

WUHAN GENERAL GROUP (CHINA), INC
Form PRE 14C
December 14, 2010

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

SCHEDULE 14C INFORMATION

Information Statement Pursuant to Section 14(c) of the Securities
Exchange Act of 1934 (Amendment No.)

Check the appropriate box:

Preliminary Information
Statement

Confidential, for Use of the Commission
Only
(as permitted by Rule 14c-5 (d)(2))

Definitive Information Statement

Wuhan General Group (China), Inc.
(Name of Registrant As Specified In Charter)

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14c-5(g) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

Fee paid previously with preliminary materials.

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3)

Filing Party:

(4)

Date Filed:

Wuhan General Group (China), Inc.
Canglongdao Science Park of
Wuhan East Lake Hi-Tech Development Zone
Wuhan, Hubei 430200
People's Republic of China

December ___, 2010

To: The Holders of Common Stock of Wuhan General Group (China), Inc.

Re: Action by Written Consent in Lieu of Meeting of Stockholders

The purpose of the accompanying Information Statement is to inform the holders of common stock, \$0.0001 par value per share (the "Common Stock") of Wuhan General Group (China), Inc., a Nevada corporation (the "Company"), of an action that was taken on November 15, 2010 by the stockholder holding a majority of the Company's Common Stock. The action, which was taken by written consent in lieu of a meeting of the stockholders, is more fully described in the accompanying Information Statement. This Information Statement is being mailed on or about December ___, 2010 by the Board of Directors of the Company, to the holders of record of the Company's Common Stock, as of the close of business on November 24, 2010 (the "Record Date").

Under the rules and regulations of the U.S. Securities and Exchange Commission (the "SEC"), the action cannot become effective until at least 20 days after the Information Statement has been distributed to the stockholders of the Company.

This is not a notice of a meeting of stockholders and no stockholder meeting will be held to consider any matter that will be described herein.

By Order of the Board of Directors,

/s/ Qi Ruilong
Qi Ruilong, President and Chief Executive Officer

WE ARE NOT ASKING YOU FOR A PROXY
AND YOU ARE REQUESTED NOT TO SEND US A PROXY.

INFORMATION STATEMENT

This Information Statement is being mailed or otherwise furnished to the Company's stockholders by the Board of Directors to notify them about an action that the holder of a majority of the Company's outstanding voting stock took by written consent, in lieu of a meeting of the stockholders. The action was taken on or about November 15, 2010.

Copies of this Information Statement are first being sent on or about December ____, 2010 to the holders of record of the Company's outstanding shares of Common Stock on the Record Date. Under the rules and regulations of the SEC, the action by written consent of the majority stockholder cannot become effective until at least 20 days after the Information Statement has been distributed to the stockholders of the Company.

General Information

Pursuant to NASDAQ Stock Market Rule 5635, if the Company intends to issue (i) securities in a transaction which could result in the issuance of more than 20% of the issued and outstanding shares of the issuer's common stock on a pre-transaction basis, or (ii) equity-based compensation to officers, directors, employees or consultants, for less than the greater of market or book value for such stock, then the issuer generally must obtain the prior approval of its stockholders before such issuance.

The Company's Board of Directors (the "Board") unanimously approved, a series of agreements designed to reduce the overhang of the Company's Series A, B, C, AA, BB and JJ warrants and to simplify the Company's capital structure (the "Warrant Recapitalization"). Fame Good International Limited ("Fame Good"), which is controlled by Xu Jie, the Company's Chairman of the Board and controlling stockholder, owns Series A and B warrants and has agreed to participate in the Warrant Recapitalization on the same terms as the other Series A and B warrant holders. Also, certain of the Series C, AA, BB and JJ warrant holders have previously served or currently serve as advisors to the Company. These Series C, AA, BB and JJ warrant holders will participate in the Warrant Recapitalization. Under NASDAQ Stock Market Rule 5635 and related interpretations, the issuance of shares to Fame Good and to certain holders of the Series C, AA, BB and JJ warrants is considered to be equity-based compensation. Also, as part of the Warrant Recapitalization, the Company will issue Common Stock that exceeds 20% of the issued and outstanding shares of the Company's Common Stock. These issuances of Common Stock require the approval of the Company's Common Stock pursuant to NASDAQ Stock Market Rule 5635.

