WUHAN GENERAL GROUP (CHINA), INC
Form 10-K
April 06, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

(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)

86-27-5970-0069
(Registrant's Telephone Number, including area code)

Securities registered under Section 12(b) of the Exchange Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, par value $0.0001 per share	The NASDAQ Stock Market LLC

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 ¨ (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 April 5, 2012, the registrant had a total of 32,505,000 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the company's Proxy Statement for its 2012 Annual Meeting of Stockholders are incorporated by reference into Part III.

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Cautionary Statement Regarding Forward-Looking Statements

The information contained in this report includes some statements that are not purely historical fact and that are "forward-looking statements" as defined by the Private Securities Litigation Reform Act of 1995. Such forward-looking statements include, but are not limited to, statements regarding our management's expectations, hopes, beliefs, intentions or strategies regarding the future, including our financial condition, results of operations, available liquidity, ability to refinance outstanding debt, and our ability to collect on our accounts receivable. The words "anticipates," "believes," "could," "estimates," "expects," "intends," "may," "projects," "should," and similar expressions, or the negatives o terms, identify forward-looking statements.

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

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

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

PART I

Item 1. Business.

We obtained statistical data, market data and other industry data and forecasts used throughout, or incorporated by reference in, this report from market research, publicly available information and industry publications. Industry publications generally state that they obtain their information from sources that they believe to be reliable, but they do not guarantee the accuracy and completeness of the information.

Overview

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

Our Corporate History

The Company was incorporated on July 19, 1988 under the laws of the State of Colorado as Riverside Capital, Inc. On February 28, 1989, Riverside Capital completed a public offering of 20,500,000 units (consisting of common stock and warrants) at an offering price of $0.01 per unit. Riverside Capital engaged in various business endeavors, and on March 18, 1992, acquired 100% of the outstanding shares of United National Film Corporation. At that time, we changed our name to United National Film Corporation. We were not successful in the film business, and in June 2001, we suspended all business activities and became a "reporting shell corporation." As such, we had no operations other than maintaining our public company status and searching for a suitable party with which to execute a reverse merger transaction, in which a previously private company takes on our public company status. In October 2006, we changed our state of incorporation from Colorado to Nevada.

On February 7, 2007, we completed a share exchange transaction, in which we issued to Fame Good International Limited ("Fame"), as the sole stockholder of UFG, 17,912,446 newly issued shares of our common stock in exchange for all of the issued and outstanding capital stock of UFG held by Fame. As a result, UFG became our wholly owned subsidiary, Fame became our controlling stockholder and the management team of Wuhan Blower replaced our prior management. Prior to the share exchange transaction, we had no relationship with Fame, UFG and its subsidiaries. On March 13, 2007, the Company changed its name from "United National Film Corporation" to "Wuhan General Group (China), Inc."

Prior to the share exchange transaction, we had 1,800,000 shares of common stock outstanding. Following the closing of the share exchange transaction, we had 19,712,446 shares of common stock outstanding. As of April 5, 2011, we had 32,505,000 shares of common stock outstanding.

Background and History of UFG and Wuhan Blower

UFG was incorporated in the British Virgin Islands in August 2006. Until the share exchange transaction in February 2007, UFG was a wholly owned subsidiary of Fame, also a BVI company and now our controlling stockholder. Our Chairman of the Board, Mr. Xu Jie, acquired control of Fame, and Fame acquired control of UFG, in late August 2006. Neither Fame nor UFG had any active business operations until UFG acquired Wuhan Blower in September 2006.

Wuhan Blower was founded in 1958 as the Wuhan Blower Company, a State-Owned Enterprise ("SOE") and became one of the largest manufacturers of industrial blowers in central and southwest China. In 2004, Mr. Xu purchased the company with the intention of making changes to its management structure, employee utilization, plant location and general operations which would transform it from a traditional Chinese SOE into a modern, efficient operating company. Mr. Xu relocated the company to the East Lake Hi-Tech Development Zone in Wuhan, with much improved access to railroads, waterways and roads necessary for the transportation of its products, and constructed a new headquarters, research and development, and manufacturing facilities at this location.

On January 9, 2007, Wuhan Blower completed its acquisition of Wuhan Generating, a manufacturer of water and steam turbines, which is a complementary business to that of Wuhan Blower. We completed the construction of a new turbine manufacturing facility in 2009 for Wuhan Generating. We have installed a portion of the customized equipment in this facility and have begun producing steam turbines from this facility. We have purchased additional customized equipment for this facility and will install this equipment in order to increase our production capacity.

On December 25, 2008, we acquired certain assets to establish our newest subsidiary, Wuhan Sungreen. This is described in more detail below in "Overview – Establishment of Wuhan Sungreen."

We are located in Wuhan, the capital of China's Hubei Province and one of the ten largest cities in China. Hubei is centrally located and is a key player in the Chinese automotive, metallurgy, machinery, power generation, textiles and high-tech industries. Wuhan is one of the major university cities in the PRC, providing a highly educated workforce for the area's industries.

February 2007 Private Placement

Also on February 7, 2007, we completed a private placement transaction in which we issued to nine institutional investors an aggregate of 10,287,554 shares of our newly created Series A Convertible Preferred Stock ("Series A Preferred Stock") at a price of $2.33 per share for gross proceeds of $23,970,000. The Series A Preferred Stock is convertible into shares of our common stock on a 1-for-1 basis. The holders of our Series A Preferred Stock are not required to pay a conversion price or any other consideration in order to convert Series A Preferred Stock into common stock. The Series A Preferred Stock is entitled to a dividend equal to 5% per annum, which accrue quarterly. We must pay any unpaid dividends on our Series A Preferred Stock before paying dividends on our common stock.

