WUHAN GENERAL GROUP (CHINA), INC
Form 10-K/A
September 04, 2012

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**Form 10-K/A**

**Amendment No. 2**

(Mark One)

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2011

or

.. TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ________ to ________

Commission file number 001-34125

**WUHAN GENERAL GROUP (CHINA), INC.**

(Exact name of registrant as specified in its charter)

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

| | |
|---|---|
| Canglongdao Science Park of Wuhan East Lake Hi-Tech Development Zone | |
| Wuhan, Hubei, People's Republic of China | 430200 |
| (Address of principal executive offices) | (Zip Code) |

Registrant's telephone number, including area code: 86-27-5970-0069

Securities registered pursuant to Section 12(b) of the Act:

| Title of each class | Name of each exchange on which registered |
|---|---|
| None | None |

Securities registered under Section 12(g) of the Exchange Act: None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes ¨ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes ¨ No x

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 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 x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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 ¨<br>(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 Act). Yes ¨ No x

As of June 30, 2011, the aggregate market value of the registrant's common stock held by non-affiliates was approximately $7,901,774 based on the closing sale price as quoted on the NASDAQ Capital Market.

As of August 30, 2012, the registrant had a total of 32,505,000 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

None.

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**EXPLANATORY NOTE**

This Amendment No. 2 (the "Second Amendment") to our Annual Report on Form 10-K for the year ended December 31, 2011 filed on April 6, 2012 (the "Original 10-K"), as amended by Amendment No.1 to Form 10-K filed on April 30, 2012 (the "Amendment"), of Wuhan General Group (China), Inc. (the "Company") is being filed with the Securities and Exchange Commission (the "SEC") to provide the information in response to comments received from the Securities and Exchange Commission (the "Commission") as a result of the Commission's review of the Original 10-K and Amendment. Only Items 8 and 15 have been amended and restated in this Amendment. Specifically, the audit report attached to our financials was revised to reference the appropriate periods covered by audit report. No other changes were made to the financial statements. No changes have been made to the Original 10-K or Amendment other than the changes in Item 8 and updates to the Exhibit Index and Cover Page.

Unless expressly stated, this Second Amendment does not reflect events occurring after the filing of the Original 10-K or the Amendment, nor does it modify or update in any way the disclosures contained in the Original 10-K or Amendment, which speak as of the date of their original filings. Accordingly, this Second Amendment should be read in conjunction with the Original 10-K, the Amendment and our other SEC filings subsequent to the filing of the Original 10-K and the Amendment.

Unless the context requires otherwise, references to "we," "us," "our," "Wuhan General" and the "Company" refer specifically Wuhan General Group (China), Inc. and its subsidiaries.

**PART II**

**Item 8. Financial Statements and Supplementary Data.**

The financial statements required by Item 8 are included on pages F-1 to F- 37 immediately following the signature page. As a "smaller reporting company," as defined by Item 10 of Regulation S-K, the Company is not required to provide supplementary financial data.

**Part IV**

Item 15. Exhibits and Financial Statement Schedules.

**3. Exhibits**

| Exhibit No. | Description |
|---|---|
| 3.1 | Articles of Incorporation (incorporated herein by reference to Exhibit 3i.1 to our Form 8-K filed on November 1, 2006) |
| 3.2 | Amendment to Articles of Incorporation (incorporated herein by reference to Exhibit 3.1 to our Form 8-K filed on March 9, 2007) |
| 3.3 | Amendment to Articles of Incorporation (incorporated herein by reference to Exhibit 3.1 to our Form 8-K filed on September 11, 2008) |
| 3.4 | Amended and Restated Bylaws (as amended through March 8, 2007) (incorporated herein by reference to Exhibit 3.2 to our Form 8-K filed on March 9, 2007) |
| 4.1 | Certificate of Designation of the Relative Rights and Preferences of the Series A Convertible Preferred Stock of the Company, dated February 7, 2007, including the Certificate of Correction filed on February 12, 2007 (incorporated herein by reference to Exhibit 4.1 to our Form 8-K filed on February 13, 2007) |
| 4.2 | Certificate of Designation of the Relative Rights and Preferences of the Series B Convertible Preferred Stock of the Company, dated September 4, 2008 (incorporated herein by reference to Exhibit 4.1 to our Form 8-K filed on September 11, 2008) |
| 4.3 | Form of Series A Warrant (incorporated herein by reference to Exhibit 4.2 to our Form 8-K filed on February 13, 2007) |

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| | |
|---|---|
| 10.1† | Employment Agreement between the Company and Carol Pan (incorporated herein by reference to Exhibit 10.1 to our Form 8-K filed on Feb 2, 2012) |
| 14.1 | Code of Business Conduct and Ethics (incorporated herein by reference to Exhibit 14 to our Form 8-K filed on March 14, 2008) |
| 21.1 | Subsidiaries of the Registrant |
| 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 and Chief 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 |

*Filed herewith.
†Management contract, compensatory plan or arrangement.

In accordance with SEC Release 33-8238, Exhibit 32.1 is 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 Section 13 or 15(d) 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.

WUHAN GENERAL GROUP (CHINA), INC.

Date: August 31, 2012 By: /s/ *Qi Ruilong*
Name: Qi Ruilong
Title: President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant in the capacities and on the date indicated.

| Signatures | Title | Date |
|---|---|---|
| /s/ *Qi Ruilong*<br>Qi Ruilong | President, Chief Executive Officer and Director (principal executive officer) | August 31, 2012 |
| /s/ *Carol Pan*<br>Carol Pan | Principle Accounting Officer (principal financial and accounting officer) | August 31, 2012 |
| /s/ *Xu Jie*<br>Xu Jie | Chairman of the Board of Directors | August 31, 2012 |
| /s/ *Huang Zhaoqi*<br>Huang Zhaoqi | Director | August 31, 2012 |
| /s/ *Brian Lin*<br>Brian Lin | Director | August 31, 2012 |
| /s/ *Shi Yu*<br>Shi Yu | Director | August 31, 2012 |
| /s/ *Zheng Qingsong* | Director | August 31, 2012 |

Zheng Qingsong

| | | |
|---|---|---|
| /s/ *Yaojun (Larry) Liu* | Director | August 31, 2012 |
| Yaojun (Larry) Liu | | |

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Wuhan General Group (China), Inc.

Consolidated Financial Statements

**December 31, 2011 and 2010**

**(Stated in US Dollars)**

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 audited the accompanying consolidated balance sheets of Wuhan General Group (China), Inc. (the "Company") as of December 31, 2011 and 2010, and the related consolidated statements of income, stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Wuhan General Group (China), Inc. as of December 31, 2011 and 2010, and the results of its operations and its cash flows for each of the years then ended in conformity with accounting principles generally accepted in the United States of America.