On November 15, 2010, the stockholder holding 17,887,446 shares of Common Stock, or approximately 70.6% of the Common Stock outstanding on the Record Date, approved the issuances of Common Stock described above by written consent. Accordingly, all necessary corporate approvals in connection with these issuances of Common Stock have been obtained and this Information Statement is furnished solely for the purpose of informing the stockholders of the Company in the manner required under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). The general effect of the stockholder action is described below under the caption "ACTION: APPROVAL OF THE ISSUANCE OF COMMON STOCK IN CONNECTION WITH THE WARRANT RECAPITALIZATION TRANSACTION."

The Company knows of no other matters other than that described in this Information Statement which have been recently approved or considered by the holders of the Common Stock.

The Company has asked brokers and other custodians, nominees and fiduciaries to forward this Information Statement to the beneficial owners of the Common Stock held of record by such persons and will reimburse such persons for out-of-pocket expenses incurred in forwarding such material.

Dissenters' Right of Appraisal

Under the laws of the State of Nevada, our stockholders are not entitled to appraisal rights with respect to the transactions described in this Information Statement.

Outstanding Shares and Voting Rights

The vote required to approve the issuances of Common Stock described in this Information Statement was the affirmative vote of the holders of a majority of the Company's voting stock, which is the Company's Common Stock. Each holder of Common Stock is entitled to one (1) vote for each share of Common Stock held. As of the Record Date, the Company had 25,351,950 shares of Common Stock outstanding.

Section 78.320 of the Nevada Revised Statutes provides in substance that unless the company's articles of incorporation provide otherwise, any action permitted to be taken at a meeting of the stockholders may be taken without a meeting if, before or after the action, a written consent is signed by stockholders holding at least a majority of the voting power. It also states that in no instance where action is authorized by written consent need a meeting of stockholders be called or notice given.

In order to eliminate the costs and management time involved in soliciting and obtaining proxies to approve the actions described herein and to effectuate such actions as early as possible to accomplish the purposes of the Company as hereafter described, the Board of Directors decided to seek the written consent of the stockholders holding at least a majority of the voting power to approve such actions.

ACTION:
APPROVAL OF THE ISSUANCE OF COMMON STOCK IN CONNECTION WITH THE
WARRANT RECAPITALIZATION TRANSACTION

Overview of the Warrant Recapitalization

The Company's Board of Directors (the "Board") unanimously approved transactions designed to reduce the overhang of the Company's Series A, B, C, AA, BB and JJ warrants and to simplify the Company's capital structure (the "Warrant Recapitalization"). In connection with the Warrant Recapitalization, the Company expects to issue an aggregate of 7,153,065 shares of Common Stock (the "New Shares") to warrant holders in exchange for warrants representing the right to purchase an aggregate amount of 12,137,234 shares of Common Stock. Once all of the New Shares have been issued, the Company will have approximately 32,505,015 shares of Common Stock outstanding. After the completion of the Warrant Recapitalization, the Company will have one Series A warrant outstanding representing the right to purchase 128,755 shares of the Company's Common Stock. The Company will no longer have any Series B, C, AA, BB or JJ warrants outstanding.

As part of the Warrant Recapitalization, the Board approved, subject to stockholder approval, the issuance of (i) a total of 1,956,952 shares of Common Stock to Fame Good in exchange for outstanding Series A and B warrants, and (ii) a total of 2,220,456 shares of Common Stock to the holders of the Company's Series C, AA, BB and JJ warrants in exchange for outstanding Series C, AA, BB and JJ warrants. The issuances of shares to Fame Good and the Series C, AA, BB and JJ warrant holders are subject to stockholder approval under NASDAQ Rules.

The Warrant Recapitalization will close in two steps. The first step includes the issuance of Common Stock to the holders of Series A and B warrants, except Fame Good. Since stockholder approval was not required for this step, the Company closed this step on December 13, 2010 and issued 2,975,657 shares of Common Stock on such date. The second step will include the issuance of the shares of Common Stock to Fame Good and to the holders of Series C, AA, BB and JJ warrant holders. Since this step requires stockholder approval, this step will close on approximately _____, which is the date when the stockholder approval described herein will become effective.

Shares of Common Stock to be issued to Fame Good

With respect to its Series A and Series B warrants, the Company entered into a warrant exchange agreement pursuant to which the Series A and Series B warrant holders agreed to exchange such warrants for the issuance by the Company of 0.5 shares of Common Stock per share of Common Stock underlying the warrant. The warrant exchange agreement with the Series A and B warrant holders is attached hereto as Annex A.

