WUHAN GENERAL GROUP (CHINA), INC
Form 10-Q
November 16, 2009

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

Form 10-Q

(Mark One)

x Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended September 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 x No ¨

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

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

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

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

As of October 31, 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 September 30, 2009 and December 31, 2008
(Stated in US Dollars)

	Note	September 30, 2009	(Audited) December 31, 2008
ASSETS			
Current Assets			
Cash	2 (e)	$ 819,830	$ 2,817,503
Restricted Cash	3	7,536,300	13,180,640
Notes Receivable	4	2,194	-
Accounts Receivable	2 (f) ,5	47,841,353	41,486,856
Other Receivable		1,276,277	1,719,083
Inventory	2 (g) ,6	22,830,077	8,395,467
Advances to Suppliers		15,885,956	20,274,473
Advances to Employees	7	116,318	189,516
Prepaid Expenses		798,607	92,279
Prepaid Taxes		526,079	604,610
Deferred Tax Asset	16	493,300	-
Total Current Assets		98,126,291	88,760,427
Non-Current Assets			
Real Property Available for Sale		1,103,048	1,100,376
Property, Plant & Equipment, net	2 (h) ,8	30,142,351	22,274,551
Land Use Rights, net	2 (j) ,9	12,188,397	12,297,429
Construction in Progress	10	20,226,806	30,276,011
Intangible Assets, net	2 (i) ,11	259,896	363,574
Total Assets		$ 162,046,789	$ 155,072,368
LIABILITIES & STOCKHOLDERS' EQUITY			
Liabilities			
Current Liabilities			
Bank Loans & Notes	12	31,244,022	35,171,690
Accounts Payable		8,751,493	8,420,678
Taxes Payable		2,410,337	1,109,548
Other Payable		8,832,835	7,708,323
Dividend Payable		543,363	193,804
Accrued Liabilities	13	3,550,798	2,805,558
Customer Deposits		5,388,333	4,614,370
Total Current Liabilities		60,721,181	60,023,971
Long Term Liabilities			
Bank Loans and Notes	12	2,925,002	1,458,959

Total Liabilities	63,646,183	61,482,930

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

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

	Note	September 30, 2009		(Audited) December 31, 2008
Stockholders' Equity				
Preferred Stock - $0.0001 Par Value, 50,000,000 Shares Authorized; 6,241,453 Shares of Series A Convertible Preferred Stock Issued & Outstanding at September 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		3,484,011		3,687,794
Additional Paid-in Capital - Beneficial Conversion Feature		6,371,546		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 September 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; 25,351,950 and 24,752,802 Shares Issued & Outstanding at September 30, 2009 and December 31, 2008, respectively	14	2,536		2,475
Additional Paid-in Capital		29,793,996		28,436,835
Statutory Reserve	2 (t) ,15	4,478,066		3,271,511
Retained Earnings		19,424,564		17,034,243
Accumulated Other Comprehensive Income	2 (u)	7,739,182		7,678,329
Total Stockholders' Equity		98,400,606		93,589,438
Total Liabilities & Stockholders' Equity		$ 162,046,789	$	155,072,368

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

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

		Three months ended		Nine months ended	
	Note	September 30, 2009	September 30, 2008	September 30, 2009	September 30, 2008
Revenue					
Sales	2 (l)	$ 24,720,005	$ 33,952,893	$ 59,949,344	$ 90,581,691
Cost of Sales	2 (m)	17,855,151	23,934,676	45,213,132	62,932,130
Gross Profit		6,864,854	10,018,217	14,736,212	27,649,561
Operating Expenses					
Selling Expenses	2 (n)	759,752	834,590	1,479,742	2,129,971
General & Administrative Expenses	2 (o)	1,463,970	2,112,731	4,395,556	6,602,031
Warranty Expense	2 (v) ,13	178,610	89,958	482,346	647,175
Total Operating Expense		2,402,332	3,037,279	6,357,644	9,379,177
Operating Income		4,462,522	6,980,938	8,378,568	18,270,384
Other Income (Expenses)					
Interest Income		288,862	288,177	494,258	636,626
Other Income (Expenses)		117,589	(1,375,291)	79,702	(1,492,718)
Interest Expense		(1,276,069)	(1,264,301)	(2,572,984)	(2,521,773)
Stock Penalty for late listing on NASDAQ	14	-	-	(1,153,439)	-
Total Other Income (Loss) & Expense		(869,618)	(2,351,415)	(3,152,463)	(3,377,865)
Earnings before Tax		3,592,904	4,629,523	5,226,105	14,892,519
Income Tax	2 (s) , 16	586,053	-	1,085,866	-
Net Income		$ 3,006,851	$ 4,629,523	$ 4,140,239	$ 14,892,519
Preferred Dividends Declared		183,276	215,829	543,363	733,289
Series A Constructive Preferred Dividend			-		
Series B Constructive Preferred Dividend			3,027,542		3,027,542
Income (Loss) Available to Common Shareholders		$ 2,823,575	1,386,152	$ 3,596,876	11,131,688
Earnings Per Share	17				
Basic		$ 0.11	$ 0.05	$ 0.14	$ 0.51
Diluted		$ 0.08	$ 0.03	$ 0.09	$ 0.33