San Mateo, California
March 26, 2012
August 22, 2012, revision to reflect appropriate periods

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

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

**Consolidated Balance Sheets**

**As of December 31, 2011 and 2010**

**(Stated in US Dollars)**

| | Note | At December 31, 2011 | At December 31, 2010 |
|---|---|---|---|
| **ASSETS** | | | |
| Current Assets | | | |
| Cash | 2*(e)* | $ 57,522,050 | $ 26,856,317 |
| Restricted Cash | 3 | 13,953,294 | 30,599,958 |
| Notes Receivable | 4 | - | 251,066 |
| Accounts Receivable | 2*(f)*,5 | 56,567,722 | 49,485,978 |
| Other Receivable | | 18,487,992 | 16,269,293 |
| Related Party Receivable | 23 | 7,041,613 | - |
| Inventory | 2*(g)*,6 | 13,300,792 | 9,867,301 |
| Advances to Suppliers | | 25,184,728 | 35,433,751 |
| Advances to Employees | 7 | 30,158 | 322,205 |
| Prepaid Expenses | | 7,041 | 517 |
| Prepaid Taxes | | 41,210 | 1,351 |
| Deferred Tax Asset | | 1,238,831 | 1,192,532 |
| Current assets held for sale | 2*(bb)*, 21 | 2,223,395 | 1,756,460 |
| Total Current Assets | | 195,598,826 | 172,036,729 |
| | | | |
| Non-Current Assets | | | |
| Real Property Available for Sale | | - | 1,140,718 |
| Property, Plant & Equipment, *net* | 2*(h)*,8 | 29,591,719 | 30,617,120 |
| Land Use Rights, *net* | 2*(j)*,9 | 1,976,326 | 1,945,678 |
| Construction in Progress | 10 | 15,031,490 | 12,371,309 |
| Deposits | | 5,555,926 | - |
| Intangible Assets, *net* | 2*(i)*,11 | 145,041 | 179,837 |
| Long-term assets held for sale | 2*(bb)*, 21 | 24,672,213 | 24,215,927 |
| Total Assets | | $ 272,571,541 | $ 242,507,318 |
| | | | |
| LIABILITIES & STOCKHOLDERS' EQUITY | | | |
| Liabilities | | | |
| Current Liabilities | | | |
| Bank Loans & Notes | 12 | $ 113,966,333 | $ 72,007,623 |
| Accounts Payable | | 5,478,580 | 9,619,808 |
| Taxes Payable | | 10,841,233 | 10,459,789 |

| | | | |
|---|---|---|---|
| Other Payable | | 5,035,021 | 4,123,669 |
| Dividend Payable | | 1,454,257 | 727,129 |
| Accrued Liabilities | 13 | 3,593,025 | 2,885,931 |
| Customer Deposits | | 7,177,771 | 8,005,336 |
| Current liabilities associated with assets held for sale | 2*(bb),* 21 | 1,401,330 | 726,232 |
| Total Current Liabilities | | 148,947,550 | 108,555,517 |
| | | | |
| Long Term Liabilities | | | |
| Bank Loans and Notes | 12 | 6,048,989 | 21,627,999 |
| Total Liabilities | | $ 154,996,539 | $ 130,183,516 |

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

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

**Consolidated Balance Sheets**

**As of December 31, 2011 and 2010**

**(Stated in US Dollars)**

| | Note | At December 31, 2011 | At December 31, 2010 |
|---|---|---|---|
| STOCKHOLDERS' EQUITY | | | |
| Preferred Stock - $0.0001 Par Value 50,000,000 Shares Authorized; 6,241,453 Shares of Series A Convertible Preferred Stock Issued & Outstanding at December 31, 2011 and 2010 | 14 | $624 | $624 |
| Additional Paid in Capital - Preferred Stock | | 8,170,415 | 8,170,415 |
| Additional Paid in Capital – Warrants | | 63,171 | 1,554,635 |
| Additional Paid in Capital - Beneficial Conversion Feature | | 6,371,547 | 6,371,547 |
| Preferred Stock - $0.0001 Par Value 50,000,000 Shares Authorized; 6,354,078 Shares of Series B Convertible Preferred Stock Issued & Outstanding at December 31, 2011 and 2010 | 14 | 635 | 635 |
| Additional Paid in Capital - Preferred Stock | | 12,637,158 | 12,637,158 |
| Additional Paid in Capital – Warrants | | - | 1,244,366 |
| Additional Paid in Capital - Beneficial Conversion Feature | | 4,023,692 | 4,023,692 |
| Common Stock - $0.0001 Par Value 100,000,000 Shares Authorized; 32,505,000 and 28,327,607 Shares Issued & Outstanding at December 31, 2011 and 2010, respectively | 14 | 3,251 | 2,833 |
| Additional Paid in Capital | | 42,090,417 | 35,895,190 |
| Statutory Reserve | 2(*u*),15 | 4,563,592 | 4,563,592 |
| Retained Earnings | | 21,369,395 | 25,956,458 |
| Accumulated Other Comprehensive Income | 2(*v*) | 18,281,105 | 11,902,657 |
| Total Stockholders' Equity | | 117,575,002 | 112,323,802 |
| Total Liabilities & Stockholders' Equity | | $272,571,541 | $242,507,318 |

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

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

**Consolidated Statements of Income**

**For the years ended December 31, 2011 and 2010**

**(Stated in US Dollars)**

| | Note | December 31, 2011 | December 31, 2010 |
|---|---|---|---|
| Sales | 2*(l)* | $127,502,723 | $110,312,439 |
| Cost of Sales | 2*(m)* | 97,676,431 | 83,949,091 |
| Gross Profit | | 29,826,292 | 26,363,348 |
| | | | |
| Operating Expenses | | | |
| Selling | 2*(n)* | 1,404,870 | 1,523,074 |
| General & Administrative | 2*(p)* | 18,408,231 | 11,762,549 |
| Warranty | 2*(w)*,13 | 558,278 | 541,533 |
| Total Operating Expenses | | 20,371,379 | 13,827,156 |
| | | | |
| Operating Income | | 9,454,913 | 12,536,192 |
| | | | |
| Other Income (Expenses) | | | |
| Other Income | | 152,787 | 511,223 |
| Interest Income | | 250,912 | 178,053 |
| Other Expenses | | (50,054) | (78,397) |
| Interest Expense | | (7,680,872) | (5,314,683) |
| Expense for warrant recapitalization | | (3,455,260) | (3,103,919) |
| Total Other Income (Loss) & Expenses | | (10,782,487) | (7,807,723) |
| | | | |
| Earnings from Continuing Operations before Taxes | | (1,327,574) | 4,728,469 |
| Income Taxes | 2*(t)*, 16 | 1,606,043 | 1,301,566 |
| Income from Continuing Operations | | (2,933,617) | 3,426,903 |
| Income (Loss) from Discontinued Operations, net of taxes | | (926,318) | (220,555) |
| | | | |
| Net Income | | $(3,859,935) | $3,206,348 |
| Preferred Dividends Declared | | 727,128 | 727,129 |
| Income Available to Common Stockholders | | $(4,587,063) | $2,479,219 |
| Earnings Per Share | 17 | | |
| Basic-Net Income/(Loss) | | $(0.14) | $0.10 |
| - Income from Continuing Operations | | (0.11) | 0.11 |
| - Loss from Discontinued Operations | | (0.03) | (0.01) |
| Diluted- Net Income/(Loss) | | (0.14) | 0.10 |
| - Income from Continuing Operations | | (0.11) | 0.11 |
| - Loss from Discontinued Operations | | $(0.03) | $(0.01) |
| Weighted Average Shares Outstanding | | | |

| | | |
|---|---|---|
| Basic | 32,264,657 | 25,531,305 |
| Diluted | 32,264,657 | 31,885,383 |