On December 13, 2010, the Company closed on the warrant exchange with the Series A and B warrant holders, except Fame Good. On such date, the Company issued a total of 2,975,657 shares of Common Stock in exchange for outstanding Series A and B warrants. Once the written stockholder consent described herein becomes effective, the Company will issue 1,956,952 shares of Common Stock to Fame Good. Fame Good will participate in the warrant exchange on the same terms as the other Series A and B warrant holders.

NASDAQ Listing Rule 5635(c) requires a company to obtain stockholder approval in connection with equity-based compensation pursuant to which stock may be acquired by officers, directors, employees or consultants for less than market or book value. Under NASDAQ interpretations of this rule, NASDAQ does not attribute any value to the Series A and B warrants that are being exchanged for shares of the Company's Common Stock. Mr. Xu Jie, the Company's Chairman, is the director and controlling stockholder of Fame Good and, as such, will be deemed to be a participant in the Warrant Recapitalization. Thus, under NASDAQ Stock Market Rule 5635 and related interpretations, the issuance of shares of Common Stock to Fame Good is considered to be equity-based compensation and requires stockholder approval.

Shares of Common Stock to be issued to Series C, AA, BB and JJ Warrant Holders

With respect to its Series C, AA, BB and JJ warrants, the Company entered into a warrant exchange agreement, pursuant to which it offered to exchange all or part of the warrants for the issuance by the Company of (i) 1.372921615 shares of Common Stock per share of Series C warrant stock; (ii) 0.8203 shares of Common Stock per share of Series AA and Series BB warrant stock; and (iii) 0.8288 shares of Common Stock per share of Series JJ warrant stock. When the Series C, AA, BB and JJ warrant recapitalization closes, the Company expects to issue an additional 2,220,456 shares of Common Stock to the Series C, AA, BB and JJ warrant holders. The warrant exchange agreement with the Series C, AA, BB and JJ warrant holders is attached hereto as Annex B.

NASDAQ Listing Rule 5635(c) requires a company to obtain stockholder approval in connection with equity based compensation pursuant to which stock may be acquired by officers, directors, employees or consultants for less than market or book value. Under NASDAQ interpretations of this rule, NASDAQ does not attribute any value to the Series C, AA, BB and JJ warrants that are being exchanged for shares of the Company's Common Stock. Certain of the Series C, AA, BB and JJ warrant holders have previously served or currently serve as advisors to the Company. These Series C, AA, BB and JJ warrant holders will participate in the Warrant Recapitalization. Under NASDAQ Stock Market Rule 5635 and related interpretations, the issuance of shares to these holders of the Series C, AA, BB and JJ warrants is considered to be equity-based compensation and requires stockholder approval.

NASDAQ Listing Rule 5635(a)(1)(A) requires a company to obtain stockholder approval in connection with the issuance of securities in a transaction amounting to more than 20% of the issued and outstanding shares of the issuer's common stock on a pre-transaction basis. As of the Record Date, the Company had 25,351,950 shares of Common Stock outstanding. The New Shares, when issued, will represent approximately 28.2% of the pre-transaction Common Stock. Since the shares to be issued to Series C, AA, BB and JJ warrant holders are above the 20% threshold, stockholder approval is required.

OTHER INFORMATION

Security Ownership of Certain Beneficial Owners and Management

The following table sets forth information regarding the beneficial ownership of our Common Stock on the Record Date by (i) each person known by us to be the beneficial owner of more than 5% of our Common Stock, (ii) our directors, (iii) our principal executive officer and our two most highly compensated executive officers (other than our principal executive officer) and (iv) our directors and executive officers as a group.

Beneficial ownership has been determined in accordance with the rules and regulations of the SEC and includes voting or investment power with respect to the shares. Unless otherwise indicated, the persons named in the table below have sole voting and investment power with respect to the number of shares indicated as beneficially owned by them.

