

WUHAN GENERAL GROUP (CHINA), INC
Form 10-Q
August 13, 2008

**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, 2008

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 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

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 11, 2008, the registrant had a total of 22,857,711 shares of common stock outstanding.

INDEX

	Page
PART I FINANCIAL INFORMATION	1
Item 1. Financial Statements.	1
Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.	28
Item 3. Quantitative and Qualitative Disclosures About Market Risk.	38
Item 4T. Controls and Procedures.	38
PART II OTHER INFORMATION	42
Item 1. Legal Proceedings.	42
Item 1A. Risk Factors.	42
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.	58
Item 3. Defaults Upon Senior Securities.	58
Item 4. Submission of Matters to a Vote of Security Holders.	58
Item 5. Other Information.	59
Item 6. Exhibits.	59
Signatures	

PART I

FINANCIAL INFORMATION

Item 1. Financial Statements.

Wuhan General Group (China), Inc.
Consolidated Balance Sheets
At June 30, 2008, and December 31, 2007
(Stated in US Dollars)

		June 30, 2008 (unaudited)	December 31, 2007 (audited)
ASSETS			
Cash	2(e)	748,870	992,965
Restricted Cash	3	4,421,939	9,108,866
Notes Receivable	4	-	1,865,491
Accounts Receivable	2(f),5	35,968,154	31,875,411
Other Receivable		2,821,995	1,977,646
Inventory	2(g),6	11,843,440	7,895,960
Advances to Suppliers		17,624,501	12,743,130
Advances to Employees	7	307,309	138,420
Prepaid Taxes		230,521	257,553
Real Property Available for Sale		1,057,831	993,861
Total Current Assets		75,024,561	67,849,304
Property, Plant & Equipment, <i>net</i>	2(h),8	20,880,715	20,401,546
Land Use Rights, <i>net</i>	2(j),9	1,927,171	1,830,476
Construction in Progress	10	19,356,882	9,897,484
Intangible Assets, <i>net</i>	2(i),11	383,675	381,281
Total Assets		\$ 117,573,004	\$ 100,360,092
LIABILITIES & STOCKHOLDERS' EQUITY			
<u>Liabilities</u>			
Bank Loans & Notes	12	28,508,122	28,132,664
Accounts Payable		5,271,708	4,747,298
Taxes Payable		806,774	1,043,383
Other Payable		3,842,521	3,137,575
Dividend Payable		563,558	898,875
Accrued Liabilities	13	4,143,779	2,003,800
Customer Deposits		5,263,155	5,034,464
Total Current Liabilities		48,399,618	44,998,059
Total Liabilities		48,399,618	44,998,059

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

Wuhan General Group (China), Inc.
Consolidated Balance Sheets
At June 30, 2008, and December 31, 2007
(Stated in US Dollars)

<u>Stockholders' Equity</u>	Note	June 30, 2008 (unaudited)	December 31, 2007 (audited)
Preferred Stock - \$0.0001 Par Value 50,000,000 Shares Authorized; 7,705,493 and 10,287,554 Shares of Series A Convertible Preferred Stock Issued & Outstanding at June 30, 2008, and December 31, 2007, respectively	14	771	1,029
Additional Paid in Capital - Preferred Stock		10,086,926	13,466,990
Additional Paid in Capital - Warrants	14	6,572,334	6,572,334
Additional Paid in Capital - Beneficial Conversion Feature		7,866,102	10,501,982
Common Stock - \$0.0001 Par Value 100,000,000 Shares Authorized; 22,857,711 and 19,712,446 Shares Issued & Outstanding at June 30, 2008, and December 31, 2007, respectively	14	2,285	1,971
Additional Paid in Capital		18,365,490	12,349,602
Statutory Reserve	2(t),15	2,261,116	633,771
Retained Earnings		16,601,839	8,483,648
Accumulated Other Comprehensive Income	2(u)	7,416,523	3,350,706
Total Stockholders' Equity		69,173,386	55,362,033
Total Liabilities & Stockholders' Equity		\$ 117,573,004	\$ 100,360,092

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

Wuhan General Group (China), Inc.
Statements of Income
For the three and six months ended June 30, 2008 and 2007
(Stated in US Dollars)

