensive Income	2(v)	7,494,257	7,864,066
Total Stockholders' Equity		104,554,820	102,663,692
Total Liabilities & Stockholders' Equity		$ 211,010,429	$ 173,817,228

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

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

	Note	Three months ended		Six months ended	
		June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
Revenue					
Sales	2(l)	$ 22,690,918	$ 17,153,287	$ 40,642,212	$ 35,229,339
Cost of Sales	2(m)	(17,859,022)	(13,072,698)	(30,871,520)	(27,357,981)
Gross Profit		4,831,896	4,080,589	9,770,692	7,871,358
Operating Expenses					
Selling Expenses	2(n)	(256,617)	(306,828)	(667,982)	(719,990)
General & Administrative Expenses	2(o)	(586,307)	(1,550,978)	(1,695,862)	(2,931,586)
Warranty Expense	2(w),15	(195,721)	(149,763)	(376,550)	(303,736)
Total Operating Expense		(1,038,645)	(2,007,569)	(2,740,394)	(3,955,312)
Operating Income		3,793,251	2,073,020	7,030,298	3,916,046
Other Income (Expenses)					
Other Income (Expense), net		146,226	(52,554)	145,058	(37,884)
Interest Income		7,513	21,065	26,067	205,396
Interest Expense		(3,106,994)	(663,440)	(4,134,777)	(1,296,915)
Stock Penalty for late listing on NASDAQ		-	(1,153,439)	-	(1,153,439)
Total Other Income (Loss) & Expense		(2,953,255)	(1,848,368)	(3,963,652)	(2,282,842)
Earnings before Tax		839,996	224,652	3,066,646	1,633,204
Income Tax	2(t), 18	(160,897)	(206,336)	(467,682)	(499,813)
Net Income		$ 679,099	$ 18,316	$ 2,598,964	$ 1,133,391
Preferred Dividends Declared		(177,300)	(181,285)	(354,600)	(360,087)
Income (Loss) Available to Common Shareholders		$ 501,799	$ (162,969)	$ 2,244,364	$ 773,304
Earnings Per Share	19				
Basic		$ 0.02	$ (0.01)	$ 0.09	$ 0.03
Diluted		$ 0.02	$ (0.01)	$ 0.07	$ 0.03
Weighted Average Shares Outstanding					
Basic		25,351,950	25,233,656	25,351,950	24,995,701
Diluted		31,799,321	25,233,656	31,799,321	31,349,779
Comprehensive Income					
Net Income		$ 679,099	$ 18,316	$ 2,598,964	$ 1,133,391
Other Comprehensive Income					

Foreign Currency Translation Adjustment		(395,865)		(884,971)		(369,809)		44,868
Total Comprehensive Income	$	283,234	$	(866,655)	$	2,229,155	$	1,178,259

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

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

Series A, J, C Warrants Additional Paid in Capital	Beneficial Conversion Feature Additional Paid in Capital	Series B Convertible Preferred Stock Shares Out- -standing	Series B Convertible Preferred Stock Amount	Series B Preferred Stock Additional Paid in Capital	Series B, JJ Warrants Additional Paid in Capital	Beneficial Conversion Feature Additional Paid in Capital	Common Stock Shares Out- -standing	Common Stock Amount	Additional Paid in Capital	Statuto Reserv
$ 3,484,011	$ 6,371,547	6,354,078	$ 635	$ 12,637,158	$ 2,274,181	$ 4,023,692	25,351,950	$ 2,536	$ 29,793,996	$ 4,563,5
									16,573	
										891,1
$ 3,484,011	$ 6,371,547	6,354,078	$ 635	$ 12,637,158	$ 2,274,181	$ 4,023,692	25,351,950	$ 2,536	$ 29,810,569	$ 5,454,7

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

$ 3,687,794	$ 6,371,547	6,354,078	$ 635	$ 12,637,158	$ 2,274,181	$ 4,023,692	24,752,802	$ 2,475	$ 28,436,835	$ 3,271,
							529,787	53	1,153,386	
							69,361	8	(8)	
(203,783)									203,783	
										1,292,
$ 3,484,011	$ 6,371,547	6,354,078	$ 635	$ 12,637,158	$ 2,274,181	$ 4,023,692	25,351,950	$ 2,536	$ 29,793,996	$ 4,563,