Weighted Average Shares Outstanding				
Basic	25,285,902	25,930,537	25,013,117	21,907,429
Diluted	39,135,314	47,457,524	38,324,011	45,365,361
Comprehensive Income				
Net Income	$ 3,006,851	$ 4,629,523	$ 4,140,239	$ 14,892,519
Other Comprehensive Income				
Foreign Currency Translation Adjustment	15,984	189,698	60,853	4,255,515
Total Comprehensive Income	$ 3,022,835	$ 4,819,221	$ 4,201,092	$ 19,148,034

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

Wuhan General Group (China), Inc.
Consolidated Statements of Stockholders' Equity
For the nine months ended September 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	Series B Convertible Preferred Stock Amount	Series B Preferred Stock Additional Paid in Capital	Series B, JJ Warrants Additional Paid in Capital	Beneficial Conversion Feature Additional Paid in Capital	Common Stock Shares Out- -standing	Common Stock Amount	Additional Paid in Capital	Statutory Reserve
$ 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	$ 3,271,51
							529,787	53	1,153,386	
							69,361	8	(8)	
(203,783)									203,783	
										1,206,55
$ 3,484,011	$ 6,371,546	6,354,078	$ 635	$ 12,637,158	$ 2,274,181	$ 4,023,692	25,351,950	$ 2,536	$ 29,793,996	$ 4,478,06

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

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

l al	Series A, J, C Warrants Additional Paid in Capital	Beneficial Conversion Feature Additional Paid in Capital	Series B Convertible Preferred Stock Shares Out- -standing	Series B Convertible Preferred Stock Amount	Series B Preferred Stock Additional Paid in Capital	Series B, JJ Warrants Additional Paid in Capital	Beneficial Conversion Feature Additional Paid in Capital	Common Stock Shares Out- -standing	Common Stock Amount	Additional Paid in Capital	Sta Re
90	6,572,334	10,501,982	-	-	-	-	-	19,712,446	1,971	12,349,602	6
	(1,860,866)		6,369,078	637	12,667,525	2,274,181	4,032,656				
75)		(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	
											2,6
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	$ 3,2

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 nine months ended September 30, 2009 and 2008
(Stated in US Dollars)

	Three months ended		Nine months ended	
	September 30, 2009	September 30, 2008	September 30, 2009	September 30, 2008
Cash Flow from Operating Activities				
Cash Received from Customers	20,543,291	28,544,654	54,806,025	80,439,415
Cash Paid to Suppliers & Employees	(24,617,529)	(26,129,464)	(55,429,438)	(76,160,420)
Interest Received	288,862	288,177	494,258	636,626
Interest Paid	(1,276,069)	(1,264,301)	(2,572,984)	(2,521,773)
Taxes Paid	(591,022)	-	(1,227,465)	-
Miscellaneous Receipts	73,002	-	141,821	-
Cash Sourced/(Used) in Operating Activities	(5,579,465)	1,439,066	(3,787,783)	2,393,848
Cash Flows from Investing Activities				
Cash Invested in Restricted Time Deposits	(1,205,674)	(7,154,810)	5,644,340	(2,467,883)
Repayment of/(Investment in) Notes	(1,160)	-	(1,160)	1,891,127
Purchases of Plant & Equipment	(571,766)	-	(1,225,159)	
Payments for Construction of Plant & Equipment	(13,823)	-	(13,823)	(11,078,425)
Cash Used/(Sourced) in Investing Activities	(1,792,423)	(7,154,810)	4,404,198	(11,655,182)
Cash Flows from Financing Activities				
Proceeds from Issuance of Preferred Stock	-	10,624,501	-	10,624,501
Proceeds from Bank Loans and Notes	14,339,013	4,976,284	15,160,576	5,351,743
(Repayment of Bank Loans and Notes)	(8,189,240)		(17,622,200)	
Dividends Paid		(779,387)	(193,804)	(1,632,164)
Cash Sourced/(Used) in Financing Activities	6,149,773	14,821,399	(2,655,428)	14,344,081
Net Increase/(Decrease) in Cash & Cash Equivalents for the Period	(1,222,115)	9,105,655	(2,039,013)	5,082,747
Effect of Currency Translation	15,984	205,006	41,339	3,983,821
Cash & Cash Equivalents at Beginning of Period	2,025,960	748,871	2,817,503	992,965
Cash & Cash Equivalents at End of Period	$ 819,829	$ 10,059,532	$ 819,829	$ 10,059,533

