

WUHAN GENERAL GROUP (CHINA), INC  
Form 10-Q  
August 14, 2009

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

Form 10-Q

(Mark One)

Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the quarterly period ended June 30, 2009

or

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

Commission file number 001-34125

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

Nevada  
(State or Other Jurisdiction  
of Incorporation or  
Organization)

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

Canglongdao Science Park of Wuhan East Lake Hi-Tech  
Development Zone  
Wuhan, Hubei, People's Republic of China  
(Address of Principal Executive Offices)

430200  
(Zip Code)

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer,

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or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting  
company

(Do not check if a smaller reporting company)

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

As of August 12, 2009, the registrant had a total of 25,351,950 shares of common stock outstanding.

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## PART I

## FINANCIAL INFORMATION

## Item 1. Financial Statements.

Wuhan General Group (China), Inc.  
Consolidated Balance Sheets  
At June 30, 2009 and December 31, 2008  
(Stated in US Dollars)

	Note	June 30, 2009	(Audited) December 31, 2008
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash	2(e)	\$ 2,025,959	\$ 2,817,503
Restricted Cash	3	6,330,626	13,180,640
Notes Receivable	4	14,610	-
Accounts Receivable	2(f),5	43,045,061	41,486,856
Other Receivable		660,528	1,719,083
Inventory	2(g),6	21,939,612	8,395,467
Advances to Suppliers		12,707,010	20,274,473
Advances to Employees	7	166,920	189,516
Prepaid Expenses		180,863	92,279
Prepaid Taxes		393,732	604,610
Deferred Tax Asset		488,332	-
Total Current Assets		87,953,253	88,760,427
<b>Non-Current Assets</b>			
Real Property Available for Sale		1,101,888	1,100,376
Property, Plant & Equipment, net	2(h),8	30,669,570	22,274,551
Land Use Rights, net	2(j),9	12,268,030	12,297,429
Construction in Progress	10	19,726,440	30,276,011
Intangible Assets, net	2(i),11	269,002	363,574
Total Assets		\$ 151,988,183	\$ 155,072,368
<b>LIABILITIES &amp; STOCKHOLDERS' EQUITY</b>			
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Bank Loans & Notes	12	25,097,327	35,171,690
Accounts Payable		9,482,757	8,420,678
Taxes Payable		1,620,193	1,109,548
Other Payable		9,611,252	7,708,323
Dividend Payable		360,087	193,804
Accrued Liabilities	13	3,171,567	2,805,558
Customer Deposits		4,162,025	4,614,370
Total Current Liabilities		53,505,208	60,023,971
<b>Long Term Liabilities</b>			
Bank Loans and Notes	12	2,921,926	1,458,959

Total Liabilities	56,427,134	61,482,930
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See Accompanying Notes to the Financial Statements and Accountant's Report.

Wuhan General Group (China), Inc.  
Consolidated Balance Sheets  
At June 30, 2009 and December 31, 2008  
(Stated in US Dollars)

	Note	June 30, 2009	(Audited) December 31, 2008
<b>Stockholders' Equity</b>			
Preferred Stock - \$0.0001 Par Value, 50,000,000 Shares Authorized; 6,241,453 Shares of Series A Convertible Preferred Stock Issued & Outstanding at June 30, 2009 and December 31, 2008		624	624
Additional Paid-in Capital - Preferred Stock		8,170,415	8,170,415
Additional Paid-in Capital - Warrants		3,634,297	3,687,794
Additional Paid in Capital - Beneficial Conversion Feature		6,371,547	6,371,546
Preferred Stock - \$0.0001 Par Value 50,000,000 Shares Authorized; 6,354,078 Shares of Series B Convertible Preferred Stock Issued & Outstanding at June 30, 2009 and December 31, 2008		635	635
Additional Paid in Capital - Preferred Stock		12,637,158	12,637,158
Additional Paid in Capital - Warrants		2,274,181	2,274,181
Additional Paid in Capital - Beneficial Conversion Feature		4,023,692	4,023,692
Common Stock - \$0.0001 Par Value 100,000,000 Shares Authorized; 25,299,704 and 24,752,802 Shares Issued & Outstanding at June 30, 2009 and December 31, 2008, respectively	14	2,530	2,475
Additional Paid-in Capital		29,643,715	28,436,835
Statutory Reserve	2(t),15	4,478,066	3,271,511
Retained Earnings		16,600,992	17,034,243
Accumulated Other Comprehensive Income	2(u)	7,723,197	7,678,329
<b>Total Stockholders' Equity</b>		<b>95,561,049</b>	<b>93,589,438</b>
<b>Total Liabilities &amp; Stockholders' Equity</b>		<b>\$ 151,988,183</b>	<b>\$ 155,072,368</b>