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

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

	Three months ended		Six months ended	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
Cash Flow from Operating Activities				
Cash Received from Customers	$ 11,485,157	$ 17,890,754	$ 40,792,455	$ 34,259,337
Cash Paid to Suppliers & Employees	(11,389,604)	(14,797,136)	(31,791,759)	(30,808,513)
Interest Received	7,513	21,065	26,067	205,396
Interest Paid	(2,064,703)	(663,440)	(4,134,777)	(1,296,915)
Taxes Paid	(1,816,411)	(636,443)	(2,123,196)	(636,443)
Miscellaneous Receipts	147,660	49,875	147,742	68,819
Cash Sourced/(Used) in Operating Activities	(3,630,388)	1,864,675	2,916,532	1,791,681
Cash Flows from Investing Activities				
Cash Invested in Restricted Time Deposits	(2,855,657)	304,848	(2,655,444)	6,850,014
Payments for Construction of Plant & Purchase of Equipment	(363,852)	(203,141)	(946,796)	(653,393)
Cash Used/(Sourced) in Investing Activities	(3,219,509)	101,707	(3,602,240)	6,196,621
Cash Flows from Financing Activities				
Proceeds from/(Repayment of) Bank Loans	33,026,008	2,923,216	68,483,012	821,563
(Repayment of Notes)	(4,715,310)	(2,932,740)	(42,472,495)	(9,432,960)
Dividends Paid	(727,129)	-	(727,129)	(193,804)
Cash Sourced/(Used) in Financing Activities	27,583,569	(9,524)	25,283,388	(8,805,201)
Net Increase/(Decrease) in Cash & Cash Equivalents for the Period	20,733,672	1,956,858	24,597,680	(816,899)
Effect of Currency Translation	(453,407)	(886,580)	(429,645)	25,355
Cash & Cash Equivalents at Beginning of Period	4,295,166	955,681	407,394	2,817,503
Cash & Cash Equivalents at End of Period	$ 24,575,431	$ 2,025,959	$ 24,575,431	$ 2,025,959

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

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

	Three months ended		Six months ended	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
Net Income	$ 679,099	$ 18,316	$ 2,598,966	$ 1,133,391
Adjustments to Reconcile Net Income to Net Cash Provided by Cash Activities:				
Reclassification of assets related to Huangli Project from Construction in Progress to Inventory	-	-	-	1,745,496
Stock Penalties	-	1,153,439	-	1,153,439
Stock Option Compensation	16,573	-	16,573	-
Prepaid Interest in Other Non Current Assets	1,042,290	-	-	-
Amortization	85,899	119,972	191,176	141,973
Depreciation	637,453	495,337	1,214,297	1,062,449
Decrease/(Increase) in Notes Receivable	66,985	65,734	(144,056)	(14,610)
Decrease/(Increase) in Accounts Receivable	(7,142,021)	(4,118,129)	(228,115)	(1,558,205)
Decrease/(Increase) in Other Receivable	(5,029,606)	5,703,276	(2,381,078)	1,058,555
Decrease/(Increase) in Inventory	(998,066)	(1,031,578)	(1,042,184)	(13,544,144)
Decrease/(Increase) in Advances to Suppliers	(2,328,244)	634,570	(7,116,718)	7,567,463
Decrease/(Increase) in Advances to Employees	(261,558)	59,056	(601,975)	22,596
Decrease/(Increase) in Prepaid Expenses	698,544	(55,545)	781,819	(88,584)
Decrease/(Increase) in Prepaid Taxes	(37,458)	12,546	(10,068)	210,878
Decrease/(Increase) in Deferred Tax Asset	(1,127)	(430,107)	(26,191)	(488,331)
Increase/(Decrease) in Accounts Payable	4,181,975	2,525,499	5,429,913	1,062,080
Increase/(Decrease) in Taxes Payable	(55,641)	695,081	25,756	510,645
Increase/(Decrease) in Other Payable	3,730,594	(3,249,412)	1,397,862	1,902,926
Increase/(Decrease) in Related Payable	-	-	(58,503)	-
Increase/(Decrease) in Accrued Liabilities	185,036	176,637	(34,433)	366,009
Increase/(Decrease) in Customer Deposits	898,885	(910,017)	2,903,491	(452,345)
Total of all adjustments	(4,309,486)	1,846,359	317,566	658,290
Net Cash Provided/(Used) by Operating Activities	$ (3,630,388)	$ 1,864,675	$ 2,916,532	$ 1,791,681

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

Wuhan General Group (China), Inc.
Notes to Financial Statements
As of June 30, 2010 and December 31, 2009
(Stated in US Dollars)

1. ORGANIZATION AND PRINCIPAL ACTIVITIES

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

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

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

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

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

The assets that were purchased from the Seller were re-appraised by an independent appraisal firm Zhuhai GongPingSiYuan Appraising Co Ltd ("Zhuhai"). The re-appraisal found that the purchase price of the assets was not materially unfair. Zhuhai concluded that when the entire construction of the workshop and buildings is completed, the purchase price should be considered fair. See also Note 8 – Property, Plant and Equipment.

Wuhan General Group (China), Inc.
Notes to Financial Statements
As of June 30, 2010 and December 31, 2009
(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, inventories, deferred income taxes and the estimation of useful lives of property, plant, and equipment. Actual results could differ from these estimates.

(e) Cash and Cash Equivalents

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

(f) Accounts Receivable-Trade

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

(g) Inventory

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

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Wuhan General Group (China), Inc.
Notes to Financial Statements
As of June 30, 2010 and December 31, 2009
(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

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

(j) Land Use Rights

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

(k) Accounting for Impairment of Long-Lived Assets

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

Wuhan General Group (China), Inc.
Notes to Financial Statements
As of June 30, 2010 and December 31, 2009
(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.

(l) Revenue Recognition

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

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

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

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

(m) Cost of Sales

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

(n) Selling Expenses

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

(o) General & Administrative Expenses

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

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(p) Advertising

The Company expenses all advertising costs as incurred.