Except with respect to specified transactions that may affect the Series A Preferred Stock and except as otherwise required by Nevada law, the Series A Preferred Stock has no voting rights. Of our outstanding shares of Series A Preferred Stock, 32.5% was converted into 3,343,560 shares of common stock in 2008 and none were converted in 2009 and 2010. The remaining shares of our Series A Preferred Stock will convert automatically into our common stock if the trading price and volume of our common stock reach certain levels. In the event of our liquidation, the holders of Series A Preferred Stock shall be entitled to receive, out of our assets available for distribution to stockholders, an amount equal to $2.33 per share plus any accrued and unpaid dividends before any payment can be made to the holders of our common stock.

In the private placement, we also issued three series of common stock purchase warrants to the nine institutional investors - Series A, J and B.

The Series J Warrants had an exercise price of $2.33 per share and expired on November 7, 2008. As described in more detail below in “Overview – Creation of Series B Preferred Stock” in this Part I, Item 1, we amended the terms of the Series J Warrants in September 2008 so that the warrants became exercisable for Series B Convertible Preferred Stock (“Series B Preferred Stock”) rather than common stock. Prior to the expiration date, a portion of the Series J Warrants was exercised for a total of 6,369,078 shares of Series B Preferred Stock.

The Series A and Series B warrant holders sold warrants to purchase an aggregate of 3,913,905 shares of common stock to Fame under a Warrant Purchase Agreement entered into by and among the Company, Fame and certain warrant holders (the “Warrant Purchase Agreement”), and exchanged warrants to purchase an aggregate of 9,865,222 shares of common stock with the Company under a Warrant Exchange Agreement entered into by and among the Company and certain warrant holders (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, 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. The warrant exchange with Fame closed on January 21, 2011. For more information, see “– Warrant Recapitalization.”

As partial consideration for services rendered by 1st BridgeHouse Securities, LLC (“1st BridgeHouse”), the placement agent for the February 2007 private placement, we agreed to issue warrants to purchase common stock to 1st BridgeHouse. This right is represented by Series C, AA, BB and JJ warrants originally issued to 1st BridgeHouse. The Company entered into a Warrant Exchange Agreement with Fame 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. In connection with the closing of this transaction, the Company issued an additional 4,177,393 shares of common stock in exchange for Series A, B, C, AA, BB and JJ warrants. The warrant exchange with the Series C, AA, BB and JJ warrant holders closed on January 21, 2011. For more information, see “– Warrant Recapitalization.”

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Creation of Series B 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.

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Establishment of Wuhan Sungreen

On December 25, 2008, Wuhan Blower entered into an Asset Purchase Agreement with Wuhan Gongchuang Real Estate Co., Ltd., pursuant to which Wuhan Blower acquired certain assets including certain buildings, equipment and land use rights (the “Sukong Assets”). In connection with this acquisition, we created Wuhan Sungreen to hold the Sukong Assets and develop these assets into a new business that produces and supplies blower parts and machinery equipment to Wuhan Blower, Wuhan Generating and third party customers. On December 29, 2010, we decided to sell the assets and business of Wuhan Sungreen. For more information, see “Part I, Item 1. Business – Recent Developments.”

Recent Developments

Effective December 29, 2010, we decided to sell the assets and business of Wuhan Sungreen. Accordingly, the results of Wuhan Sungreen’s operations have been excluded from continuing operations and reported as discontinued operations for the year ended December 31, 2010. Wuhan Sungreen is continuing its operations pending further action. As of December 31, 2010, we estimate that the fair market value of Wuhan Sungreen’s assets is approximately $18 to 24 million. We anticipate that all of the Wuhan Sungreen assets will be sold prior to January 1, 2013, and that any proceeds from the sale of such assets will be used to meet the working capital needs of Wuhan Blower and Wuhan Generating and/or to purchase new equipment for Wuhan Blower and Wuhan Generating.

Our Products

We engage primarily in the design, development, manufacture and sale of industrial blowers in China. Our industrial blowers are used primarily in steam-driven electrical power generation plants. In addition, we produce steam and water turbines in our turbine manufacturing facilities and in the shared facilities. Steam and water turbines are manufactured principally for use in electrical and hydropower plants. Finally, we recently began producing blower parts and machinery equipment. This business supplies Wuhan Blower and Wuhan Generating with these parts and equipment and also sells them to third parties.

Industrial Blowers

Industrial Blowers Generally

Industrial blowers are used to move very large volumes of air through industrial processes. When used in conjunction with an industrial furnace in steam-driven electrical power generation plants, they:

- blow air into furnaces in order to increase oxygen and improve combustion;
- blow fuel (primarily coal dust) into furnaces; and
- remove furnace exhaust.

If pollution control is required for the waste gases, then:

- a blower will propel the exhaust gases through a pollution reduction unit (such as a de-sulphurization unit); and
- a final blower will push the “cleaned” gases to and through the smokestack.

Industrial blowers are custom-made for the specific installation in which they will be used. The blower can be driven by an industrial scale electric motor, a diesel engine or a steam turbine. In addition to their use in power generation plants, industrial blowers are also used in the metallurgy and petrochemicals industries, as well as for ventilation in mines, mass transit (subways, tunnels, stations) and sewage treatment (for aeration).

Our Industrial Blower Products

Our primary blower products are:

- *Axial fans*. These consist of a bladed impeller (fan) in an elongated cylindrical casing and are primarily used to provide high-volume, low-pressure air for larger power stations of 200 to 1,000 megawatts.
- *Centrifugal Blowers*. These consist of a "squirrel cage" type impeller (or rotor) in a scroll- or spiral-shaped casing. Air is drawn into the center of the squirrel cage through a hole in the side of the casing and is thrown out at a right angle by the rotational force. These blowers provide lower volumes of air, but at higher pressures, and are used in medium-sized power stations of 100 to 300 megawatts for blowing coal dust into furnaces. They are also used for aeration in sewage treatment plants.

When required for noise abatement purposes, we also manufacture silencers or "mufflers" fitted to the exhaust side of our centrifugal blowers. These silencers are very similar in form and function to the muffler on an automobile: the silencer interior is fitted with perforated metal trays that are padded with a sound absorbing material such as fiberglass.

We are one of the largest suppliers of industrial blowers in our market to the Chinese electrical power generation industry, which is growing rapidly. All of our products are custom-built for specific purchasers. The majority of our product revenue comes from competitive bidding.