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

Wuhan General Group (China), Inc.  
Consolidated Statements of Income  
For the three and six months ended June 30, 2009 and 2008  
(Stated in US Dollars)

	Note	Three months ended		Six months ended	
		June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008
<b>Revenue</b>					
Sales	2(l)	\$ 17,153,287	\$ 31,009,896	\$ 35,229,339	\$ 56,628,798
Cost of Sales	2(m)	(13,072,698)	21,436,174	(27,357,981)	(38,997,454)
Gross Profit		4,080,589	9,573,722	7,871,358	17,631,344
<b>Operating Expenses</b>					
Selling Expenses	2(n)	(306,828)	(924,742)	(719,990)	(1,295,381)
General & Administrative Expenses	2(o)	(1,550,978)	(2,240,758)	(2,931,586)	(4,489,300)
Warranty Expense	2(v),13	(149,763)	(526,933)	(303,736)	(557,217)
Total Operating Expense		(2,007,569)	(3,692,433)	(3,955,312)	(6,341,898)
Operating Income		2,073,020	5,881,289	3,916,046	11,289,446
<b>Other Income (Expenses)</b>					
Interest Income		21,065	34,489	205,396	348,449
Other Expenses		(52,554)	(116,663)	(37,884)	(117,427)
Interest Expense		(663,440)	(344,030)	(1,296,915)	(1,257,472)
Stock Penalty for late listing on NASDAQ	14	(1,153,439)	-	(1,153,439)	-
Total Other Income (Loss) & Expense		(1,848,368)	(426,204)	(2,282,842)	(1,026,450)
Earnings before Tax		224,652	5,455,085	1,633,204	10,262,996
Income Tax	2(s), 16	(206,336)	-	(499,813)	-
Net Income		\$ 18,316	\$ 5,455,085	\$ 1,133,391	\$ 10,262,996
Preferred Dividends Declared		(181,285)	(237,095)	(360,087)	(517,460)
Income (Loss) Available to Common Shareholders		\$ (162,969)	\$ 5,217,990	\$ 773,304	\$ 9,745,536
<b>Earnings Per Share</b>					
	17				
Basic		\$ (0.006)	\$ 0.23	\$ 0.031	\$ 0.46
Diluted		\$ (0.006)	\$ 0.12	\$ 0.025	\$ 0.22
<b>Weighted Average Shares Outstanding</b>					
Basic		25,233,656	22,289,114	24,995,701	21,333,964
Diluted		25,233,656	47,397,192	31,349,779	47,430,111
<b>Comprehensive Income</b>					
Net Income		\$ 18,316	\$ 5,455,085	\$ 1,133,391	\$ 10,262,996

Other Comprehensive Income

Foreign Currency Translation

Adjustment

(884,971)

1,532,125

44,868

4,065,817

Total Comprehensive Income

\$ (866,655) \$ 6,987,210 \$ 1,178,259 \$ 14,328,813

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



Wuhan General Group (China), Inc.  
 Consolidated Statements of Stockholders' Equity  
 For the six months ended June 30, 2009 and the year ended December 31, 2008  
 (Stated in US Dollars)

	Series A, J, C Warrants	Beneficial Conversion Feature Additional Paid in Capital	Series B Convertible Preferred Stock Out-standing Amount	Series B Preferred Stock Additional Paid in Capital	Series B, JJ Warrants Additional Paid in Capital	Beneficial Conversion Feature Additional Paid in Capital	Common Stock Shares Out-standing	Additional Paid in Capital	Statutory Reserve		
15	\$ 3,687,794	\$ 6,371,546	6,354,078	\$ 635	\$ 12,637,158	\$ 2,274,181	\$ 4,023,692	24,752,802	\$ 2,475	\$ 28,436,835	\$ 3,271,511
							529,787	53		1,153,383	
							17,115	2		-	
	(53,497)									53,497	
											1,206,555
15	\$ 3,634,297	\$ 6,371,547	6,354,078	\$ 635	\$ 12,637,158	\$ 2,274,181	\$ 4,023,692	25,299,704	\$ 2,530	\$ 29,643,715	\$ 4,478,066