Name of Beneficial Owner	Common Stock Beneficially Owned(1)	Percentage of Common Stock Owned(1)
Five Percent Stockholders (other than directors and principal executive officers):		
The TCW Group, Inc.(2)(3)	2,871,936	9.9%
Citigroup Inc.(2)(4)	2,674,929	9.9%
Bank of America Corporation(2)(5)	2,662,742	9.9%
Adam Benowitz and Vision Capital Advisors, LLC(2)(6)	2,531,485	9.9%
QVT Financial LP(2)(7)	1,467,589	5.4%
Directors and Principal Executive Officers:		
Huang Zhaoqi	0	*
David K. Karnes(8)	70,000	*
Brian Lin(9)	60,000	*
Philip Lo	0	*
Qi Ruilong	0	*
Shi Yu(10)	20,000	*
Xu Jie(11)	17,887,446	70.6%
Zheng Qingsong(12)	20,000	*
Directors and Executive Officers as a group (10 persons)(13)	18,057,446	70.8%

* Less than 1%.

(1) Applicable percentage ownership is based on 25,351,950 shares of Common Stock outstanding as of the Record Date (November 24, 2010). Beneficial ownership is determined in accordance with the rules of the SEC and generally includes voting or investment power with respect to securities. Shares of Common Stock that are currently issuable upon conversion or exercisable within 60 days of September 24, 2010, are deemed to be beneficially owned by the person holding such convertible securities or warrants for the purpose of computing the percentage of ownership of such person, but are not treated as outstanding for the purpose of computing the percentage ownership of any other person.

- (2) These holders received shares of our Series A Convertible Preferred Stock and Series A, Series B and Series J Warrants to purchase shares of our Common Stock in a private placement transaction on February 7, 2007. In addition, we issued Series B Convertible Preferred Stock to certain of these holders in connection with the exercise of Series J Warrants, which expired on November 7, 2008. Until the preferred stock is converted or the warrants exercised, these holders have only limited voting rights with respect to the preferred stock and no voting rights with respect to the warrants. Because the preferred stock and warrants are presently convertible into or exercisable for shares of Common Stock, the holders are deemed to beneficially own such shares of Common Stock. It is for this reason that the percentages shown add to more than 100%.
- (3) Based on a Schedule 13G filed by The TCW Group, Inc. (“TCW”) with the SEC on February 10, 2009. TCW owns 563,176 shares of Series A Convertible Preferred Stock and 858,369 shares of Series B Convertible Preferred Stock, which collectively are convertible into 1,421,545 shares of our Common Stock. In addition, TCW holds Series A and B Warrants, which entitle it to purchase 515,021 and 515,021 shares of our Common Stock, respectively. The preferred stock and warrants are not convertible or exercisable, however, to the extent that the number of shares of Common Stock to be issued pursuant to such conversion or exercise would exceed, when aggregated with all other shares of Common Stock owned by TCW at such time, the number of shares of Common Stock which would result in TCW beneficially owning in excess of 9.9% of the then issued and outstanding shares of our Common Stock. TCW may waive this ownership cap on 61 days’ prior notice to us. As a result of this ownership cap, TCW beneficially owns 2,871,936 shares of our Common Stock. TCW is deemed to beneficially own these securities, although record ownership of the securities is in the name of TCW Americas Development Association L.P. The address of TCW is 865 South Figueroa Street, Los Angeles, California 90017.
- (4) Based on a Schedule 13G/A filed by Citigroup Inc. and its affiliates (collectively “Citigroup”) with the SEC on February 16, 2010. Citigroup owns 1,353,031 shares of Series A Convertible Preferred Stock and 2,062,232 shares of Series B Convertible Preferred Stock, which collectively are convertible into 3,415,263 shares of our Common Stock. In addition, Citigroup holds Series A and B Warrants, which entitle it to purchase 1,237,339 and 1,237,339 shares of our Common Stock, respectively. The preferred stock and warrants are not convertible or exercisable, however, to the extent that the number of shares of Common Stock to be issued pursuant to such conversion or exercise would exceed, when aggregated with all other shares of Common Stock owned by Citigroup at such time, the number of shares of Common Stock which would result in Citigroup beneficially owning in excess of 9.9% of the then issued and outstanding shares of our Common Stock. Citigroup may waive this ownership cap on 61 days’ prior notice to us. As a result of this ownership cap, Citigroup beneficially owns 2,674,929 shares of our Common Stock. Citigroup is deemed to beneficially own these securities, although record ownership of the securities is in the name of Old Lane Cayman Master Fund, L.P., Old Lane US Master Fund, L.P. and Old Lane HMA Master Fund, L.P. The address of Citigroup is 399 Park Avenue, New York, New York 10043.
- (5) Based on a Schedule 13G/A filed by Bank of America Corporation (“Bank of America”) with the SEC on February 11, 2010. Bank of America owns 1,272,779 shares of Series A Convertible Preferred Stock and 429,185 shares of Series B Convertible Preferred Stock, which collectively are convertible into 1,701,964 shares of our Common Stock. In addition, Bank of America holds Series A and B Warrants, which entitle it to purchase 1,287,554 and 257,511 shares of our Common Stock, respectively. The preferred stock and warrants are not convertible or exercisable, however, to the extent that the number of shares of Common Stock to be issued pursuant to such conversion or exercise would exceed, when aggregated with all other shares of Common Stock owned by Bank of America at such time, the number of shares of Common Stock which would result in Bank of America beneficially owning in excess of 9.9% of the then issued and outstanding shares of our Common Stock. Bank of America may waive this ownership cap on 61 days’ prior notice to us. As a result of this ownership cap, Bank of America beneficially owns 2,662,742 shares of our Common Stock. Bank of America is deemed to beneficially own these securities, although record ownership of the securities is in the name of Hare & Co. for Blue Ridge Investments,