A typical blower costs approximately $90,000 and takes 60 to 100 days to build, from design to finish. We are currently producing approximately 500 blower/fan units per year.

The manufacture of these products combines both low-tech and high-tech processes. The low-tech process consists of the cutting and welding of the steel for both the rotors and the casings. The high-tech process consists of the product design, the "finish" manufacturing of the rotor shafts, and the balancing of the rotor assemblies.

We make extensive use of computer aided design (CAD) and computer aided engineering (CAE) in the design phase of our manufacturing process. In particular, CAE provides us with the ability to do finite element analysis of our rotor designs, while CAD allows us to do three dimensional modeling (to include molding coordinates for the fan/blower blades) and design of the inlet and outlet parameters. Our relationships with the Science and Technology University of Central China, Jiaotong University and the Acoustic Institute of the China Science Academy allow us to stay abreast of the latest developments in the fields of fluid dynamics, material sciences and acoustics.

We have a sophisticated acoustics lab in our facility. We share this acoustics lab with our university partners, and the China Fan Performance Test Center uses it for some of its work.

Through the use of the above technologies, we are able to design fans/blowers of the highest efficiency providing precisely the volumes and pressures required. Parts purchased from third parties consist mainly of the electric motor specified by the client (normally equal to about 20% of the build cost of the assembly) and bearing castings.

Turbines

Steam Turbines Generally

In a steam-driven electrical or thermal power generation plant, blowers like those we manufacture feed fuel and air into a large furnace. The primary purpose of the furnace is to produce steam for the powering of steam-driven turbines. A stream turbine takes the force of the steam and converts it into rotary motion, which is then used to drive machinery.

Steam turbines are normally categorized by their output in watts – kilowatts through megawatts. A small steam turbine of 750 kilowatts is capable of lighting 7,500 100-watt light bulbs. A large 500 megawatt turbine can light 5 million 100-watt light bulbs or supply the power for a medium-sized city.

Steam turbines are high-precision, high-tolerance pieces of machinery and in many respects are similar to a jet engine. Each is built-to-order according to the design specifications of the customer. In general, they are very large pieces of machinery with extremely heavy castings. The manufacture of steam turbines, like blowers, requires both low-tech and high-tech processes.

Water Turbines Generally

For those applications such as a hydropower plant where the customer is close to a source of water power and does not need steam for other applications in its plant, a water turbine may be more economical than a steam turbine. In this case, the cost of building a source of water pressure (typically a dam) and the viaduct to the water turbine must be weighed against the cost of building a steam plant. In general, water turbines have lower tolerances and are considered lower technology than steam turbines.

A water turbine operates very much like an enclosed water wheel – high velocity incoming water pushes against the turbine blades, forcing the turbine to rotate and provide power to the attached generator set.

As with a steam turbine, each is built-to-order according to the design specifications of the customer. The most important consideration in the design is the height of the water column above the turbine, which will determine how large the turbine must be and how fast it must turn to achieve the desired power output.

Our Turbine Products

We have been producing water turbines since 2007. We completed the construction of a new turbine manufacturing facility in 2009 for Wuhan Generating. We currently produce steam turbines at our new turbine manufacturing facility and we also produce steam turbines at our blower manufacturing facility and at a shared facility. As we receive additional turbine orders, we will purchase and install additional customized equipment in the facility to increase our production capacity.

We currently manufacture the following types of steam turbines:

- Regular steam turbines - these turbines are designed to make maximum use of the steam, with any waste steam vented into the atmosphere through cooling towers.
- Co-generation steam turbines - these turbines are designed to provide for the use of “waste steam” by a nearby industrial plant (such as a paper or chemical plant).

Steam turbine production is characterized by low unit volume with high unit revenue and margins. While it is difficult to generalize, a 100 megawatt steam turbine costs approximately $6 million and takes three to six months to build.

Water turbines, on the other hand, bear a stronger resemblance (in manufacture) to our traditional industrial blowers. A water turbine resembles a blower operating in reverse, powered by water rather than air. Given this similarity, we began production of water turbines in our existing facilities and in shared facilities before our new turbine manufacturing facility was completed.

A typical ten megawatt water turbine costs approximately $450,000 and takes three to four months to construct.

The design and manufacturing of steam and water turbines require a high degree of engineering skill. We maintain a close relationship with Beijing 3-D, a high tech enterprise co-sponsored by the Chinese Academy of Sciences, for the purpose of developing new designs and manufacturing technology for the power generation equipment manufacturing industry in China. Beijing 3-D has developed world-class 3-dimensional CAD tools for use in the design of steam and water turbines. We anticipate obtaining rights to this technology in exchange for payment of a sales royalty on turbines utilizing the technology, although no formal agreement is currently in place. We believe this technology gives us significant advantages in providing our customers with the highest quality turbines, tailored precisely to their needs. Through its use, we believe we are able to:

- increase steam generator thermal efficiency;
- reduce coal consumption; and
- increase megawatt output.

As a result, we believe that we compete effectively in the turbine market. We also help provide for China’s need for cleaner and more efficient electric power production.

Development of Our Steam and Water Turbine Business

On January 9, 2007, Wuhan Blower completed the formation of Wuhan Generating. To develop the Company’s turbine business, Wuhan Blower reached an understanding with China Chang Jiang Energy Corporation (“China Chang Jiang”), which owns Wuhan Turbine Works, a manufacturer of energy turbines for power plants. China Chang Jiang agreed to allow us to assume the operations of Wuhan Turbine Works related to the manufacture of steam turbines up to 300 megawatts and water turbines up to 200 megawatts. To this end, Wuhan Generating hired a number of the management team members from Wuhan Turbine Works. These former Wuhan Turbine Works management team members and a limited number of Wuhan Turbine Works skilled laborers helped Wuhan Generating launch its turbine operations in 2007. Wuhan Generating recruited 180 employees in 2010, and upon the installation of all the customized equipment in our turbine manufacturing facility, Wuhan Generating expects to hire approximately 60 additional employees to assist with turbine manufacturing.