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

Wuhan General Group (China), Inc.  
 Consolidated Statements of Stockholders' Equity  
 For the six months ended June 30, 2009 and the year ended December 31, 2008  
 (Stated in US Dollars)

	Series A, J, C Warrants Additional Paid in Capital	Beneficial Conversion Feature Additional Paid in Capital	Series B Convertible Preferred Stock Shares Out-standing Amount	Series B Preferred Stock Additional Paid in Capital	Series B, JJ Warrants Additional Paid in Capital	Beneficial Conversion Feature Additional Paid in Capital	Common Stock Shares Out-standing Amount	Additional Paid in Capital	Status Rese		
5,990	6,572,334	10,501,982	-	-	-	-	19,712,446	1,971	12,349,602	63	
	(1,860,866)		6,369,078	637	12,667,525	2,274,181	4,032,656				
5,575)		(4,130,436)	(15,000)	(2)	(30,368)		(8,963)	4,061,101	406	9,466,342	
	(150,287)						115,361	12	150,275		
									227,603		
							863,894	86	5,355,147		
	(873,387)								873,387		
									14,479		
										2,63	
0,415	\$ 3,687,794	\$ 6,371,546	6,354,078	\$ 635	\$ 12,637,158	\$ 2,274,181	\$ 4,023,692	24,752,802	\$ 2,475	\$ 28,436,835	\$ 3,27

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



Wuhan General Group (China), Inc.  
Consolidated Statements of Cash Flows  
For the three and six months ended June 30, 2009 and 2008  
(Stated in US Dollars)

	Three months ended		Six months ended	
	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008
<b>Cash Flow from Operating Activities</b>				
Cash Received from Customers	\$ 17,890,754	\$ 35,603,733	\$ 34,259,337	\$ 51,894,761
Cash Paid to Suppliers & Employees	(14,797,136)	(29,850,509)	(30,808,513)	(50,095,068)
Interest Received	21,065	34,489	205,396	348,449
Interest Paid	(663,440)	(344,030)	(1,296,915)	(1,257,472)
Taxes Paid	(636,443)	-	(636,443)	-
Miscellaneous Receipts	49,875	-	68,819	-
Cash Sourced/(Used) in Operating Activities	1,864,675	5,443,683	1,791,681	890,670
<b>Cash Flows from Investing Activities</b>				
Cash Invested in Restricted Time Deposits	304,848	3,692,828	6,850,014	4,686,927
Repayment of/(Investment in) Notes	-	2,721,354	-	1,891,127
Purchases of Plant & Equipment	-	(587,490)	-	(1,619,028)
Payments for Construction of Plant & Equipment	(203,141)	(8,723,301)	(653,393)	(9,459,398)
Cash Used/(Sourced) in Investing Activities	101,707	(2,896,610)	6,196,621	(4,500,373)
<b>Cash Flows from Financing Activities</b>				
Proceeds from/(Repayment of) Bank Loans	2,923,216	(4,450,681)	821,563	375,459
(Repayment of Notes)	(2,932,740)	-	(9,432,960)	-
Dividends Paid	-	-	(193,804)	(852,777)
Cash Sourced/(Used) in Financing Activities	(9,524)	(4,450,681)	(8,805,201)	(477,318)
<b>Net Increase/(Decrease) in Cash &amp; Cash Equivalents for the Period</b>				
	1,956,858	(1,903,608)	(816,899)	(4,087,021)
Effect of Currency Translation	(886,580)	1,500,572	25,355	3,842,927
Cash & Cash Equivalents at Beginning of Period	955,681	1,151,907	2,817,503	992,965
Cash & Cash Equivalents at End of Period	\$ 2,025,959	\$ 748,871	\$ 2,025,959	\$ 748,871
<b>Non-Cash Investing Activity:</b>				
Conversion of Preferred Stock to Common	-	2,582,061	-	6,015,944