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 nine months ended September 30, 2009 and 2008
(Stated in US Dollars)

	Three months ended		Nine months ended	
	September 30, 2009	September 30, 2008	September 30, 2009	September 30, 2008
Net Income	$ 3,006,851	4,629,523	$ 4,140,239	14,892,519
Adjustments to Reconcile Net Income to Net Cash Provided by Cash Activities:				
Non Cash Compensation		1,673,841		1,983,787
Reclassification of assets related to Huangli Project from Construction in Progress to Inventory			1,745,496	
Stock			1,153,439	
Amortization	102,562	20,423	244,535	80,256
Depreciation	598,618	488,354	1,661,067	1,628,214
Decrease/(Increase) in Notes Receivable	12,416	-	(2,194)	(25,635)
Decrease/(Increase) in Accounts Receivable	(4,796,292)	(5,809,839)	(6,354,497)	(9,902,582)
Decrease/(Increase) in Other Receivable	(619,146)	3,196,118	439,409	2,351,769)
Decrease/(Increase) in Inventory	(890,465)	(4,007,822)	(14,434,609)	(7,955,302)
Decrease/(Increase) in Advances to Suppliers	(3,178,946)	3,190,928	4,388,517	(1,690,443)
Decrease/(Increase) in Advances to Employees	50,602	3,696	73,198	(165,193)
Decrease/(Increase) in Prepaid Expenses	(617,744)		(706,328)	
Decrease/(Increase) in Prepaid Taxes	(132,347)	(201,755)	78,531	(174,722)
Decrease/(Increase) in Deferred Tax Asset	(4,969)		(493,300)	
Increase/(Decrease) in Accounts Payable	(731,264)	1,679,583	330,816	2,203,993
Increase/(Decrease) in Taxes Payable	790,144	(1,989)	1,300,789	(238,598)
Increase/(Decrease) in Other Payable	(775,025)	(574,417)	1,127,905	130,530
Increase/(Decrease) in Accrued Liabilities	379,232	(53,059)	745,241	1,841,083
Increase/(Decrease) in Customer Deposits	1,226,308	(2,794,519)	773,963	(2,565,828)
Total of all adjustments	(8,586,316)	(3,190,457)	(7,928,022)	(12,498,671)
Net Cash Provided by Operating Activities	$ (5,579,465)	$ 1,439,066	$ (3,787,783)	$ 2,393,848

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 U.S. Securities and Exchange Commission on February 5, 2009 further details the transaction. Title of the assets purchased under the above agreement has been recorded under Wuhan Xingelin Equipment. Wuhan Blower currently owns 100% beneficial interest in Wuhan Xingelin Equipment. Wuhan Xingelin Equipment 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 provides evidence that found that the purchase price of the assets was reasonable. Zhuhai noted that certain documents are being processed by the local government authorities for registration and transfer of title. 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, revenue recognition under the percentage of completion method, 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.

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

Annually the Company reviews the intangible assets for impairment, in accordance with FASB 142 Impairment of Long-Lived Assets. The company considers whether the estimated future benefits of the technical licenses and trademarks will be fully realized over the course of their estimated useful lives. If the technical licenses become obsolete, or trademarks are unsuccessfully defended against infringement by third-parties, the Company will consider future cash flows and relevant factors to quantify the level of impairment and record impairment adjustments accordingly. The Company has not yet recognized any impairment upon the intangible assets.

(j) Land Use Rights

The Company carries land use rights at cost less accumulated amortization. Land use rights are amortized straight-line over the useful life of 50 years for the Wuhan Blower and Wuhan Generating 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 September 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, generating equipment and other general equipment is recognized at the time of the transfer of risks and rewards of ownership, which generally occurs when the goods are delivered to customers and the title passes. The Company believes that the installation is not essential to the functionality of the equipment. This is because the equipment is tested at the Company's facilities before it is shipped and consequently, the equipment is completed and functional at the point that it is delivered to the customer. Additionally, since the Company's products generally are a smaller component of a large project, after delivery, the Company has no control over how the customer will use the delivered products and sometimes other companies are used to install the equipment purchased from us. Finally, our customers do not have a contractual right to return products to the Company, and we historically have experienced virtually no returns.