We utilized a management strategy for Wuhan Generating that is similar to the one we used for Wuhan Blower during its first two years: management and employee restructuring, movement to a new facility (on our existing premises) and an intense focus on research and development.

We have constructed a turbine manufacturing facility adjacent to our blower manufacturing facilities. We manufacture turbines at our turbine facility and at the shared facilities. We have purchased additional customized equipment for our turbine manufacturing facility and will install this equipment in order to increase our production capacity as we receive additional turbine orders from our customers. We have spent approximately $29.9 million on the turbine plant and related equipment.

In addition, we have constructed an administrative building for the turbine manufacturing facility, which is located adjacent to the turbine manufacturing facility. The administrative building will be used by personnel in turbine supplies and sales and for other administrative tasks. Construction on the administrative building began in June 2006 and was completed in December 2007. We are currently conducting turbine sales from our blower administrative building. As our turbine sales and profitability grow, we will complete the interior of our turbine administrative building and transfer our current and future turbine administrative staff to this new building.

In July 2007, we entered into a contract for approximately $26.37 million with Jiangsu Huangli Paper Industry Co., Ltd. ("Jiangsu Huangli") to build a thermal electric power plant with four boiler furnaces and two turbine generator groups in Jiangyin, Jiangsu. The construction of the power plant was completed in 2010 and facility inspections and verifications are currently being undertaken. We expect that the facility inspections will be completed in the second quarter of 2012.

Our Market

The market for blowers, steam turbines and water turbines in China is directly driven by the growth in the country's overall demand for electricity and the now mandated requirement for electrical generating equipment that is both more fuel efficient and less polluting. According to the Energy Information Administration, China currently has the second greatest amount of installed electrical capacity of any nation, trailing only the United States. China's total installed electricity generating capacity in 2011 was approximately 4,600 gigawatts according to the China Bureau of Statistics. According to the People's Daily Online, the Chinese government made the increase in installed capacity a major part of the 10^{th} (2005) and 11^{th} (2010) Five Year Plans. According to RNCOS, an industry research firm, China will consume around 16% of the world's energy by 2020.

China's electrical capacity is installed not only in centralized major power production plants, but also often on the premises of major industrial facilities. The on-site production of power allows a company to avoid brownouts or complete loss of service. In this manner, many companies have insulated themselves from the short-fall in overall capacity.

Distribution Methods

In our industrial blower and turbine businesses, we receive proposals and contracts mostly through referrals and competitive bidding. We have a marketing and sales team that provides support and consultation to our customers. We mainly market our products to steel companies, power plants, chemical companies, paper mills and hydroelectric power plants. We also collaborate with major system integrators to jointly develop and market new products. We have a well established sales team and a close involvement with major research institutes and design firms across China. We work jointly with these institutions to develop and customize products for the specific needs of our customers. We believe this interactive working relationship with customers has allowed us to win repeat business, increase visibility and enhance our growth.

We are still developing our relatively new blower and turbine parts and machinery equipment business. Currently, this business primarily manufactures products for use by our industrial blower and turbine businesses. Thus far, this business has utilized referrals and competitive bidding to secure orders from third parties. This business also has been working with our blower and turbine sales staff to market its products.

Our Customers

In our blower manufacturing business, we currently have a base of over 420 customers. Our turbine manufacturing business has approximately 65 customers. Our industrial parts and machinery equipment business has approximately 75 customers, not including Wuhan Blower and Wuhan Generating.

Raw Materials and Supplies

The principal raw materials used in the manufacture of our products are rolled steel and iron. We believe these materials are widely available from multiple sources, though we primarily obtain them from three suppliers: Wuhan Iron and Steel Group, Wuhan Pingwu Material Co. and Wuhan new DaLai materials Co., LTD

Research and Development

We believe that our research and development (“R&D”) facilities are among the most advanced in the industry. Our R&D department operates out of a facility at our Wuhan campus. Our relationships with the Science and Technology University of Central China, Jiaotong University and the Acoustic Institute of China Science Academy allow us to stay abreast of the latest developments in the fields of fluid dynamics, material sciences and acoustics. We have a sophisticated acoustics lab in our facility, which we share with our university partners and which the China Fan Performance Test Center uses for some of its work. During 2011, R&D expense was approximately 1% of sales and we expect R&D expense to be approximately 1.2% of 2012 sales in order to increase our marketing competitiveness. We try to offset these costs by decreasing production costs of our products.

Our Competition

We believe that there are currently approximately 2,200 blower and fan manufactures in China, but that most of these are small and do not have the R&D and manufacturing resources that we do. We compete mainly with six large scale manufacturers. We believe that there are currently approximately 300 turbine manufactures in China, but that most of these are small and do not have the R&D and manufacturing resources that we do. We believe there are approximately five significant manufacturers of steam and water turbines with whom we compete. In both our blower and turbine businesses, we compete primarily on the basis of reputation, price, quality, engineering, timeliness and post-purchase services.

Regulation

We do not face any significant government regulation of our businesses or in connection with the production of our products. We do not require any special government permits to produce our products other than those permits that are required of all corporations in China.

Our Employees

As of March 31, 2012, we employed approximately 810 full-time employees.

Each of Wuhan Blower, Wuhan Generating and Wuhan Sungreen has a trade union that protects employees' rights, aims to assist in the fulfillment of our economic objectives, encourages employee participation in management decisions and assists in mediating disputes between us and union members. This type of union is typical in the PRC and is not similar to American or European labor unions. We believe that we maintain a satisfactory working relationship with our employees and we have not experienced any significant labor disputes or any difficulty in recruiting employees for our operations.

As required by applicable Chinese law, we have entered into employment contracts with all of our officers, managers and employees.

Our employees in the PRC participate in a state pension scheme organized by Chinese municipal and provincial governments. In addition, as required by PRC law, we provide employees in the PRC with various types of social insurance, including medical insurance, unemployment insurance and occupational injury insurance.