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

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

**Consolidated Statements of Stockholders' Equity**

**As of December 31, 2011 and 2010**

**(Stated in US Dollars)**

| | Series A Convertible Preferred Stock Shares Out- standing | Amount | Series A Preferred Stock Additional Paid in Capital | Series A, J, C Warrants Additional Paid in Capital | Beneficial Conversion Feature Additional Paid in Capital | Series B Convertible Preferred Stock Shares Out- -standing | Amount | Series B Preferred Stock Additional Paid in Capital | Series B, JJ Warrants Additional Paid in Capital |
|---|---|---|---|---|---|---|---|---|---|
| Balance, January 1, 2011 | 6,241,453 | $624 | $8,170,415 | $1,554,635 | $6,371,547 | 6,354,078 | $635 | $12,637,158 | $1,244,366 |
| Stock Option Compensation | - | - | - | - | - | - | - | - | - |
| Recapitalization of Warrants | - | - | - | (1,491,464) | - | - | - | - | (1,244,366) |
| Expense related to recapitalization of warrants | - | - | - | - | - | - | - | - | - |
| Net Income | - | - | - | - | - | - | - | - | - |
| Preferred Dividends Declared | - | - | - | - | - | - | - | - | - |
| Appropriations of Retained Earnings | - | - | - | - | - | - | - | - | - |
| Foreign Currency Translation Adjustment | - | - | - | - | - | - | - | - | - |
| Balance, December 31, | 6,241,453 | $624 | $8,170,415 | $63,171 | $6,371,547 | 6,354,078 | $635 | $12,637,158 | - |

2011

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

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

**Consolidated Statements of Stockholders' Equity**

**As of December 31, 2011 and 2010**

**(Stated in US Dollars)**

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

2010

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

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

**Consolidated Statements of Cash Flows**

**For the years ended December 31, 2011 and 2010**

**(Stated in US Dollars)**

| | 12 months ended December 31, 2011 | 12 months ended December 31, 2010 |
|---|---|---|
| Cash Flow from Operating Activities | | |
| Cash Received from Customers | $110,616,623 | $106,198,578 |
| Cash Paid to Suppliers & Employees | (108,008,073) | (92,974,336) |
| Interest Received | 251,120 | 178,060 |
| Interest Paid | (7,680,872) | (5,314,683) |
| Taxes Paid | (4,130,333) | (563,826) |
| Miscellaneous Receipts | 153,043 | 513,604 |
| Cash Provided by operating activities – continuing operations | (8,798,492) | 8,037,397 |
| Cash Provided by operating activities – discontinued operations | 232,067 | 531,029 |
| Cash Sourced/(Used) in Operating Activities | (8,566,425) | 8,568,426 |
| | | |
| Cash Flows from Investing Activities | | |
| Cash Released/(Invested in) Restricted Time Deposits | 16,646,665 | (22,839,987) |
| Proceeds from withdraw of Short Term Investment Fund | 1,140,718 | - |
| Payments for Purchases and Construction of Plant & Equipment | (5,158,888) | (8,285,290) |
| Payments for Deposits | (5,510,403) | (15,124) |
| Cash Used in investing activities – continuing operations | 7,118,092 | (31,140,401) |
| Cash Used in investing activities – discontinued operations | (231,278) | (546,066) |
| Cash Sourced/(Used) in Investing Activities | 6,886,814 | (31,686,467) |
| | | |
| Cash Flows from Financing Activities | | |
| Net proceeds from Bank Loans and Notes | 26,379,700 | 47,221,808 |
| Dividends Paid | - | (727,129) |
| Cash provided by financing activities – continuing operations | 26,379,700 | 46,494,679 |
| Cash provided by financing activities – discontinued operations | - | (344,439) |
| Cash Sourced/(Used) in Financing Activities | 26,379,700 | 46,150,240 |
| | | |
| Net Increase/(Decrease) in Cash & Cash Equivalents for the Period – continuing operations | 24,699,300 | 23,391,675 |
| Net Increase/(Decrease) in Cash & Cash Equivalents for the Period – discontinued operations | 789 | (359,476) |
| Net Increase/(Decrease) in Cash & Cash Equivalents for the Period | 24,700,089 | 23,032,199 |
| | | |
| Effect of Currency Translation – continuing operations | 5,966,433 | 3,093,750 |

| | | |
|---|---|---|
| Effect of Currency Translation – discontinued operations | (115,560) | 459,246 |
| | 5,850,873 | 3,552,995 |
| | | |
| Cash & Cash Equivalents at Beginning of Period - continuing operations | 26,856,317 | 370,892 |
| Cash & Cash Equivalents at Beginning of Period - discontinued operations | 136,272 | 36,502 |
| | 26,992,589 | 407,394 |
| | | |
| Cash & Cash Equivalents at End of Period - continuing operations | 57,522,050 | 26,856,317 |
| Cash & Cash Equivalents at End of Period - discontinued operations | 21,501 | 136,272 |
| Cash & Cash Equivalents at End of Period | $57,543,551 | $26,992,589 |

**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 years ended December 31, 2011 and 2010**

**(Stated in US Dollars)**

| | 12 months ended December 31, 2011 | 12 months ended December 31, 2010 |
|---|---|---|
| Net Income | $ (3,859,935 ) | $ 3,206,348 |
| Adjustments to Reconcile Net Income to Net Cash Provided by / <Used in> Operating Activities : | | |
| Stock Penalties | - | - |
| Stock Compensation | - | 38,382 |
| Expense for warrant recapitalization | 3,459,815 | 3,103,919 |
| Amortization | 459,208 | 400,043 |
| Depreciation | 3,326,094 | 2,623,082 |
| Decrease/(Increase) in Notes Receivable | 237,994 | (237,670 ) |
| Decrease/(Increase) in Accounts Receivable | (7,087,023 ) | 4,257,483 |
| Decrease/(Increase) in Other Receivable | (2,474,199 ) | (11,606,602 ) |
| Decrease/(Increase) in Related Party Receivable | (7,113,375 ) | - |
| Decrease/(Increase) in Inventory | (3,814,861 ) | 4,691,087 |
| Decrease/(Increase) in Advances to Suppliers | 10,120,166 | (10,825,245 ) |
| Decrease/(Increase) in Advances to Employees | 292,047 | 20,624 |
| Decrease/(Increase) in Prepaid Expenses | (15,288 ) | 926,062 |
| Decrease/(Increase) in Prepaid Taxes | (39,859 ) | 544,699 |
| Decrease/(Increase) in Deferred Tax Asset | 236,600 | (726,399 ) |
| Increase/(Decrease) in Accounts Payable | (4,062,549 ) | 1,694,460 |
| Increase/(Decrease) in Taxes Payable | 420,312 | 7,331,147 |
| Increase/(Decrease) in Other Payable | 1,507,933 | 393,355 |
| Increase/(Decrease) in Accrued Liabilities | 707,094 | (638,457 ) |
| Increase/(Decrease) in Customer Deposits | (866,599 ) | 3,372,108 |
| Total of all adjustments | (4,706,490 ) | 5,362,078 |
| Net Cash Provided by Operating Activities | $ (8,566,425 ) | $ 8,568,426 |

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

**As of December 31, 2011 and 2010**

**Notes to Financial Statements**

**(Stated in US Dollars)**

1. ORGANIZATION AND PRINCIPAL ACTIVITIES

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

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

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

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

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

The assets that were purchased from the Seller were re-appraised by an independent appraisal firm Zhuhai GongPingSiYuan Appraising Co., Ltd. ("Zhuhai"). The re-appraisal found that the purchase price of the assets was not materially unfair. Zhuhai concluded that when the entire construction of the workshop and buildings is completed, the purchase price should be considered fair. However, due to the limitation of insufficient resources and the Company's plan to dispose of Wuhan Sungreen, the Company has ceased any further construction of the workshop and buildings. See also Note 8 – Property, Plant and Equipment, and Note 10 – Construction in Progress.