		3 months ended June 30, 2008	3 months ended June 30, 2007	6 months ended June 30, 2008	6 months ended June 30, 2007
Revenue					
Sales	2(l)	\$ 31,009,896	\$ 17,542,361	\$ 56,628,798	\$ 29,819,700
Cost of Sales	2(m)	21,436,174	12,133,967	38,997,454	20,471,948
Gross Profit		9,573,722	5,408,394	17,631,344	9,347,752
Operating Expenses					
Selling Expenses	2(n)	924,742	432,488	1,295,381	694,610
General & Administrative Expenses	2(o)	2,240,758	357,542	4,489,300	1,819,146
Warranty Expense	2(v),13	526,933	239,301	557,217	423,461
Total Operating Expense		3,692,433	1,029,331	6,341,898	2,937,217
Operating Income		5,881,289	4,379,063	11,289,446	6,410,535
Other Income (Expenses)					
Interest Income		34,489	1,376	348,449	14,125
Other Expenses		(116,663)	(78)	(117,427)	(1,043)
Interest Expense		(344,030)	(194,797)	(1,257,472)	(387,508)
Total Other Income (Loss) & Expense		(426,204)	(193,499)	(1,026,450)	(374,426)
Earnings before Tax		5,455,085	4,185,564	10,262,996	6,036,109
Income Tax	2(s), 16	-	-	-	-
Net Income		\$ 5,455,085	\$ 4,185,564	\$ 10,262,996	\$ 6,036,109
Preferred Dividends Declared		237,095	299,625	517,460	473,625
Constructive Preferred Dividend		-	-	-	10,501,982
Income Available to Common Shareholders		\$ 5,217,990	\$ 3,885,939	\$ 9,745,536	\$ (4,939,498)
Earnings Per Share					
Basic	17	\$ 0.23	\$ 0.20	\$ 0.46	\$ (0.25)
Diluted		\$ 0.12	\$ 0.11	\$ 0.22	\$ (0.19)
Weighted Average Shares Outstanding					
Basic		22,289,114	19,712,446	21,333,964	19,712,446
Diluted		47,397,192	38,048,658	47,430,111	26,115,798

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

Wuhan General Group (China), Inc.
Statements of Income
For the three and six months ended June 30, 2008 and 2007
(Stated in US Dollars)

	3 months ended June 30, 2008	3 months ended June 30, 2007	6 months ended June 30, 2008	6 months ended June 30, 2007
Comprehensive Income				
Net Income	\$ 5,455,085	\$ 4,185,564	\$ 10,262,996	\$ 6,036,109
Other Comprehensive Income				
Foreign Currency				
Translation Adjustment	1,532,125	365,389	4,065,817	566,954
Total Comprehensive Income	\$ 6,987,210	\$ 4,550,953	\$ 14,328,813	\$ 6,603,063

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

Wuhan General Group (China), Inc.
Statements of Stockholders' Equity
For the six months ended June 30, 2008 and the year ended December 31, 2007
(Stated in US Dollars)

	Preferred Stock		Warrants		Conversion Feature		Common Stock		Additional Statutory Reserve		Retained Earnings
	Shares Outstanding	Amount	Paid in Capital	Additional Paid in Capital	Paid in Capital	Additional Paid in Capital	Shares Outstanding	Amount	Paid in Capital	Reserve	Ear
Balance, January 1, 2007	-	-	-	-	-	-	19,712,446	1,971	12,349,602	622,151	5,
Issuance of Common Stock for Cash											
Issuance of Preferred Stock for Cash	10,287,554	1,029	13,466,990	6,572,334							
Net Income											14,
Preferred Dividends Declared											(1,
Constructive Preferred Dividends					10,501,982						(10,
Appropriations of Retained Earnings										11,620	
Foreign Currency Translation Adjustment											
Balance, December 31, 2007	10,287,554	1,029	13,466,990	6,572,334	10,501,982		19,712,446	1,971	12,349,602	633,771	8,
Balance, January 1, 2008	10,287,554	1,029	13,466,990	6,572,334	10,501,982		19,712,446	1,971	12,349,602	633,771	8,
Conversion of Preferred Stock	(2,582,061)	(258)	(3,380,064)		(2,635,880)	2,582,061	258	6,015,944			
Issuance of Stock						563,204	56	(56)			
Net Income											10,
Preferred Dividends Declared											(
										1,627,345	(1,

Appropriations
of Retained
Earnings
Foreign
Currency
Translation
Adjustment

Balance, June

30, 2008	7,705,493	771	10,086,926	6,572,334	7,866,102	22,857,711	2,285	18,365,490	2,261,116	16,
----------	-----------	-----	------------	-----------	-----------	------------	-------	------------	-----------	-----

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

5

Wuhan General Group (China), Inc.
Statements of Cash Flows
For the three months and six months ended June 30, 2008 and 2007
(Stated in US Dollars)