Item 1A. Risk Factors.

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

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

Risk Factors Related to Our Business

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

We have incurred substantial debt to finance our growth. As of December 31, 2011, we had approximately $120.02 million of outstanding bank loans and notes. This indebtedness could have important consequences to us, such as:

- limiting our ability to obtain additional financing to fund growth, working capital, capital expenditures, debt service requirements or other cash requirements;
- limiting our operational flexibility due to the covenants contained in our debt agreements;
- limiting our ability to invest operating cash flow in our business due to debt service requirements;

- limiting our ability to compete with companies that are not as highly leveraged and that may be better positioned to withstand economic downturns; and
- increasing our vulnerability to fluctuations in market interest rates.

Our ability to meet our expenses and debt service obligations will depend on our future performance, which will be affected by financial, business, economic and other factors, including potential changes in customer preferences, the success of product and marketing innovation and pressure from competitors. If we do not have enough money to pay our debt service obligations, we may be required to raise additional equity capital, sell assets or borrow more money. We may not be able, at any given time, to raise additional equity capital, sell assets or borrow more money on terms acceptable to us or at all. In the past, we have refinanced our debt prior to maturity. However, there can be no assurance that we will be able to refinance our debt on favorable terms, if at all, in the future.

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

A significant portion of our working capital consists of accounts receivable from customers. As of December 31, 2011, we had an aggregate amount of $56.57 million in accounts receivable. If customers responsible for a significant amount of accounts receivable were to become insolvent or otherwise unable or unwilling to make timely payments, our business, results of operation, financial condition or liquidity could be adversely affected. The recent economic downturn has resulted in longer payment cycles and increased collection costs in excess of management’s expectations.

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

In conjunction with the preparation of this Form 10-K for the year ended December 31, 2011, our management carried out an evaluation of the effectiveness of the design and operation of our internal control over financial reporting and disclosure controls and procedures as of December 31, 2011. Based upon this evaluation, our CEO and CFO concluded that our internal control over financial reporting and disclosure controls and procedures contained significant deficiencies and material weaknesses and therefore were not effective. For more detailed information regarding our internal control over financial reporting and our disclosure controls and procedures, see Part II, Item 9A Controls and Procedures. If the remedial policies and procedures we implement are insufficient to address the identified material weaknesses, or if additional significant deficiencies or material weaknesses in our internal control over financial reporting or disclosure controls and procedures are discovered in the future, we may fail to meet our future reporting obligations, our financial statements may contain material misstatements and our operating results may be adversely affected. Any such failure also could adversely affect the results of the periodic management evaluations regarding the effectiveness of our internal control over financial reporting.

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We have had, and continue to have, material weaknesses in internal control over financial reporting in prior fiscal years. Although we have taken certain actions in an effort to strengthen the weaknesses in our control structure, we cannot assure you that additional material weaknesses will not be identified in the future. If our internal control over financial reporting or disclosure controls and procedures are not effective, investors may lose confidence in our reported financial information, which could lead to a decline in our stock price.

We are consistently evaluating the design and operating effectiveness of our internal controls, a process which sometimes leads to modifications in such controls. As a result of such evaluations, we have instituted certain remedial measures designed to address certain material weaknesses in our internal control procedures. For more detailed information regarding our internal control over financial reporting and our disclosure controls and procedures, see Part II, Item 9A Controls and Procedures. These modifications could affect the overall effectiveness or evaluation of the control system in the future by us. If the remedial policies and procedures we implement are insufficient to address the identified material weaknesses, or if additional significant deficiencies or material weaknesses in our internal controls are discovered in the future, investors may lose confidence in our reported financial information, which could lead to a decline in our stock price.

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

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

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

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

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

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

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

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

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

We have limited business insurance coverage.

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

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

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

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

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

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

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

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

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

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

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

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

On January 1, 2008, the Law of the People’s Republic of China on Enterprise Income Tax, or the EIT Law, became effective. In accordance with the EIT Law, the corporate income tax rate was set at 25% for all enterprises. However, certain industries and projects, such as enterprises with foreign investors, may enjoy favorable tax treatment pursuant to the EIT Law and its implementing rules. For 2011, Wuhan Blower and Wuhan Generating were subject to a 12.5% income tax rate. We expect that our operating subsidiaries will be subject to the same rates in 2012.

There can be no assurance that we will continue to qualify for this preferential tax treatment or that Chinese tax regulations will remain the same. If we do not continue to receive our reduced income tax rate, our tax liabilities will increase and our net income will decrease accordingly.

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

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

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

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

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

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

As of April 5, 2012, there were 12,964,286 shares of our common stock issuable upon conversion of outstanding Series A Convertible Preferred Stock and Series B Convertible Preferred Stock and exercise of outstanding warrants and options. The issuance of our shares upon the exercise or conversion of these securities will increase the number of shares of our common stock outstanding, which could depress the market price of our common stock.

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

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

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

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

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

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

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

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

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

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

Climate change and related regulatory responses may impact our business.

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

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

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

Fame Good International Limited, a holding company controlled by our Chairman of the Board, Xu Jie, is the owner of approximately 61.1% of our outstanding voting securities (excluding shares of our Series A and Series B Convertible Preferred Stock which, until converted into common stock, only vote as a class on certain matters affecting such preferred stock). As a result, Mr. Xu possesses significant influence, giving him the ability, among other things, to elect each member of our Board of Directors and to authorize or prevent proposed significant corporate transactions. His ownership and control also may have the effect of delaying or preventing a future change in control, impeding a merger, consolidation, takeover or other business combination or discouraging a potential acquirer from making a tender offer. Additionally, Mr. Xu’s interests may differ from the interests of our other stockholders.