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

Wuhan General Group (China), Inc.  
 Reconciliation of Net Income to Cash Sourced/(Used) in Operating Activities  
 For the three and six months ended June 30, 2009 and 2008  
 (Stated in US Dollars)

	Three months ended		Six months ended	
	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008
Net Income	\$ 18,316	\$ 5,455,085	\$ 1,133,391	\$ 10,262,996
Adjustments to Reconcile Net Income to Net Cash Provided by Cash Activities:				
Reclassification of assets related to Huangli Project from Construction in Progress to Inventory				
Stock	-	-	1,745,496	-
Amortization	1,153,439	-	1,153,439	-
Depreciation	119,972	27,965	141,973	59,833
Decrease/(Increase) in Notes Receivable	495,337	558,002	1,062,449	1,139,860
Decrease/(Increase) in Accounts Receivable	65,734	(106,804)	(14,610)	(25,635)
Decrease/(Increase) in Accounts Receivable	(4,118,129)	5,869,919	(1,558,205)	(4,092,743)
Decrease/(Increase) in Other Receivable	5,703,276	1,269,676	1,058,555	(844,349)
Decrease/(Increase) in Inventory	(1,031,578)	(774,189)	(13,544,144)	(3,947,480)
Decrease/(Increase) in Advances to Suppliers	634,570	760,318	7,567,463	(4,881,371)
Decrease/(Increase) in Advances to Employees	59,056	51,548	22,596	(168,889)
Decrease/(Increase) in Prepaid Expenses	(55,545)	-	(88,584)	-
Decrease/(Increase) in Prepaid Taxes	12,546	-	210,878	-
Decrease/(Increase) in Deferred Tax Asset	(430,107)	-	(488,331)	27,033-
Increase/(Decrease) in Accounts Payable	2,525,499	50,876	1,062,080	524,410
Increase/(Decrease) in Taxes Payable	695,081	(962,625)	510,645	(236,609)
Increase/(Decrease) in Other Payable	(3,249,412)	(72,365)	1,902,926	704,947
Increase/(Decrease) in Accrued Liabilities	176,637	(5,717,102)	366,009	2,139,979
Increase/(Decrease) in Customer Deposits	(910,017)	1,472,333	(452,345)	228,691
Total of all adjustments	1,846,359	(11,403)	658,290	(9,372,325)
Net Cash Provided by Operating Activities	\$ 1,864,675	\$ 5,443,683	\$ 1,791,681	\$ 890,670

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

Wuhan General Group (China), Inc.  
Notes to Financial Statements  
(Stated in US Dollars)

1. ORGANIZATION AND PRINCIPAL ACTIVITIES

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

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

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

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

The share exchange transaction has been accounted for as a recapitalization of UFG where the Company (the legal acquirer) is considered the accounting acquiree and UFG (the legal acquiree) is considered the accounting acquirer. As a result of this transaction, the Company is deemed to be a continuation of the business of UFG.

Accordingly, the financial data included in the accompanying consolidated financial statements for all periods prior to February 7, 2007 is that of the accounting acquirer (UFG). The historical stockholders’ equity of the accounting acquirer prior to the share exchange has been retroactively restated as if the share exchange transaction occurred as of the beginning of the first period presented. See also Note 14 – Capitalization.

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

The assets that were purchased from the Seller were re-appraised by an independent appraisal firm Zhuhai GongPingSiYuan Appraising Co Ltd (“Zhuhai”). The re-appraisal found that the purchase price of the assets was not materially unfair. Zhuhai believes that when the entire construction of the workshop and buildings is completed, the purchase price should be considered fair. Zhuhai noted that certain documents are in the process of registration with local government authorities. See also Note 8 – Property, Plant, and Equipment.

Wuhan General Group (China), Inc.  
Notes to Financial Statements  
(Stated in US Dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Method of Accounting

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

(b) Consolidation

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

(c) Economic and Political Risks

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

(d) Use of Estimates

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

(e) Cash and Cash Equivalents

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

(f) Accounts Receivable-Trade

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



(g)

Inventory

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

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Wuhan General Group (China), Inc.  
Notes to Financial Statements

(Stated in US Dollars)

(h) Property, Plant, and Equipment

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

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

(i) Intangible Assets

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

Technical Licenses	10 years
Trademark	20 years

(j) Land Use Rights

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

(k) Accounting for Impairment of Long-Lived Assets

The Company adopted Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"), which addresses financial accounting and reporting for the impairment or disposal of long-lived assets. The Company periodically evaluates the carrying value of long-lived assets to be held and used in accordance with SFAS 144. SFAS 144 requires impairment losses to be recorded on long-lived assets used in operations when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amounts. In that event, a loss is recognized based on the amount by which the carrying amount exceeds the fair market value of the long-lived assets. Loss on long-lived assets to be disposed of is determined in a similar manner, except that fair market values are reduced for the cost of disposal. Based on its review, the Company believes that, as of June 30, 2009 and December 31, 2008, there were no significant impairments of its long-lived assets.