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

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

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

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

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

(m) Cost of Sales

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

(n) Selling Expenses

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

(o) General & Administrative Expenses

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

(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.

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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	9/30/2009	12/31/2008	9/30/2008
Period end RMB : US$ exchange rate	6.8376	6.8542	6.8551
Average period RMB : US$ exchange rate	6.8425	6.9622	6.9989

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.

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: -

	Taxable Income		
Rate	Over	But Not Over	Of Amount Over
15%	0	50,000	0
25%	50,000	75,000	50,000
34%	75,000	100,000	75,000

39%	100,000	335,000	100,000
34%	335,000	10,000,000	335,000
35%	10,000,000	15,000,000	10,000,000
38%	15,000,000	18,333,333	15,000,000
35%	18,333,333	-	-

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(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 Expense Accruals

The Company reviews its actual warranty expenses incurred, relative to warranty expense accruals on an annual basis. Based on the actual warranty expenses incurred, the Company evaluates the reasonableness of its estimates and may adjust the assumptions applied in making the warranty expense accruals. If the estimated warranty expenses versus the actual expense are appreciably different, the Company will adjust the warranty expenses accordingly. When developing warranty expense accruals, the Company considers improvements in its production processes, in-house technical expertise, and operational experiences. See also Note 13 – Warranty Liability.

(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 May 2009, the FASB issued SFAS No. 165, "Subsequent Events" ("SFAS 165"). SFAS 165 is intended to establish general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. It requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date, that is, whether that date represents the date the financial statements were issued or were available to be issued. SFAS 165 is effective for interim or annual financial periods ending after June 15, 2009.

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

Statement 166 is a revision to FASB Statement No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, and will require more information about transfers of financial assets, including securitization transactions, and where entities have continuing exposure to the risks related to transferred financial assets. It eliminates the concept of a “qualifying special-purpose entity,” changes the requirements for derecognizing financial assets, and requires additional disclosures.

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Statement 167 is a revision to FASB Interpretation No. 46 (Revised December 2003), Consolidation of Variable Interest Entities, and changes how a reporting entity determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. The determination of whether a reporting entity is required to consolidate another entity is based on, among other things, the other entity's purpose and design and the reporting entity's ability to direct the activities of the other entity that most significantly impact the other entity's economic performance.

On July 1, 2009, FASB issued FASB Statement No. 168, The "FASB Accounting Standards Codification" and the Hierarchy of Generally Accepted Accounting Principles. The ASC has become the source of authoritative US GAAP recognized by the FASB to be applied by nongovernmental entities and provides that all such guidance carries an equal level of authority. The ASC is not intended to change or alter existing GAAP. The ASC is effective for interim and annual periods ending after September 15, 2009.

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.

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

	September 30, 2009	December 31, 2008
Notes Receivable	$ 2,194	$ -
Less : Allowance for Bad Debts	-	-
	$ 2,194	$ -

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

	September 30, 2009	December 31, 2008
Total Accounts Receivable-Trade	$ 50,359,319	$ 44,619,549
Less : Allowance for Bad Debt	(2,517,966)	(3,132,693)
	$ 47,841,353	$ 41,486,856
Allowance for Bad Debts		

Beginning Balance	$	(3,132,693)	$	(1,245,883)
Allowance Provided		(1,847,542)		(1,886,810)
Less : Bad Debt Written Off		2,462,269		-
Ending Balance	$	(2,517,966)	$	(3,132,693)

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6. INVENTORY

		September 30, 2009		December 31, 2008
Raw Materials	$	5,668,848	$	1,763,077
Work in Progress		14,544,293		4,065,249
Finished Goods		2,616,936		2,567,141
	$	22,830,077	$	8,395,467

7. ADVANCES TO EMPLOYEES

Advances to Employees of $113,102 and $189,516 as of September 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.

8. PROPERTY, PLANT AND EQUIPMENT

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

At September 30, 2009 Category of Asset	Wuhan Blower	Wuhan Generating Equipment	Wuhan Xingelin Equipment	Total
Buildings	$ 11039342	$ 8,286,936	$ -	$ 19,326,278
Machinery & Equipment	1,893,105	11,661,714	1,904,723	$ 15,459,542
Furniture & Fixtures	367,972	15,483	-	$ 383,455
Auto	847,330	267,028	20,914	