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

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

Risks Related to Doing Business in China

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

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

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

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

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

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

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

Until 1994, the Renminbi experienced a gradual but significant devaluation against most major currencies, including the U.S. dollar, and there was a significant devaluation of the Renminbi on January 1, 1994 in connection with the replacement of the dual exchange rate system with a unified managed floating rate foreign exchange system. Since 1994, the value of the Renminbi relative to the U.S. dollar has remained stable and has appreciated against the U.S. dollar. Countries, including the United States, have argued that the Renminbi is artificially undervalued due to China's current monetary policies and have pressured China to allow the Renminbi to float freely in world markets. In July 2005, the PRC government changed its policy of pegging the value of the Renminbi to the U.S. dollar. Under the new policy the Renminbi is permitted to fluctuate within a narrow and managed band against a basket of designated foreign currencies. Since then, the Renminbi has appreciated by more than 24% against the U.S. dollar. While the international reaction to the Renminbi revaluation has generally been positive, there remains significant international pressure on the PRC government to adopt an even more flexible currency policy, which could result in further and more significant appreciation of the Renminbi against the U.S. dollar.

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

While the PRC economy has experienced rapid growth, such growth has been uneven among various sectors of the economy and in different geographical areas of the country. Rapid economic growth can lead to growth in the money supply and rising inflation. During the past 16 years, the rate of inflation in China has been as high as approximately 27.7% and China has experienced deflation as low as approximately minus 2.2%. If prices for our products and services rise at a rate that is insufficient to compensate for the rise in the costs of supplies such as raw materials, it may have an adverse effect on our profitability.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Item 1B. Unresolved Staff Comments.

As a “smaller reporting company,” as defined by Item 10 of Regulation S-K, the Company is not required to provide this information.

Item 2. Properties.

Wuhan Blower and Wuhan Generating are located on a shared campus in the Canglongdao Science Park of Wuhan East Lake Hi-Tech Development Zone in the southernmost part of Wuhan, Hubei Province, People’s Republic of China, where we have easy access to the railroads, waterways and roads necessary for the transportation of our products and where we operate in a new facility in a campus-like setting. We hold a long term lease on this property with a land area of approximately 1,400,000 square feet with approximately 440,000 square feet of administration and factory space, which is used to produce blowers and turbines. We finished constructing the turbine manufacturing facility in 2009, which occupies an additional 215,482 square feet, and the exterior of an administrative building that will facilitate the orders and sales of turbines. The new administrative building will house the business operations of Wuhan Generating and will provide an additional 134,656 square feet.

We also hold a long term lease on a property with a land area of approximately 792,547 square feet used by Wuhan Sungreen to produce industrial parts and machinery equipment. Wuhan Sungreen has constructed two workshops and an administrative building on this property.

We have sales offices in the following cities:

- Xi’an;

- Guangzhou;
- Shanghai;
- Beijing;
- Chongqing; and
- Nanjing.

Item 3. Legal Proceedings.

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

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Item 4. Mine Safety Disclosures

Not Applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

The following table sets forth the high and low closing prices for our common stock on the NASDAQ Capital Market for each full quarterly period for the last two completed fiscal years.

	Low	High
First Quarter 2010	$1.90	$2.40
Second Quarter 2010	$1.06	$1.86
Third Quarter 2010	$1.07	$1.39
Fourth Quarter 2010	$1.10	$1.48
First Quarter 2011	$1.00	$1.37
Second Quarter 2011	$0.40	$1.03
Third Quarter 2011	$0.32	$0.57
Fourth Quarter 2011	$0.28	$0.50

Holders

As of April 5, 2012, there were approximately 145 holders of record of our common stock which does not include persons whose stock is held in nominee or "street name" accounts through brokers, banks and intermediaries.

Dividends

We have not declared or paid any cash dividends on our common stock during the last four fiscal years. For the foreseeable future, we intend to retain any earnings to finance the development and expansion of our business, and do not anticipate paying any cash dividends on our common stock. Any future determination to pay dividends will be at the discretion of our Board of Directors and will be dependent upon then existing conditions, including our financial condition and results of operations, capital requirements, contractual restrictions, business prospects, and other factors that the Board of Directors considers relevant.

The holders of our Series A Preferred Stock are entitled to receive, out of legally available assets, dividends at the rate of 5% per annum, which accrue quarterly. Dividends on the Series A Preferred Stock, which are payable in cash or registered shares of common stock, are cumulative and are prior and in preference to payment of any dividend or distribution on any junior stock, including our Series B Preferred Stock and common stock. So long as any shares of our Series A Preferred Stock are outstanding, we cannot pay any dividend or make any distribution on any junior stock.

Equity Compensation Plan Information

We maintain the 2007 Stock Option Plan (the “Plan”) pursuant to which we may grant options to purchase shares of common stock to eligible persons. The following table sets forth summary information regarding options granted and outstanding under equity compensation plans approved and not approved by the Company’s stockholders. The following table provides information about option awards under the Plan as of December 31, 2011.

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	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under the Plan (excluding securities reflected in first column)
Equity compensation plans previously approved by security holders	240,000	$ 3.82	2,760,000
Equity compensation plans not approved by security holders	-	-	-
Total	240,000	$ 3.82	2,760,000

Item 6. Selected Financial Data.

As a "smaller reporting company," as defined by Item 10 of Regulation S-K, the Company is not required to provide this information.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Overview

The Company is a holding company that conducts its operations through three indirect operating subsidiaries: Wuhan Blower, Wuhan Generating and Wuhan Sungreen, each a company operating in China. UFG, a wholly owned subsidiary of the Company, owns 100% of the capital stock of Wuhan Blower, which in turn owns 100% of the capital stock of Wuhan Generating and Wuhan Sungreen.

The information and data contained in this Management's Discussion and Analysis of Financial Condition and Results of Operations reflect the operating results and financial condition for the years ended December 31, 2011 and 2010.

Unless otherwise indicated, information presented in this Annual Report on Form 10-K relates only to the Company's continuing operations, which include the businesses conducted by Wuhan Blower and Wuhan Generating. See Note 21 to the financial statements for information related to the business we have classified as discontinued operations, which include the business conducted by Wuhan Sungreen.