(l) Revenue Recognition

Revenue from the sale of blower products and generating equipment is recognized at the time of the transfer of risks and rewards of ownership, which generally occurs when the goods are delivered to customers and the title passes. There are no customer acceptance clauses in the Company's standard sales contracts. Typically, installation begins between one to two weeks following delivery of the product. The installation process typically takes four to eight weeks.

(m)

Cost of Sales

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

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Wuhan General Group (China), Inc.  
Notes to Financial Statements  
(Stated in US Dollars)

(n) Selling Expenses

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

(o) General & Administrative Expenses

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

(p) Advertising

The Company expenses all advertising costs as incurred.

(q) Research and Development

The Company expenses all research and development costs as incurred.

(r) Foreign Currency Translation

The Company maintains its financial statements in the functional currency, which is the Renminbi (RMB). Monetary assets and liabilities denominated in currencies other than the functional currency are translated into the functional currency at rates of exchange prevailing at the balance sheet dates. Transactions denominated in currencies other than the functional currency are translated into the functional currency at the exchange rates prevailing at the dates of the transaction. Exchange gains or losses arising from foreign currency transactions are included in the determination of net income for the respective periods.

For financial reporting purposes, the financial statements of the Company, which are prepared using the functional currency, have been translated into United States dollars. Assets and liabilities are translated at the exchange rates at the balance sheet dates and revenue and expenses are translated at the average exchange rates and stockholders' equity is translated at historical exchange rates. Translation adjustments are not included in determining net income but are included in foreign exchange adjustment to other comprehensive income, a component of stockholders' equity.

Exchange Rates	6/30/2009	12/31/2008	6/30/2008
Period end RMB : US\$ exchange rate	6.84480	6.85420	6.87180
Average period RMB : US\$ exchange rate	6.84323	6.96225	7.07263

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

(s) Income Taxes

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

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Effective January 1, 2008, PRC government implemented a new 25% tax rate across the board for all enterprises regardless of whether domestic or foreign enterprise without any tax holiday which is defined as "two-year exemption followed by three-year half exemption" hitherto enjoyed by tax payers. As a result of the new tax law of a standard 25% tax rate, tax holidays terminated as of December 31, 2007. However, PRC government has established a set of transition rules to allow enterprises that had already started tax holidays before January 1, 2008, to continue enjoying the tax holidays until being fully utilized. The Company's operating subsidiaries expect to be subject to a 15% income tax rate starting January 1, 2009.

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

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

Based on the consolidated net income for the quarter ended June 30, 2009, the Company does not believe that it has any U.S. income tax liability.

(t) Statutory Reserve

In accordance with PRC laws, statutory reserve refers to the appropriation from net income, to the account "statutory reserve" to be used for future company development, recovery of losses, and increase of capital, as approved, to expand production or operations. PRC laws prescribe that an enterprise operating at a profit, must appropriate, on an annual basis, an amount equal to 10% of its profit. Such an appropriation is necessary until the reserve reaches a maximum that is equal to 50% of the enterprise's PRC registered capital.

(u) Other Comprehensive Income

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

(v) Warranty Policy

The estimation of warranty obligations is determined in the same period that revenue from the sale of the related products is recognized. The warranty obligation is based on historical experience and reflects management's best

estimate of expected costs at the time products are sold. Warranty accruals are adjusted for known or anticipated warranty claims as new information becomes available. Future events and circumstances could materially change our estimates and require adjustments to the warranty obligation. New product launches require a greater use of judgment in developing estimates until historical experience becomes available. See also Note 13 – Warranty Liability.