(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	6/30/2010	12/31/2009	6/30/2009
Period end RMB : US$ exchange rate	6.80860	6.83720	6.84480
Average period RMB : US$ exchange rate	6.83475	6.84088	6.84323

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

(t) Income Taxes

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

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

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

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

(u) Statutory Reserve

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

(v) Other Comprehensive Income

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

(w) Warranty Policy

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

(x) Earnings Per Share

Basic earnings per share is computed on the basis of the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share is computed on the basis of the weighted average number of shares of common stock plus the effect of dilutive potential common shares outstanding during the period using the treasury stock method for warrants and the as-if method for convertible securities. Dilutive potential common shares include outstanding warrants, and convertible preferred stock. See also Note 19 – Earnings Per Share.

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(y) Financial Instruments

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

(z) Retirement Plan

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

(aa) Recent Accounting Pronouncements

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

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

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

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

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(bb) Subsequent Event

The Company evaluates subsequent events that have occurred after the consolidated balance sheet date but before the consolidated financial statements are issued. There are two types of subsequent events: (1) recognized, or those that provide additional evidence with respect to conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements, and (2) nonrecognized, or those that provide evidence with respect to conditions that did not exist at the date of the balance sheet but arose subsequent to that date. See Note 23 Subsequent Event for the impact resulting from the implementation of the above guidance.

3. RESTRICTED CASH

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

4. NOTES RECEIVABLE

	June 30, 2010	December 31, 2009
Notes Receivable	$ 172,576	$ 28,520
Less: Allowance for Bad Debts	-	-
	$ 172,576	$ 28,520

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 normally mature in the future; therefore, these bank drafts represent different risk and reward characteristics.

5. ACCOUNTS RECEIVABLE

	June 30, 2010	December 31, 2009
Total Accounts Receivable-Trade	$ 57,041,694	$ 56,802,317
Less: Allowance for Bad Debt	(2,851,378)	(2,840,116)
	$ 54,190,316	$ 53,962,201
Allowance for Bad Debts		
Beginning Balance	$ (2,840,116)	$ (3,132,693)
Allowance Provided	(845,778)	(1,573,535)
Less: Bad Debt Written Off	834,516	1,866,112
Ending Balance	$ (2,851,378)	$ (2,840,116)

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6. INVENTORY

	June 30, 2010	December 31, 2009
Raw Materials	$ 8,923,156	$ 4,938,537
Work in Progress	5,985,163	8,319,353
Finished Goods	1,764,335	2,372,580
	$ 16,672,654	$ 15,630,470

7. ADVANCES TO SUPPLIERS

Advances to suppliers of $ 31,732,837 and $24,616,120 as of June 30, 2010 and December 31, 2009, respectively, consisted of advances to vendors for raw materials, equipment, parts and projects. The following table details the Company's advances to suppliers at June 30, 2010:

	June 30, 2010
Raw Materials	$ 15,804,816
Equipment	11,708,469
Advances to sub-contractors	1,261,484
Parts	425,932
Miscellaneous	2,532,136
	$ 31,732,837

8. ADVANCES TO EMPLOYEES

Advances to Employees of $ 944,804 and $342,829 as of June 30, 2010 and December 31, 2009, respectively, consisted of advances to salespeople for salary, travel, and expenses over extended periods as they work to procure new sales contracts or install and perform on existing contracts. These advances are deducted from future sales commissions earned by these salespeople. In the event that a salesperson leaves the Company prior to earning sales commissions sufficient to offset advances paid to the salesperson, the Company immediately expenses any outstanding balance to the income statement. None of the employees who have received these advances is a director or executive officer of the Company.

9. PROPERTY, PLANT AND EQUIPMENT

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

At June 30, 2010

Category of Asset	Wuhan Blower	Wuhan Generating	Wuhan Sungreen	Total
Buildings	$ 13,361,623	$ 8,729,421	$ -	$ 22,091,044
Machinery & Equipment	1,962,968	12,443,517	2,029,335	16,435,820
Furniture & Fixtures	372,741	17,698	7,291	397,730
Auto	681,139	324,809	14,652	1,020,600

Other	75,248	-	-	75,248
	16,453,719	21,515,445	2,051,278	40,020,442
Less: Accumulated Depreciation				
Buildings	(2,461,215)	(304,148)	-	(2,765,363)
Machinery & Equipment	(905,238)	(2,954,582)	(284,711)	(4,144,531)
Furniture & Fixtures	(298,856)	(7,448)	(2,597)	(308,901)
Auto	(527,113)	(107,331)	(1,627)	(636,071)
Other	(28,562)	-	-	(28,562)
	(4,220,984)	(3,373,509)	(288,935)	(7,883,428)
Property, Plant, & Equipment, Net	$ 12,232,735	$ 18,141,936	$ 1,762,343	$ 32,137,014

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At December 31, 2009

Category of Asset	Wuhan Blower	Wuhan Generating	Wuhan Sungreen	Total
Buildings	$ 13,192,892	$ 8,692,905	$ -	$ 21,885,797
Machinery &				