Year Ended December 31, 2011 Compared to Year Ended December 31, 2010

Sales. Sales increased $17.19 million, or 15.58%, to $127.50 million in 2011 from $110.31 million in 2010. The increase in sales was attributable to the General and Blow economic recovery in 2011 as compared to 2010.

Cost of Sales. Our cost of sales increased $13.73 million, or 16.35%, to $97.68 million in 2011 from $83.95 million in 2010. This increase was primarily attributable to our increase in sales. As a percentage of sales, the cost of sales was 76.61% for 2011 compared to 76.10% for 2010. This increase was due to inflation of the overall cost of production.

Gross Profit. Our gross profit increased $3.46 million, or 13.14%, to $29.83 million in 2011 from $26.36 million in 2010. Gross profit as a percentage of sales was 23.39% in 2011 compared to 23.90% in 2010.

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Selling Expenses. Our selling expenses in 2011 decreased $118,204 or 7.76%, to approximately $1.40 million from approximately $1.52 million in 2010. As a percentage of sales, selling expenses were 1.10% in 2011 compared to 1.38% in 2010. This decrease as a percentage of sales was primarily attributable to a decrease in the payment of sales commissions in 2011 as a result of slower collection rates with respect to our accounts receivable and lower gross margins.

General and Administrative Expenses. Our general and administrative expenses increased approximately $6.65 million, or 56.50%, to $18.41 million in 2011 from approximately $11.76 million in 2010. As a percentage of sales, general and administrative expenses were 14.44 % in 2011 compared to 10.66% in 2010. This increase as a percentage of sales was primarily attributable to (i) consultancy fee incurred in connection with the Bank Loan Agreement and VAT; (ii) additional write offs of bad debt; and (iii) discounting cost for the notes.

Warranty Expense. Our warranty expense increased to $558,278 in 2011 from $541,533 in 2010. As a percentage of sales, warranty expense was 0.44% in 2011, compared to 0.49% in 2010.

Operating Income. Our operating income decreased $3.08 million, or 24.58%, to $9.45 million in 2011 from $12.54 million in 2010. As a percentage of sales, operating income was 7.42% in 2011 compared to 11.36% in 2010. This decrease as a percentage of sales was primarily attributable to our increased general & administrative expenses mentioned above.

Interest Income. Our interest income increased to $250,912 in 2011 from $178,053 in 2010. This increase was primarily due to our increase in bank deposits during 2011.

Other Income (Expenses). Our other income decreased to $152,787 in 2011 from $511,223 in 2010. As a percentage of sales, other income was 0.12% in 2011 compared to 0.46% in 2010. Our other expenses decreased to $50,054 in 2011 from $78,397 in 2010. As a percentage of sales, other expenses was 0.04% in 2011 compared to 0.07% in 2010.

Interest Expense. Our interest expense increased to approximately $7.68 million in 2011 from approximately $5.31 million in 2010. This increase was due to the significant increase in bridge loans and national interest rise, as well as a significant increase in bank loans. As a percentage of sales, interest expense was 6.02% in 2011 and 4.82% in 2010.

Income Taxes. The Company’s income tax liability was approximately $1.61 million in 2011 compared to $1.30 million in 2010. This increase was due to an increase in taxable income in PRC. For the years ended December 31, 2011 and 2010, Wuhan Blower and Wuhan Generating were subject to a 12.5 % tax rate.

Net Income. Our net income decreased $7,066,283, or 220.38%, to $3.86 million net loss in 2011 from $3.21 million in 2010, as a result of the factors described above and a non-cash charge of $3.46 million in 2010 compared to $3.10 million in 2010.

Year Ended December 31, 2010 Compared to Year Ended December 31, 2009

Sales. Sales increased $17.98 million, or 19.47%, to $110.31 million in 2010 from $92.34 million in 2009. The increase in sales was mainly attributable to the general economic recovery in 2010 as compared to 2009.

Cost of Sales. Our cost of sales increased $14.84 million, or 21.47%, to $83.95 million in 2010 from $69.11 million in 2009. This increase was primarily attributable to our increase in sales. As a percentage of sales, the cost of sales was 76.10% for 2010 compared to 74.85% for 2009. This increase was due to inflation of the overall cost of production.

Gross Profit. Our gross profit increased $3.14 million, or 13.50%, to $26.36 million in 2010 from $23.23 million in 2009. Gross profit as a percentage of sales was 23.90% in 2010 compared to 25.15% in 2009.

Selling Expenses. Our selling expenses in 2010 decreased $26,486 or 1.71%, to approximately $1.52 million from approximately $1.55 million in 2009. As a percentage of sales, selling expenses were 1.38% in 2010 compared to 1.68% in 2009. This decrease as a percentage of sales was primarily attributable to a decrease in the payment of sales commissions in 2010 as a result of slower collection rates with respect to our accounts receivable and lower gross margins.

General and Administrative Expenses. Our general and administrative expenses increased approximately $4.95 million, or 72.61%, to $11.76 million in 2010 from approximately $6.81 million in 2009. As a percentage of sales, general and administrative expenses were 10.66 % in 2010 compared to 7.38% in 2009. This increase as a percentage of sales was primarily attributable to (i) an arrangement fee incurred in connection with the establishment of the Standard Chartered Loan agreement; (ii) legal fees, auditor fees and a management and consultancy fee incurred in connection with the early termination of the Standard Chartered Loan Agreement; and (iii) additional write offs of bad debt.

Warranty Expense. Our warranty expense increased to $541,533 in 2010 from $371,764 in 2009. As a percentage of sales, warranty expense was 0.49% in 2010, compared to 0.40% in 2009.

Operating Income. Our operating income decreased $1.96 million, or 13.49%, to $12.54 million in 2010 from $14.49 million in 2009. As a percentage of sales, operating income was 11.36% in 2010 compared to 15.69% in 2009. This decrease as a percentage of sales was primarily attributable to our increased general & administrative expenses mentioned above.

Interest Income. Our interest income decreased to $178,053 in 2010 from $341,071 in 2009. This decrease was primarily due to our decrease in bank deposits during 2010.