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(w) Earnings Per Share

Basic earnings per share is computed on the basis of the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share is computed on the basis of the weighted average number of shares of common stock plus the effect of dilutive potential common shares outstanding during the period using the treasury stock method for warrants and the as-if method for convertible securities. Dilutive potential common shares include outstanding warrants, and convertible preferred stock. See also Note 17 – Earnings Per Share.

(x) Recent Accounting Pronouncements

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133" ("SFAS 161"). SFAS 161 applies to all derivative instruments and related hedged items accounted for under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"). SFAS 161 requires entities to provide greater transparency about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, results of operations and cash flows. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008.

In May 2008, the FASB issued SFAS No. 162, "The Hierarchy of Generally Accepted Accounting Principles" ("SFAS 162"). SFAS 162 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles (the GAAP hierarchy). Statement 162 will become effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, "The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles."

In May 2008, the FASB issued FSP Accounting Principles Board ("APB") 14-1 "Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)" ("FSP APB 14-1"). FSP APB 14-1 requires the issuer of certain convertible debt instruments that may be settled in cash (or other assets) on conversion to separately account for the liability (debt) and equity (conversion option) components of the instrument in a manner that reflects the issuer's non-convertible debt borrowing rate. FSP APB 14-1 is effective for fiscal years beginning after December 15, 2008 on a retroactive basis.

In September 2008, FASB issued FSP No. 133-1 and FIN 45-4, "Disclosures about Credit Derivatives and Certain Guarantees", an amendment of FASB Statement No. 133 and FASB Interpretation No. 45; and Clarification of the Effective Date of FASB Statement No. 161. This FSP is intended to improve disclosures about credit derivatives by requiring more information about the potential adverse effects of changes in credit risk on the financial position, financial performance, and cash flows of the sellers of credit derivatives. The provisions of the FSP that amend Statement 133 and FIN 45 are effective for reporting periods (annual or interim) ending after November 15, 2008.

This FSP amends FASB Statement No. 133, Accounting for Derivative Instruments and Hedging Activities, to require disclosures by sellers of credit derivatives, including credit derivatives embedded in hybrid instruments. This FSP also amends FASB Interpretation (FIN) No. 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness to Others, to require an additional disclosure about the current status of the payment/performance risk of a guarantee. The provisions of the FSP that amend Statement 133 and FIN 45 are



effective for reporting periods (annual or interim) ending after November 15, 2008.

Finally, this FSP clarifies the effective date in FASB Statement No. 161, Disclosures about Derivative Instruments and Hedging Activities. The disclosures required by Statement 161 should be provided for any reporting period (annual or quarterly interim) beginning after November 15, 2008. For example, an entity with a March 31 fiscal year-end should provide the disclosures for its fourth quarter interim period ending March 31, 2009, in its 2009 annual financial statements. This clarification of the effective date of Statement 161 is effective upon issuance of the FSP.

The Company is currently evaluating the potential impact, if any, of the adoption of the above recent accounting pronouncements on its consolidated results of operations and financial condition.

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3. RESTRICTED CASH

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

4. NOTES RECEIVABLE

	June 30, 2009	December 31, 2008
Notes Receivable	\$ 14,610	\$ -
Less: Allowance for Bad Debts	-	-
	\$ 14,610	\$ -

There were no Notes Receivable at December 31, 2008. Notes Receivable are typically in the form of bank drafts from customers. Bank drafts are liquid instruments that can be either (a) endorsed to the Company's vendors, or (b) discounted to the Company's own bank. The Company chooses to carry these instruments as notes receivable instead of cash primarily because of the associated time element of these notes, as they are normally due at a later point in time; therefore, these bank drafts represent different risk and reward characteristics.

5. ACCOUNTS RECEIVABLE

	June 30, 2009	December 31, 2008
Total Accounts Receivable-Trade	\$ 45,304,247	\$ 44,619,549
Less: Allowance for Bad Debt	(2,259,186)	(3,132,693)
	\$ 43,045,061	\$ 41,486,856
<b>Allowance for Bad Debts</b>		
Beginning Balance	\$ (3,132,693)	\$ (1,245,883)
Allowance Provided	(1,588,762)	(1,886,810)
Less: Bad Debt Written Off	2,462,269	-
Ending Balance	\$ (2,259,186)	\$ (3,132,693)