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

**As of December 31, 2011 and 2010**

**Notes to Financial Statements**

**(Stated in US Dollars)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

*(a) Method of Accounting*

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

*(b) Consolidation*

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

*(c) Economic and Political Risks*

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

*(d) Use of Estimates*

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

*(e) Cash and Cash Equivalents*

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

*(f) Accounts Receivable-Trade*

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

*(g) Inventory*

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

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

**As of December 31, 2011 and 2010**

**Notes to Financial Statements**

**(Stated in US Dollars)**

*(h) Property, Plant, and Equipment*

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

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

*(i) Intangible Assets*

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

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

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

*(j) Land Use Rights*

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

*(k)Accounting for Impairment of Long-Lived Assets*

The Company adopted Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"), which addresses financial accounting and reporting for the impairment or disposal of long-lived assets. The Company periodically evaluates the carrying value of long-lived assets to be held and used in accordance with SFAS 144. SFAS 144 requires impairment losses to be recorded on long-lived assets used in operations when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amounts. In that event, a loss is recognized based on the amount by which the carrying amount exceeds the fair market value of the long-lived assets. Loss on long-lived assets to be disposed of is determined in a similar manner, except that fair market values are reduced for the cost of disposal. The Company's long-lived assets are grouped by their presentation on the financial statements according to the balance sheet and further segregated by their operating and asset type. Long-lived assets subject to impairment include buildings, equipment, vehicles, trademarks, software licenses, land use rights and real property available for sale. The Company considers annually whether these assets are impaired. The Company makes its determinations based on various factors that impact those assets. For example, the Company considers real property impaired if property prices decrease drastically and it is unlikely that the prices will recover within the foreseeable future. Although property values in the PRC have experienced a decline during the last year, prices are increasing again. Therefore, the Company believes its real property has at least retained the value of its original cost to the Company. Equipment used for production, which undergo regular maintenance, are assessed annually. The Company has maintained a profitable business amidst the economic downturn and equipment has continued to be used for production, indicating that such equipment still retains its value to the Company. Based on its review, the Company believes that, as of September 30, 2011 and December 31, 2010, there were no significant impairments of its long-lived assets.

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

**As of December 31, 2011 and 2010**

**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.

*(l) Revenue Recognition*

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

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

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

Performance of Construction - Type and Certain Production - Type Contracts."

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

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

*(m) Cost of Sales*

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

*(n) Selling Expenses*

Selling expenses are comprised of outbound freight, client entertainment, commissions, depreciation, and travel and lodging expenses.

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

**As of December 31, 2011 and 2010**

**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 | December 31, 2011 | December 31, 2010 | December 31, 2009 |
|---|---|---|---|
| Period end RMB : US$ exchange rate | 6.3647 | 6.6118 | 6.8372 |
| Average period RMB : US$ exchange rate | 6.4735 | 6.7788 | 6.8409 |

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 December 31, 2011 and 2010**

**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 December 31, 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, the Company maintains statutory reserves which are appropriations from net income, to the account “statutory reserve” to be used for future company development, recovery of losses, and increase of capital, as approved, to expand production or operations. PRC laws require that an enterprise operating at a profit, must appropriate, on an annual basis, an amount equal to 10% of its profit. Such an appropriation is necessary until the reserve reaches a maximum that is equal to 50% of the enterprise’s PRC registered capital. The Company cannot pay dividends from statutory reserves or paid in capital registered in the PRC.

*(v) Other Comprehensive Income*

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

*(w) Warranty Policy*

The estimation of warranty obligations is determined in the same period that revenue from the sale of the related products is recognized. The warranty obligation is based on historical experience and reflects management's best estimate of expected costs at the time products are sold. Warranty accruals are adjusted for known or anticipated warranty claims as new information becomes available. Future events and circumstances could materially change the estimates and require adjustments to the warranty obligation. New product launches require a greater use of judgment in developing estimates until historical experience becomes available. See also Note 13 – Warranty Liability.

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

**As of December 31, 2011 and 2010**

**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 17 – Earnings per Share.

*(y) Financial Instruments*

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

*(z) Retirement Plan*

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

*(aa) Recent Accounting Pronouncements*

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

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

**As of December 31, 2011 and 2010**

**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 21 and in some instances, where appropriate, is included as a separate disclosure within the individual footnotes.

## 3. RESTRICTED CASH

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

## 4. NOTES RECEIVABLE

| As of December 31, 2011 | Continuing Operations | Discontinued Operations |
|---|---|---|
| Notes Receivable | $ - | $ 28,196 |

| | | |
|---|---|---|
| *Less*: Allowance for Bad Debts | - | - |
| | $ - | $ - |

| As of December 31, 2010 | Continuing Operations | Discontinued Operations |
|---|---|---|
| Notes Receivable | $ 251,066 | $ 15,124 |
| *Less*: Allowance for Bad Debts | - | - |
| | $ 251,066 | $ 15,124 |

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

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

**As of December 31, 2011 and 2010**

**Notes to Financial Statements**

**(Stated in US Dollars)**

## 5. ACCOUNTS RECEIVABLE

| As of December 31, 2011 | Continuing Operations | Discontinued Operations |
|---|---|---|
| Total Accounts Receivable-Trade | $59,544,970 | $ 235,978 |
| *Less*: 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 | - | - |
| *Less*: Bad Debt Written Off | 4,101,429 | - |
| Ending Balance | $(2,977,248 ) | (11,960 ) |

| As of December 31, 2010 | Continuing Operations | Discontinued Operations |
|---|---|---|
| Total Accounts Receivable-Trade | $52,090,503 | $ 230,253 |
| *Less*: Allowance for Bad Debt | (2,604,525 ) | (11,513 ) |
| | $49,485,978 | $ 218,740 |
| | | |
| Allowance for Bad Debts | | |
| Beginning Balance | $(2,831,131 ) | $ (8,985 ) |
| Allowance Provided | (4,423,656 ) | (2,528 ) |
| Reversal | - | - |
| *Less*: Bad Debt Written Off | 4,650,262 | - |
| Ending Balance | $(2,604,525 ) | $ (11,513 ) |

## 6. INVENTORY

| As of December 31, 2011 | Continuing Operations | Discontinued 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 |

| As of December 31, 2010 | Continuing Operations | Discontinued Operations |
|---|---|---|
| Raw Materials | $5,469,632 | $ 348,202 |
| Work in Progress | 517,300 | 361,423 |
| Finished Goods | 3,880,369 | 362,457 |
| | $9,867,301 | $ 1,072,082 |

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

**As of December 31, 2011 and 2010**

**Notes to Financial Statements**

**(Stated in US Dollars)**

## 7. ADVANCES TO EMPLOYEES

Advances to Employees of $30,158 and $322,205 as of December 31, 2011 and 2010, respectively, consisted of advances to salespeople for salary, travel, and expenses over extended periods as they work to procure new sales contracts or install and perform on existing contracts. These advances are deducted from future sales commissions earned by these salespeople. In the event that a salesperson leaves the Company prior to earning sales commissions sufficient to offset advances paid to the salesperson, the Company immediately expenses any outstanding balance to the income statement. None of the employees who have received these advances is a director or executive officer of the Company.