Other Income (Expenses). Our other income increased to $511,223 in 2010 from $226,798 in 2009. As a percentage of sales, other income was 0.46% in 2010 compared to 0.25% in 2009. Our other expenses increased to $78,397 in 2010 from $22,491 in 2009. As a percentage of sales, other expenses was 0.07% in 2010 compared to 0.02% in 2009.

Interest Expense. Our interest expense increased to approximately $5.31 million in 2010 from approximately $3.12 million in 2009. This increase was due to the significant increase in bridge loans, related interest expenses and a one-time financing consultancy fee in connection with the Company's loan agreement with Standard Chartered Bank, as well as a significant increase in bank loans. As a percentage of sales, interest expense was 4.82% in 2010 and 3.38% in 2009.

Income Taxes. The Company's income tax liability was approximately $1.30 million in 2010 compared to $1.66 million in 2009. This decrease was due to a decrease in taxable income in PRC. For the years ended December 31, 2010 and 2009, Wuhan Blower and Wuhan Generating were subject to a 12.5% tax rate.

Net Income. Our net income decreased $5.26 million, or 62.11%, to $3.21 million in 2010 from $8.46 million in 2009, as a result of the factors described above and a non-cash charge of $3.10 million in 2010 compared to $1.15 million in 2009.

Liquidity and Capital Resources

Our primary capital needs have been to fund the working capital requirements necessitated by the expansion of our manufacturing facilities. We finance our business operations primarily through cash generated by our operations, bank loans and various financing transactions. As of December 31, 2011, we had cash and cash equivalents of $71.48 million, including restricted cash of $13.95 million. Our cash at December 31, 2011 included $22.31 million that we received from our new loan facility from Agricultural Bank of China, Wuhan Branch ("Agricultural Bank"). To date, we have funded our ongoing construction projects.

As discussed above, in 2011, our sales increased 15.58% compared to 2010. The collection of our accounts receivable and other receivables is important to solidifying our liquidity position. Although we are still experiencing some payment delays, we continue to focus on the collection of accounts receivable. Our accounts receivable ratio decreased to 150 days at December 31, 2011, compared to 169 days at December 31, 2010. Our working capital for the year ended December 31, 2011 was sufficient primarily due to our continuing efforts to collect on our accounts receivable and the additional funding we obtained from the Agricultural Bank loan facility.

The majority of our customers pay us in installments at various stages of project completion. The percentage of the purchase price due at the various stages varies somewhat between contracts. In our standard sales contract, our customers are required to pay us 50% of the purchase price of a piece of equipment at the time of delivery. Alternatively, some sales contracts provide for 10% due upon signing and 40% due upon delivery. Our customers are generally required to pay us an additional 40% of the purchase price when the equipment has been installed and has performed properly for 72 hours. However, since our equipment is generally a component of a larger project, there are times that customers do not allow us to install the equipment immediately upon delivery. Our standard sales contract generally requires payment of the remaining 10% no later than 18 months following the installation. Due to the global economic crisis, some customers have not strictly adhered to the contractual payment terms. This increased our accounts receivable, which is discussed in detail below. Although the payment terms in our standard sales contract result in a long payment cycle, we believe our payment terms are typical in our industry in China. Nonetheless, we are seeking more aggressive payment schedules on new sales contracts in order to improve our liquidity position.

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

Accounts receivable increased from $49.49 million to $56.57 million from December 31, 2010 to December 31, 2011. The allowance for bad debt provided in accordance with the Company’s accounting policy was $4.47 million at December 31, 2011. The Company applied a rate of 5% on outstanding accounts receivable, which results in an ending balance of $2.98 million. Because the number of days that sales were outstanding decreased in 2011 when compared to 2010, the Company made an assessment of its outstanding receivables and provided a specific write off during the year in the amount of $4.10 million to reflect actual unrecoverable amounts. Although the Company’s results of operations were adversely impacted by the global economic slowdown in the first half of 2010, the Company experienced a recovery in 2011 and it believes that its customers will continue to make payments on their outstanding balances.

We have employed additional resources in collecting on outstanding accounts receivable and have aligned more closely sales commissions with the collection on sales. The accounts receivable balance increased by $7.10 million, since sales increased $17.19 million, or 15.58%, to $127.50 million in 2011 from $110.31 million in 2010. We will continue to pursue collection strategy to improve our operating cash flow.

At December 31, 2011, we had $18.49 million in other receivables, which is an increase of approximately $16.27 million compared to the balance at December 31, 2010.

We also had advances to suppliers of $25.18 million at December 31, 2011, which decreased by $35.43 million compared to the balance at December 31, 2010. The decrease was mainly due to the fact that we do not need to place a deposit in advance for some suppliers as we have long standing relationships with them and they give us the maximum discount.

We had inventory turnover of 8.43 times for the year ended December 31, 2011. We calculate inventory turnover as sales divided by average inventory. Inventory increased $4.19 million in raw materials, $892,531 in work in progress and decreased $1.65 million in finished goods for the year ended December 31, 2011. The raw materials increase resulted from the Company's increase in sales.

Net cash used by operating activities for 2011 was approximately $8.57 million, as compared to approximately $8.57 million sourced in 2010. This change was primarily due to collections from customers with a shortened collection period, but partially offset by an increase in interest and tax payments.

Net cash sourced in investing activities in 2011 was approximately $6.89 million, as compared to approximately $31.69 million used in 2010. This change was mainly a result of an decrease in restricted cash and deposit.

Net cash sourced by financing activities in 2011 was approximately $26.38 million, as compared to approximately $46.15 million sourced in 2010. This change was primarily due to the decrease in bank loans and notes.

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

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Bank Loans and Notes Generally

As of December 31, 2011, we had bank loans and debt from other non-bank entities totaling approximately $120.02 million (based on an exchange rate of 6.3647 RMB per 1 U.S. dollar). Information regarding these loans and notes is set forth below in U.S. dollars.

Continuing Operations

Subsidiary	Type	Name of Lender	Due Date	Interest Rate Per Annum		At 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	-