6. INVENTORY

	June 30, 2009	December 31, 2008
Raw Materials	\$ 5,566,880	\$ 1,763,077
Work in Progress	11,923,635	4,065,249
Finished Goods	4,449,097	2,567,141
	\$ 21,939,612	\$ 8,395,467

7. ADVANCES TO EMPLOYEES

Advances to Employees of \$166,920 and \$189,516 as of June 30, 2009 and December 31, 2008, respectively, consisted of advances to salespeople for salary, travel, and expenses over extended periods as they work to procure

new sales contracts or install and perform on existing contracts. These advances are deducted from future sales commissions earned by these salespeople. In the event that a salesperson leaves the Company prior to earning sales commissions sufficient to offset advances paid to the salesperson, the Company immediately expenses any outstanding balance to the income statement. None of the employees who have received these advances is a director or executive officer of the Company.

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8. PROPERTY, PLANT AND EQUIPMENT

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

At June 30, 2009	Wuhan Blower	Wuhan Generating Equipment	Wuhan Xingelin Equipment	Total
Category of Asset				
Buildings	\$ 11,027,729	\$ 8,277,054	\$ -	\$ 19,304,783
Machinery & Equipment	1,891,113	11,640,213	1,902,720	15,434,046
Furniture & Fixtures	364,575	13,800	-	378,375
Auto	835,692	266,747	13,587	1,116,026
Other	74,557	-	5,359	79,916
	14,193,667	20,197,815	1,921,666	36,313,148
Less: Accumulated Depreciation				
Buildings	(2,036,906)	(101,834)	-	(2,138,740)
Machinery & Equipment	(721,844)	(1,789,227)	(77,378)	(2,588,449)
Furniture & Fixtures	(252,226)	(4,862)	-	(257,088)
Auto	(576,770)	(67,782)	(645)	(645,197)
Other	(14,031)	-	(74)	(14,105)
	(3,601,776)	(1,963,704)	(78,098)	(5,643,578)
Property, Plant, & Equipment, Net	\$ 10,591,891	\$ 18,234,111	\$ 1,843,568	\$ 30,669,570
At December 31, 2008	Wuhan Blower	Wuhan Generating Equipment	Wuhan Xingelin Equipment	Total
Category of Asset				
Buildings	11,011,657	-	-	11,011,657
Machinery & Equipment	1,888,521	10,551,443	1,916,553	14,356,517
Furniture & Fixtures	362,007	13,781	-	375,788
Auto	776,312	260,951	-	1,037,263
Other	74,455	-	-	74,455
	14,112,952	10,826,175	1,916,553	26,855,680
Less: Accumulated Depreciation				
Buildings	(1,874,508)	-	-	(1,874,508)
Machinery & Equipment	(632,150)	(1,260,420)	(32,125)	(1,924,695)
Furniture & Fixtures	(221,068)	(3,826)	-	(224,894)
Auto	(501,132)	(49,070)	-	(550,202)
Other	(6,830)	-	-	(6,830)
	(3,235,688)	(1,313,316)	(32,125)	(4,581,129)
Property, Plant, & Equipment, Net	\$ 10,877,264	\$ 9,512,859	\$ 1,884,428	\$ 22,274,551

The shared campus of Wuhan Blower and Wuhan Generating Equipment consists of approximately 440,000 square feet (44,233 square meters) of building floor space. The Company's new turbine manufacturing workshop will provide approximately 215,482 square feet (20,019 square meters) of floor space. A new office building will house the

business operations of Wuhan Generating Equipment and will provide an additional 134,656 square feet (12,510 square meters) of floor space.

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The newly acquired campus of Wuhan Xingelin Equipment will house the following buildings when fully built out and complete:

	Square Feet	Square Meters
Workshop 1	136,131	12,647.00
Workshop 2	90,363	8,395.00
Workshop 3	95,777	8,898.00
Dormitories	67,662	6,286.08
Commercial Shops	5,285	491.00
Warehouse	102,155	9,490.60
Office Buildings	152,994	14,213.64
	650,367	60,421.32

The local government has already approved the architectural plans for all of the buildings. Currently Workshop 1, Warehouse, Dormitories, and Commercial Shops have yet to be built. Workshop 2 and Workshop 3 are fully built. The Office Building is currently under construction but has yet to be completed.