## 8. PROPERTY, PLANT AND EQUIPMENT

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

| As of December 31, 2011<br>Category of Asset | Wuhan Blower | Wuhan Generating | Other Subsidiaries | Total Continuing Operations | Total Discontinued Operations |
|---|---|---|---|---|---|
| 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 |
| *Less:* Accumulated Depreciation | | | | | |
| Buildings | 3,710,590 | 887,133 | - | 4,597,723 | - |
| 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 |

| As of December 31, 2010<br>Category of Asset | Wuhan<br>Blower | Wuhan<br>Generating | Total<br>Continuing<br>Operations | Total<br>Discontinued<br>Operations |
|---|---|---|---|---|
| Buildings | $14,071,788 | $8,989,251 | $23,061,039 | $ - |
| Machinery & Equipment | 2,023,674 | 12,907,608 | 14,931,282 | 2,090,150 |
| Furniture & Fixtures | 391,080 | 29,107 | 420,187 | 8,715 |
| Auto | 766,557 | 252,710 | 1,019,267 | 15,088 |
| Other | 77,185 | - | 77,185 | - |
| | 17,330,284 | 22,178,676 | 39,508,960 | 2,113,954 |
| *Less:* Accumulated Depreciation | | | | |
| Buildings | (2,774,599 ) | (455,532 ) | (3,230,131 ) | - |
| Machinery & Equipment | (1,024,876 ) | (3,612,816 ) | (4,637,692 ) | (393,816 ) |
| Furniture & Fixtures | (320,101 ) | (9,396 ) | (329,497 ) | (3,449 ) |
| Auto | (579,450 ) | (78,998 ) | (658,448 ) | (3,109 ) |
| Other | (36,072 ) | - | (36,072 ) | - |
| | (4,735,098 ) | (4,156,742 ) | (8,891,840 ) | (400,374 ) |
| Property, Plant, & Equipment, Net | $12,595,186 | $18,021,934 | $30,617,120 | $ 1,713,580 |

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The shared campus of Wuhan Blower and Wuhan Generating consists of approximately 440,000 square feet (44,233 square meters) of building floor space. The Company’s turbine manufacturing workshops provide approximately 401,622 square feet (37,312 square meters) of floor space. The office buildings that house the business operations of Wuhan Generating and Wuhan Sungreen provide an additional 287,650 square feet (26,723 square meters) of floor space.

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

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

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

**9. LAND USE RIGHTS**

| As of December 31, 2011<br>Category of Asset | Wuhan Blower | Wuhan Generating | Total Continuing Operations | Total Discontinued Operations |
|---|---|---|---|---|
| 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, *Net* | $1,976,326 | $ - | $1,976,326 | $10,280,884 |

| At December 31, 2010 | | | Total | Total |
|---|---|---|---|---|

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

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

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

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**10. CONSTRUCTION IN PROGRESS**

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

The assets reported under the construction in progress account relate to various projects at the Company’s operating subsidiaries. All of the construction projects at Wuhan Blower have been substantially completed. The assets have been put into use. Accordingly, the assets have been moved to the property, plant, and equipment account. Construction projects at Wuhan Generating include a new workshop, office building and the installation of equipment in the workshop. The workshop was completed in the beginning of 2009. By the end of the second quarter of 2010, all equipment had been fully installed and the workshop was operational. The structure of the office building has been substantially completed; however, the necessary construction of the interior to bring the building into use has been suspended. The Company plans to complete the office building when its operations necessitate and there is sufficient working capital to do so.

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

| December 31, 2011 Subsidiary | Description | Total Continuing Operations | Total Discontinued Operations |
|---|---|---|---|
| Wuhan Blower | Dormitory | $ 164,399 | $ - |
| Wuhan Blower | Testing Facility | 945 | - |
| Wuhan Blower | Badminton Courts | 25,924 | - |
| Wuhan Blower | Technological Remodeling | 448,191 | - |
| Wuhan Blower | Lighting | 117,837 | - |

| | | | |
|---|---|---|---|
| Wuhan Blower | Dining Hall | 13,593 | - |
| Wuhan Blower | Wall | 22,990 | |
| Wuhan Generating | Capitalized Interest | 1,424,214 | - |
| Wuhan Generating | Equipment Requiring Installation | 6,522,831 | - |
| Wuhan Generating | Generating 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 Setup | - | 1,099,816 |
| Wuhan Sungreen | Gate Remodeling | - | 55,264 |
| | | $ 15,031,490 | $ 13,011,300 |

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

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

## 11. INTANGIBLE ASSETS

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

| Category of Asset | At December 31, 2011 | At December 31, 2010 |
|---|---|---|
| Trademarks | $ 113,910 | $ 109,653 |
| Mitsubishi License | 325,373 | 313,213 |
| Tianyu CAD License | 4,252 | 4,093 |

| | | |
|---|---|---|
| Sunway CAD License | 13,130 | 17,393 |
| Microsoft License | 18,068 | 12,639 |
| | 474,733 | 456,991 |
| | | |
| *Less:* Accumulated Amortization | | |
| Trademarks | (78,165 ) | (69,761 ) |
| Mitsubishi License | (229,287 ) | (189,397 ) |
| Tianyu CAD License | (3,306 ) | (2,773 ) |
| Sunway CAD License | (11,116 ) | (5,787 ) |
| Microsoft License | (7,818 ) | (9,436 ) |
| | (329,692 ) | (277,154 ) |
| | | |
| Intangible Assets, *Net* | $ 145,041 | $ 179,837 |

The weighted average amortization period for the Company's intangible assets at December 31, 2011 and 2010 were 12.82 years and 12.82 years, respectively.

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

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

The discontinued operations do not have any intangible assets.

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## 12. BANK LOANS AND NOTES

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

Continuing Operations

| Subsidiary | Type | Name of Lender | Due Date | **Interest Rate Per** Annum | | **At December 31,** 2011 | **At December 31,** 2010 |
|---|---|---|---|---|---|---|---|
| **Short-term** | | | | | | | |
| Wuhan Blower | Bank Loans | Hankou Bank | 7/13/2012 | 5.47 | % | $ 1,571,166 | $ - |
| Wuhan Blower | Bank Loans | Hankou Bank | 10/14/2012 | 5.47 | % | 1,571,166 | - |
| Wuhan Blower | Bank Loans | Hankou Bank | 6/29/2011 | 5.31 | % | - | 19,298,829 |
| Wuhan Blower | Bank Loans | Hankou Bank | 7/27/2011 | 5.31 | % | - | 6,049,790 |
| Wuhan Blower | Bank Loans | Hankou Bank | 9/30/2011 | 5.31 | % | - | 756,224 |
| Wuhan Blower | Bank Loans | Hankou Bank | 10/11/2011 | 5.31 | % | - | 2,268,671 |
| Wuhan Blower | Bank Loans | Gansu Trust Co., Ltd. | 12/15/2012 | 8.53 | % | 10,998,162 | - |
| Wuhan Blower | Bank Loans | China Minsheng Banking Corp., Ltd. | 1/8/2012 | 9.60 | % | 3,927,915 | - |
| Wuhan Blower | Bank Loans | Wuhan Jiang Han District Fu Bang Petty Loan Co., Ltd. | 12/9/2012 | 18.00 | % | 1,571,166 | - |
| Wuhan Blower | Bank Loans | Wuhan Jiang Han District Fu Bang Petty Loan Co., Ltd. | 12/9/2011 | 18.00 | % | - | 1,512,447 |
| Wuhan Blower | Bank Loans | Wuhan Min Ze Investment Co., Ltd. | 12/1/2012 | 0.00 | % | 3,739,375 | - |
| Wuhan Blower | | | 4/8/2011 | 9.60 | % | - | 2,268,671 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| | Bank Loans | Wuhan Rui Sheng Feng Investment Co., Ltd. | | | | | |
| Wuhan Blower | Bank Loans | Wuhan Zhong Jing Petty Loan Co., Ltd. | 5/31/2011 | 20.40 | % | - | 1,134,336 |
| Wuhan Blower | Bank Loans | Agricultural Bank of China | 9/21/2012 | 5.40 | % | 12,883,561 | - |
| Wuhan Blower | Bank Loans | China Construction Bank | 7/1/2012 | 5.40 | % | 3,299,449 | - |
| Wuhan Generating | Bank Loans | Hankou Bank | 6/29/2011 | 5.36 | % | | 4,537,342 |
| Wuhan Generating | Bank Loans | Hankou Bank | 10/19/2011 | 5.36 | % | | 1,512,447 |
| Wuhan Generating | Bank Loans | Hankou Bank | 6/13/2012 | 6.56 | % | 4,713,498 | - |
| Wuhan Generating | Bank Loans | Industrial Bank Co., Ltd. | 4/27/2011 | 6.37 | % | | 9,074,685 |
| 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 | Agricultural Bank of China | 8/19/2011 | 5.35 | % | | 1,512,448 |
| Wuhan Generating | Bank Loans | Agricultural Bank of China | 8/22/2011 | 5.35 | % | | 6,503,524 |
| Wuhan Generating | Bank Loans | Agricultural Bank of China | 8/26/2011 | 5.35 | % | | 1,209,958 |
| 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 | 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 | - |
| *Total* | | | | ***Total*** | | ***$ 80,412,274*** | ***$ 57,639,372*** |