	3 months ended June 30, 2008	3 months ended June 30, 2007	6 months ended June 30, 2008	6 months ended June 30, 2007
Cash Flow from Operating Activities				
Cash Received from Customers	\$ 35,603,733	\$ 20,490,453	\$ 51,894,761	\$ 22,488,062
Cash Paid to Suppliers & Employees	(29,850,509)	(14,512,695)	(50,095,068)	(32,485,527)
Interest Received	34,489	1,376	348,449	14,125
Interest Paid	(344,030)	(194,797)	(1,257,472)	(387,508)
Cash Sourced/(Used) in Operating Activities	5,443,683	5,784,337	890,670	(10,370,848)
Cash Flows from Investing Activities				
Cash Invested in Restricted Time				
Deposits	3,692,828	(8,296,028)	4,686,927	(9,220,334)
Repayment of/(Investment in) Notes	2,721,354	(19,122)	1,891,127	664,097
Purchases of Plant & Equipment	(587,490)	(1,550,804)	(1,619,028)	(989,168)
Payments for Construction of Plant & Equipment	(8,723,301)	(4,817,924)	(9,459,398)	(1,796,176)
Purchases of Land Use Rights	-	(28,552)	-	(7,674,010)
Payments for Purchases of Intangible Assets	-	(6,529)	-	(46,926)
Cash Used/(Sourced) in Investing Activities	(2,896,610)	(14,718,959)	(4,500,373)	(458,346)
Cash Flows from Financing Activities				
Proceeds from Issuance of Preferred Stock				
	-	-	-	20,040,353
Proceeds from/(Repayment of) Bank Loans	(4,450,681)	4,281,900	375,459	9,686,604
Dividends Paid	-	(174,029)	(852,777)	(174,029)
Cash Sourced/(Used) in Financing Activities	(4,450,681)	4,107,871	(477,318)	29,552,928
Net Increase/(Decrease) in Cash & Cash Equivalents for the Period				
	(1,903,608)	(4,826,751)	(4,087,021)	108,833
Effect of Currency Translation	1,500,571	365,343	3,842,927	566,953
Cash & Cash Equivalents at Beginning of Period	1,151,907	5,385,436	992,965	248,243
Cash & Cash Equivalents at End of Period	\$ 748,870	\$ 924,029	\$ 748,871	\$ 924,029
Non-Cash Investing Activity:				

Surrender of Property by Hubei Dilong	-	989,168	-	989,168
Constructive Preferred Dividend	-	-	-	10,501,982
Conversion of Preferred Stock to Common	2,582,061	-	6,015,944	-

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

6

Wuhan General Group (China), Inc.
Reconciliation of Net Income to Cash Flow Sourced/(Used) in Operating Activities
For the three months and six months ended June 30, 2008 and 2007
(Stated in US Dollars)

	3 months ended June 30, 2008	3 months ended June 30, 2007	6 months ended June 30, 2008	6 months ended June 30, 2007
Net Income	\$ 5,455,085	\$ 4,185,564	\$ 10,262,996	\$ 6,036,109
<i>Adjustments to Reconcile Net Income to Net Cash Provided by Cash Activities:</i>				
Amortization	27,965	21,613	59,833	41,748
Depreciation	558,002	394,934	1,139,860	767,205
Provision for Bad Debt on Note Receivable	(106,804)	566	(25,635)	930
Decrease/(Increase) in Accounts Receivable	5,869,919	(250,402)	(4,092,743)	(10,664,225)
Decrease/(Increase) in Other Receivable	1,269,676	1,002,528	(844,349)	326,542
Decrease/(Increase) in Inventory	(774,189)	(2,703,919)	(3,947,480)	(4,408,660)
Decrease/(Increase) in Advances to Suppliers	760,318	(2,045,976)	(4,881,371)	(5,304,249)
Decrease/(Increase) in Advances to Employees	51,548	12,622,347	(168,889)	(365,280)
Decrease/(Increase) in Prepaid Taxes	-	(14,666)	27,033	(27,920)
Increase/(Decrease) in Accounts Payable	50,876	(6,102,502)	524,410	2,710,987
Increase/(Decrease) in Taxes Payable	(962,625)	(154,275)	(236,609)	(461,509)
Increase/(Decrease) in Other Payable	(72,365)	(3,702,382)	704,947	(2,551,538)
Increase/(Decrease) in Accrued Liabilities	(5,717,102)	335,507	2,139,979	523,897
Increase/(Decrease) in Customer Deposits	1,472,333	2,195,400	228,691	3,005,115
Total of all adjustments	(11,403)	1,598,773	(9,372,325)	(16,406,957)
Net Cash Provided by Operating Activities	\$ 5,443,683	\$ 5,784,337	\$ 890,670	\$ (10,370,848)

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”) and Wuhan Generating Equipment Co., Ltd. (“Wuhan Generating 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.

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.

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, and Wuhan Generating 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 years. 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 PRC.

(f) Accounts Receivable-Trade

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

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

(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.

(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 its useful life of 50 years.

(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, 2008 and December 31, 2007, 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.

10

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

(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 exchanges 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.

<i>Exchange Rates</i>	<i>6/30/2008</i>	<i>12/31/2007</i>	<i>6/30/2007</i>
Period end RMB : US\$ exchange rate	6.871800	7.314100	7.624800
Average period RMB : US\$ exchange rate	7.072630	7.617200	7.729990

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.

11

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

(s) Income Taxes

The Company accounts for income tax using an asset and liability approach and allows for recognition of deferred tax benefits in future years. Under the asset and liability approach, deferred taxes are provided for the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. A valuation allowance is provided for deferred tax assets if it is more likely than not these items will either expire before the Company is able to realize their benefits, or that future realization is uncertain.

(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.

(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.

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

(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.

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.

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