In order to complete the building of the Workshop 1 the Company will need to pay approximately an additional \$1.78 million (RMB 12,242,721) beyond the amount committed in the asset purchase agreement.

9. LAND USE RIGHTS

At June 30, 2009		Wuhan Blower	Wuhan Generating Equipment	Wuhan Xingelin Equipment	Total
Category of Asset					
Land Use Rights	\$	2,196,930	-	\$ 10,488,151	\$ 12,685,081
Less: Accumulated Amortization		(241,412)	-	(175,639)	(417,051)
Land Use Rights, Net	\$	1,955,518	-	\$ 10,312,512	\$ 12,268,030

At December 31, 2008		Wuhan Blower	Wuhan Generating Equipment	Wuhan Xingelin Equipment	Total
Category of Asset					
Land Use Rights	\$	2,117,709	-	\$ 10,473,768	\$ 12,591,477
Less: Accumulated Amortization		(206,766)	-	(87,282)	(294,049)
Land Use Rights, Net	\$	1,910,943	-	\$ 10,386,486	\$ 12,297,429

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

The parcel of land purchased in the asset acquisition and now carried on the books of Wuhan Xingelin Equipment total 792,547 square feet (73,630.05 square meters). The land will be used for Wuhan Xingelin Equipment's office building, workshops, and dormitories. The land use right will be amortized over 30 years.



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10. CONSTRUCTION IN PROGRESS

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

The following table details the assets that are accounted for in the Construction-in-Progress account at June 30, 2009 and December 31, 2008:

Subsidiary	Description	At June 30, 2009	At December 31, 2008
Wuhan Blower	Blower Workshop	\$ 690,404	\$ 631,839
Wuhan Blower	Bus Parking	4,383	4,377
Wuhan Blower	Dormitory	20,453	20,425
Wuhan Blower	Landscaping	123,279	4,934
Wuhan Blower	Office Building	523,259	471,959
Wuhan Blower	Other	392,070	391,533
Wuhan Blower	Security System	292	292
Wuhan Blower	Street	584	584
Wuhan Blower	Testing Facility	11,396	11,380
Wuhan Blower	Wall	320,908	320,468
Wuhan Blower	Warehouse	33,564	33,518
Wuhan Blower	Badminton courts	14,610	-
Wuhan Generating	Capitalized Interest	11,872	131,622
Wuhan Generating	Equipment Requiring Installation	2,346,735	3,374,825
Wuhan Generating	Generating Workshop	9,210	5,745,581
Wuhan Generating	Generating Workshop-Materials	272,364	4,481,922
Wuhan Generating	Generating Office Building	3,424,093	3,346,449
Wuhan Generating	Miscellaneous	190	259
Wuhan Generating	Shipping Costs	0	10,213
Wuhan Xingelin Equipment	Landscaping	146,117	145,917
Wuhan Xingelin Equipment	Workshop	4,844,203	4,837,559
Wuhan Xingelin Equipment	Office Building	5,513,780	5,289,083
Wuhan Xingelin Equipment	Utility Systems Setup	1,022,674	1,021,272
		\$ 19,726,440	\$ 30,276,011



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11. INTANGIBLE ASSETS

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

	June 30, 2009	December 31, 2008
Category of Asset		
Trademarks	\$ 105,920	\$ 145,896
Mitsubishi License	302,551	335,980
Tianyu CAD License	3,954	4,450
Sunway CAD License	16,801	16,778
Microsoft License	12,209	13,934
	\$ 441,435	\$ 517,038
Less: Accumulated Amortization		
Trademarks	\$ (40,184)	\$ (32,827)
Mitsubishi License	(123,437)	(113,599)
Tianyu CAD License	(1,569)	(1,391)
Sunway CAD License	(2,006)	(1,119)
Microsoft License	(5,237)	(4,528)
	\$ (172,433)	\$ (153,464)
Intangible Assets, Net	\$ 269,002	\$ 363,574

The weighted average amortization period for the Company's intangible assets at June 30, 2009 and December 31, 2008 were 12.82 years and 12.82 years, respectively.

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

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

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12. BANK LOANS AND NOTES

The following table provides the name of the lender, due date, interest rate, and amounts outstanding at June 30, 2009 and December 31, 2008, for the Company's bank loans and notes payable.

Short-term Loan