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

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**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 | 4/17/2012 | - | 4,713,498 | - |
| Wuhan Blower | Notes Payable | Hankou Bank | 6/8/2012 | - | 11,312,395 | - |
| Wuhan Blower | Notes Payable | Hankou Bank | 4/13/2011 | - | - | 756,224 |
| Wuhan Blower | Notes Payable | Hankou Bank | 4/13/2011 | - | - | 756,223 |
| Wuhan Blower | Notes Payable | Hankou Bank | 4/13/2011 | - | - | 756,224 |
| 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 Generating | Notes Payable | Hankou Bank | 6/19/2012 | - | 7,227,364 | - |
| Wuhan Generating | Notes Payable | Hankou Bank | 4/12/2011 | - | - | 1,512,447 |
| Wuhan Generating | Notes Payable | Industrial Bank Co., Ltd. | 5/8/2011 | - | - | 3,024,895 |
| Wuhan Generating | Notes Payable | Hankou Bank | 4/20/2011 | - | - | 1,512,448 |
| Wuhan Generating | Notes Payable | Industrial Bank Co., Ltd. | 5/5/2011 | - | - | 3,024,895 |
| Wuhan Generating | Notes Payable | Industrial Bank Co., Ltd. | 5/5/2011 | - | - | 3,024,895 |
| Total | | | | | $33,554,059 | ***$14,*368,251** |
| Total Short Term Bank Loans and Notes | | | | | $113,966,333 | $72,007,623 |

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

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**Notes to Financial Statements**

**(Stated in US Dollars)**

| | | | | | | |
|---|---|---|---|---|---|---|
| Long-term | | | | | | |
| Wuhan Blower | Bank Loans | China Construction Bank | 7/1/2012 | 5.40% | $- | $3,176,140 |
| Wuhan Blower | Bank Loans | Agricultural Bank of China | 9/21/2012 | 5.40% | - | 12,402,069 |
| Wuhan Generating | Bank Loans | Hankou Bank | 9/30/2013 | 6.65% | 4,556,380 | 4,537,342 |
| Wuhan Generating | Bank Loans | Hankou Bank | 10/11/2013 | 6.65% | 1,492,609 | 1,512,448 |
| ***Total Long Term Bank Loans and Notes*** | | | | | $6,048,989 | $21,627,999 |

Banking facilities extended by the Hankou Bank were secured by the Company's and Wuhan Sungreen's mortgage of real property and Hubei Di Long Industrial Group's mortgage of real property in 2011.

The loan from Gansu Trust Co., Ltd. was guaranteed by Hubei Di Long Industrial Group's mortgage of real property in 2011.

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

The loan from Wuhan Jiang Han District Fu Bang Petty Loan Co., Ltd. was secure by Jie Xu, machines and equipment of Wuhan Sungreen and Wuhan Generating.

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

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

Wuhan Generating's loan from Shenzhen Development Bank is guaranteed by Jie Xu, Hongsheng Xu (son of Jie Xu), and Wuhan Blower.

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

As of December 31, 2011, there were no bank loans or notes associated with the discontinued operations.

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## 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 years ended December 31, 2011 and 2010:

| | December 31, 2011 | December 31, 2010 |
|---|---|---|
| Balance at beginning of period | $ 1,937,227 | $ 1,469,358 |
| Accruals for current & pre-existing warranties issued during period | - | 541,533 |
| *Less*: Settlements made during period | 38,947 | (73,664) |
| *Less:* Reversals and warranty expirations | (963,404) | - |
| Balance at end of period | $ 1,012,771 | $ 1,937,227 |

There was no outstanding warranty liability for discontinued operations.

## 14. CAPITALIZATION

The Company's outstanding securities at December 31, 2011 are shown in the following table:

| Type of Security | Number | Issuance Date | Expiration Date |
|---|---|---|---|
| Common Stock | 32,505,000 | N/A | N/A |
| Series A Preferred | 6,241,453 | 02/07/2007 | N/A |

| | | | |
|---|---|---|---|
| Series B Preferred | 6,354,078 | 09/05/2009 | N/A |
| Series A Warrants | 128,755 | 02/07/2007 | 02/06/2012 |
| Options Issued to Directors | 40,000 | 11/30/2007 | 11/30/2017 |
| Options Issued to Directors | 40,000 | 01/02/2008 | 01/02/2018 |
| Options Issued to Directors | 160,000 | 03/10/2010 | 03/10/2020 |
| Total Shares on Fully Diluted Basis | 45,469,286 | | |

*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.

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*Series B Convertible Preferred Stock*

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

In connection with this agreement, the Company designated 9,358,370 shares of preferred stock as "Series B Convertible Preferred Stock, par value $0.0001 per share" with those rights and preferences as set forth in the Certificate of Designation of the Relative Rights and Preferences of the Series B Preferred Stock of the Company. The Series B Preferred Stock ranks senior to the Company's common stock and junior to the Company's Series A 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.

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*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.

| | December 31, 2011 | December 31, 2010 |
|---|---|---|
| Unadjusted Registered Capital in PRC | $ 52,575,256 | $ 52,575,256 |
| 50% maximum thereof | 26,287,628 | 26,287,628 |
| *Less:* Amounts Appropriated to Statutory Reserve | (4,563,592 ) | (4,563,592 ) |
| Unfunded Commitment | $ 21,724,036 | $ 21,724,036 |

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

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## 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:

| | December 31, 2011 | December 31, 2010 |
|---|---|---|
| Income (loss) before taxes: | | |
| US Federal | $ (10,473,430) | $ (5,681,700) |
| US State | - | |
| BVI | (6,081) | (2,360) |
| PRC | 9,151,937 | 10,412,529 |
| Total income before taxes from continuing operations | (1,327,574) | 4,728,469 |

| | | |
|---|---|---|
| Income (Loss) before taxes from discontinued operation | (637,376) | (293,333) |
| Total income before taxes | $ (1,964,950) | $ 4,435,136 |
| | | |
| Provision for taxes: | | |
| Current: | | |
| U.S. Federal | $ - | $ - |
| U.S. State | - | - |
| BVI | - | - |
| PRC | 1,606,043 | 1,922,215 |
| Provision for taxes from continuing operations | 1,606,043 | 1,922,215 |
| | | |
| Provision for taxes from discontinued operations | - | - |
| | | |
| Currency effect | - | - |
| | | |
| | $ 1,606,043 | $ 1,922,215 |
| | | |
| Deferred: | | |
| U.S. Federal | $ - | $ - |
| U.S. State | - | - |
| BVI | - | - |
| PRC | - | (620,649) |
| Deferred taxes from continuing operations | - | (620,649) |
| Total provision for taxes from continuing operations | 1,606,043 | 1,301,566 |
| | | |
| Deferred taxes from discontinued operations | 288,942 | (70,986) |
| Currency effect | - | (1,792) |
| Total provision for taxes from discontinued operations | 288,942 | 72,778 |
| | | |
| Total provision for taxes | $ 1,894,985 | $ 1,228,788 |
| Effective tax rate | N/A | 27.71 % |

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

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**(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 December 31, 2011 and 2010 are as follows:

| | December 31, 2011 | December 31, 2010 |
|---|---|---|
| Deferred tax assets | | |
| Beginning balance – continuing operations | $ 1,192,532 | $ 537,876 |
| Current year additions resulting bad debt expense & warranty accrual expense – continuing operations | - | 620,649 |
| Reversals – continuing operations | - | - |
| Valuation allowance – continuing operations | - | - |
| Foreign currency effect – continuing operations | 46,299 | 34,007 |
| Ending balance – continuing operations | 1,238,831 | 1,192,532 |
| | | |
| Beginning balance – discontinued operations | 282,898 | 211,155 |
| Current year additions resulting bad debt expense & warranty accrual expense – discontinued operations | - | 72,778 |
| Reversals – discontinued operations | - | - |
| Valuation allowance – discontinued operations | (288,942) | (8,234) |
| Foreign currency effect – discontinued operations | 6,044 | 7,199 |
| Ending balance – discontinued operations | - | 282,898 |
| | | |
| Beginning balance – continuing operations | $ 1,192,532 | $ 537,876 |
| Beginning balance – discontinued operations | 282,898 | 211,155 |
| Beginning balance | 1,475,430 | 749,031 |
| | | |
| Ending balance – continuing operations | 1,238,831 | 1,192,532 |
| Ending balance – discontinued operations | - | 282,898 |
| Ending balance | 1,238,831 | 1,475,430 |
| | | |
| Total deferred tax assets | 1,238,831 | 1,475,430 |
| Deferred tax liabilities | | |
| Total deferred tax liabilities | - | - |
| Net deferred tax assets | $ 1,238,831 | $ 1,475,430 |
| Reported as: | | |

| | | |
|---|---|---|
| Current deferred tax assets | 1,238,831 | 1,475,430 |
| Non-current deferred tax assets | - | - |
| Non-current deferred tax liabilities | - | - |
| Net deferred taxes | $ 1,238,831 | $ 1,475,430 |

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

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**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 years ended December 31, 2011 and 2010 are shown in the following table:

| | 12/31/2011 | 12/31/2010 | |
|---|---|---|---|
| U.S. federal statutory income tax rate | N/A | 34.00 | % |
| Lower rates in PRC, net | N/A | (9.00 | )% |
| Accruals in foreign jurisdictions | N/A | 15.26 | % |
| Tax holiday | N/A | (12.50 | )% |
| Effective tax rate | N/A | 27.76 | % |

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

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**Notes to Financial Statements**

**(Stated in US Dollars)**

**17. EARNINGS PER SHARE**

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

| | 12 months ended December 31, 2010 | 12 months ended December 31, 2009 |
|---|---|---|
| Basic Earnings Per Share Numerator | | |
| Net Income | $ (3,859,935 ) | $ 3,206,348 |
| Income from Continuing Operations | (2,933,617 ) | 3,426,903 |
| Income (Loss) from Discontinued Operations | (926,318 ) | (220,555 ) |
| Less: | | |
| Preferred Dividends | 727,128 | 727,129 |
| Series A Constructive Preferred Dividend | - | - |
| Series B Constructive Preferred Dividend | - | - |
| Income Available to Common Stockholders | (4,587,063 ) | 2,479,219 |
| Income from Continuing Operations Available to Common Stockholders | (3,660,745 ) | 2,699,774 |
| Income (Loss) from Discontinued Operations Available to Common Stockholders | (926,318 ) | (220,555 ) |
| | | |
| Diluted Earnings Per Share Numerator | | |
| Income Available to Common Stockholders | $ (4,587,063 ) | $ 2,479,219 |
| Income from Continuing Operations Available to Common Stockholders | (3,660,745 ) | 2,699,774 |
| Income (Loss) from Discontinued Operations Available to Common Stockholders | (926,318 ) | (220,555 ) |
| Add: | | |
| Constructive Preferred Dividends | - | - |
| Preferred Dividends | 727,128 | 727,129 |
| Income Available to Common Stockholders on Converted Basis | $ (3,859,935 ) | $ 3,206,348 |
| Income from Continuing Operations Available to Common Stockholders on Converted Basis | (2,933,617 ) | 3,426,903 |
| Income (Loss) from Discontinued Operations Available to Common Stockholders on Converted Basis | (926,318 ) | (220,555 ) |
| | | |
| Original Shares: | | |
| Additions from Actual Events | | |

| | | |
|---|---|---|
| - Issuance of Common Stock | 28,327,607 | 25,351,950 |
| - Conversion of Series A Preferred Stock into Common Stock | - | 118,512 |
| - Conversion of Series B Preferred Stock into Common Stock | - | 60,843 |
| - Issuance of Common Stock resulting from the Exercise of Warrants | 3,937,050 | - |
| - Issuance of Penalty Shares | - | - |
| Basic Weighted Average Shares Outstanding | 32,264,657 | 25,531,305 |
| | | |
| Dilutive Shares: | | |
| Additions from Potential Events | | |
| - Conversion of Series A Preferred Stock* | - | - |
| - Conversion of Series B Preferred Stock | - | 6,354,078 |
| - Exercise of Investor Warrants & Placement Agent Warrants | - | - |
| - Exercise of Employee & Director Stock Options | - | - |
| Diluted Weighted Average Shares Outstanding: | 32,264,657 | 31,885,383 |
| | | |
| Earnings Per Share | | |
| Basic-Net Income (Loss) | $ (0.14 ) | $ 0.10 |
| -Income (Loss) from Continuing Operations | (0.11 ) | 0.11 |
| -Income (Loss) from Discontinued Operations, net of taxes | (0.03 ) | (0.01 ) |
| Diluted-Net Income (Loss) | $ (0.14 ) | $ 0.10 |
| -Income (Loss) from Continuing Operations | (0.11 ) | 0.11 |
| -Income (Loss) from Discontinued Operations, net of taxes | (0.03 ) | (0.01 ) |
| | | |
| Weighted Average Shares Outstanding | | |
| - Basic | 32,264,657 | 25,531,305 |
| - Diluted | 32,264,657 | 31,885,383 |

** Potentially anti-dilutive*

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

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**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 years ended December 31, 2011 and 2010, and financial position at December 31, 2011 and 2010. The Company has also provided reconciling adjustments with the Company and its intermediate holding company, UFG.

| Results of Operations | Continuing Operations | | | | Discontinued Operations |
|---|---|---|---|---|---|
| For year ended December 31, 2011 | Wuhan Blower | Wuhan Generating | Company, UFG, Adjustments | Total | Wuhan Sungreen |
| Sales | $67,113,353 | $60,389,370 | $- | $127,502,723 | $ 705,894 |
| Cost of Sales | 51,578,237 | 46,098,194 | - | 97,676,431 | 516,033 |
| Gross Profit | 15,535,116 | 14,291,176 | - | 29,826,292 | 189,861 |
| Operating Expenses | 8,968,536 | 4,201,209 | 7,201,634 | 20,371,379 | 679,218 |
| Other Income (Expenses) | (3,230,328 ) | (4,096,899 ) | (3,455,260 ) | (10,782,487 ) | (148,019 ) |
| Earnings before Taxes | 3,336,252 | 5,993,068 | (10,656,894) | (1,327,574 ) | (637,376 ) |
| Taxes | 505,984 | 1,100,059 | - | 1,606,043 | 288,942 |
| Net Income | $2,830,268 | $4,893,009 | $(10,656,894) | $(2,933,617 ) | $ (926,318 ) |

| Financial Position | Continuing Operations | | | Discontinued Operations |
|---|---|---|---|---|
| At December 31, 2011 | Wuhan | Wuhan | Company, UFG, | Wuhan |

| | Blower | Generating | Adjustments | Total | 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 | 1,087,096 |
| Total Long Term Liabilities | - | 6,048,989 | - | 6,048,989 | - |
| Total Liabilities | 88,711,466 | 63,866,898 | 1,016,845 | 153,595,209 | 1,087,096 |
| | | | | | |
| Net Assets | 88,553,922 | 52,932,034 | (49,405,232) | 92,080,724 | 25,808,512 |
| | | | | | |
| Total Liabilities & Net Assets | $177,265,388 | $116,798,932 | $(48,388,387) | $245,675,933 | $26,895,608 |

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

**As of December 31, 2011 and 2010**

**Notes to Financial Statements**

**(Stated in US Dollars)**

| Results of Operations | Continuing Operations | | | | Discontinued Operations |
|---|---|---|---|---|---|
| For the year ended December 31, 2010 | Wuhan Blower | Wuhan Generating | Company, UFG, Adjustments | Total | Wuhan Sungreen |
| Sales | $61,224,509 | $49,560,941 | $(473,011) | $110,312,439 | $ 913,564 |
| Cost of Sales | 46,647,067 | 37,775,035 | (473,011) | $83,949,091 | 688,498 |
| Gross Profit | 14,577,442 | 11,785,906 | - | 26,363,348 | 225,066 |
| Operating Expenses | 9,735,401 | 2,852,069 | 4,343,605 | 16,931,075 | 587,418 |
| Other Income (Expenses) | (2,883,616) | (479,732) | (1,340,456) | (4,703,804) | 69,019 |
| Earnings before Taxes | 1,958,425 | 8,454,105 | (5,684,061) | 4,728,469 | (293,333) |
| Taxes | 244,803 | 1,056,763 | - | 1,301,566 | (72,778) |
| Net Income | $1,713,622 | $7,397,342 | $(5,684,061) | $3,426,903 | $ (220,555) |

| Financial Position | Continuing Operations | | | | Discontinued Operations |
|---|---|---|---|---|---|
| At December 31, 2010 | Wuhan Blower | Wuhan Generating | Company, UFG, Adjustments | Total | Wuhan Sungreen |
| Current Assets | $108,416,229 | $78,574,663 | $(16,710,623) | $170,280,269 | $1,756,460 |
| Non Current Assets | 49,946,631 | 29,928,376 | (33,620,345) | 46,254,662 | 24,215,927 |
| Total Assets | 158,362,860 | 108,503,039 | (50,330,968) | 216,534,931 | 25,972,387 |
| Current Liabilities | 60,311,282 | 56,290,083 | (8,772,080) | 107,829,285 | 726,232 |
| Total Long Term Liabilities | 15,578,209 | 6,049,790 | - | 21,627,999 | - |
| Total Liabilities | 75,889,491 | 62,339,873 | (8,772,080) | 129,457,284 | 726,232 |
| Net Assets | 82,473,369 | 46,163,166 | (41,558,888) | 87,077,647 | 25,246,155 |
| Total Liabilities & Net Assets | $158,362,860 | $108,503,039 | $(50,330,968) | $216,534,931 | $25,972,387 |

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

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**(Stated in US Dollars)**

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.

**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 years ended December 31, 2011 and 2010, the Company recorded $4,555 and $38,382 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 December 31, 2011 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 December 31, 2011 and 2010, and the assumptions that were employed in the model:

| | December 31, 2011 | | December 31, 2010 | |
|---|---|---|---|---|
| Weighted-average fair value of grants: | $ 0.27 | | $ 0.27 | |
| Risk-free interest rate: | 3.47 | % | 3.30 | % |
| Expected volatility: | 2.21 | % | 4.07 | % |
| Expected life in months: | 111.00 | | 114.00 | |

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

**As of December 31, 2011 and 2010**

**Notes to Financial Statements**

**(Stated in US Dollars)**

## 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.

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 | 12/31/2011 | 12/31/2010 |
|---|---|---|
| For the year ended | Wuhan Sungreen | Wuhan Sungreen |
| Sales | $ 705,894 | $ 913,564 |
| Cost of Sales | 516,033 | 688,498 |
| Gross Profit | 189,861 | 225,066 |
| Operating Expenses | 679,218 | 587,418 |
| Other Income (Expenses) | (148,019 ) | 69,019 |
| Earnings before Taxes | (637,376 ) | (293,333 ) |
| Deferred tax expense/(benefit) | 288,942 | (72,778 ) |
| Net Income (Loss) | $ (926,318 ) | $ (220,555 ) |

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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 | December 31, 2011 | December 31, 2010 |
|---|---|---|
| At | Wuhan Sungreen | Wuhan Sungreen |
| Current Assets | $ 2,223,395 | $ 1,756,460 |
| Non Current Assets | 24,672,213 | 24,215,927 |
| Total Assets | 26,895,608 | 25,972,387 |
| | | |
| Current Liabilities | 1,401,330 | 726,232 |
| Total Long Term Liabilities | - | - |
| Total Liabilities | 1,401,330 | 726,232 |
| | | |
| Net Assets | 25,494,278 | 25,246,155 |
| | | |
| Total Liabilities & Net Assets | $ 26,895,608 | $ 25,972,387 |

The tax effects of temporary differences caused the deferred assets/(liabilities) associated with assets held for sale at December 31, 2011 and 2010 are as follows:

| | 12/31/2011 | 12/31/2010 |
|---|---|---|
| Non-current deferred tax assets | $ - | $ 291,132 |
| Loss carryover items net of valuation allowance | - | (8,234 ) |
| Total deferred tax assets | - | 282,898 |
| Non-current deferred tax liabilities | - | - |
| Total deferred tax liabilities | - | - |
| Net deferred tax assets | $ - | $ 282,898 |

**22. RESTRUCTURING EXPENSES**

As a result of the Company’s reverse merger on February 7, 2007, the Company increased its capitalization to allow new stock issuances to investors at share premiums which were recognized as additional paid-in capital. The PRC Tax Authority determined such stock transactions derived capital gain assessable to income tax in the amount of $2,186,883 (i.e. ¥ 14,000,000). The Company’s Board of Directors approved the transaction. The tax has been paid and recorded as restructuring expenses included in General and Administrative Expenses in the accompanying Income Statement.

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## 23. RELATED PARTY RECEIVABLE

The Company's Chairman, Mr. Xu Jie, has procured a loan in the amount of USD $7.04 million (RMB 50,000,000) from Huaxia Bank. The Company's subsidiary, Wuhan Blower has guaranteed the loan. The loan was due in May of 2011. Mr. Xu Jie was responsible to repay the principal and related interest for the loan. However, Wuhan Blower settled the principal on behalf of Mr. Xu Jie in 2011, which resulted in a related party receivable of $7,041,613 from Mr. Jie Xu as of December 31, 2011. Mr. Jie Xu fully settled this amount in March of 2012.