LLC. The address of Bank of America is 100 North Tryon Street, Floor 25, Bank of America Corporate Center, Charlotte, North Carolina 28255.

- (6) Based on a Schedule 13G/A filed by Adam Benowitz, Vision Capital Advisors, LLC and its affiliates (collectively, “Vision”) with the SEC on February 16, 2010. Vision owns 1,971,117 shares of Series A Convertible Preferred Stock and 3,004,292 shares of Series B Convertible Preferred Stock, which collectively are convertible into 4,975,409 shares of our Common Stock. In addition, Vision holds Series A and B Warrants, which entitle it to purchase 1,931,330 and 1,802,575 shares of our Common Stock, respectively. The preferred stock and warrants are not convertible or exercisable, however, to the extent that the number of shares of Common Stock to be issued pursuant to such conversion or exercise would exceed, when aggregated with all other shares of Common Stock owned by Vision at such time, the number of shares of Common Stock which would result in Vision beneficially owning in excess of 9.9% of the then issued and outstanding shares of our Common Stock. Vision may waive this ownership cap on 61 days’ prior notice to us. As a result of this ownership cap, Vision beneficially owns 2,531,485 shares of our Common Stock. Vision is deemed to beneficially own these securities, although record ownership of the securities is in the name of Vision Capital Advantage Fund, L.P. and Vision Opportunity Master Fund, Ltd. The address of Vision is 20 West 55th Street, 5th Floor, New York, New York 10019.
- (7) Based on a Schedule 13G/A filed by QVT Financial LP and its affiliates (“QVT”) with the SEC on February 16, 2010. QVT owns 844,765 shares of Series A Convertible Preferred Stock, which are convertible into 844,765 shares of our Common Stock. In addition, QVT holds Series A and B Warrants, which entitle it to purchase 772,532 and 9,000 shares of our Common Stock, respectively. The preferred stock and warrants are not convertible or exercisable, however, to the extent that the number of shares of Common Stock to be issued pursuant to such conversion or exercise would exceed, when aggregated with all other shares of Common Stock owned by QVT at such time, the number of shares of Common Stock which would result in QVT beneficially owning in excess of 9.9% of the then issued and outstanding shares of our Common Stock. QVT may waive this ownership cap on 61 days’ prior notice to us. QVT is deemed to beneficially own these securities, although record ownership of the securities is in the name of QVT Fund LP and Quintessence Fund LP. The address of QVT is 1177 Avenue of the Americas, 9th Floor, New York, New York 10036.
- (8) Includes 7,000 shares held in an IRA account, 2,000 shares held by a corporation controlled by Mr. Karnes, and options to purchase 60,000 shares of Common Stock that are currently exercisable or are exercisable within 60 days of the Record Date.
- (9) Includes options to purchase 60,000 shares of Common Stock that are currently exercisable or are exercisable within 60 days of the Record Date.
- (10) Includes options to purchase 20,000 shares of Common Stock that are currently exercisable or are exercisable within 60 days of the Record Date.
- (11) Includes 17,887,446 shares of Common Stock held by Fame Good. Xu Jie, our Chairman of the Board, is also the President and Chief Executive Officer, director and controlling stockholder of Fame Good and as a result is deemed to be the beneficial owner of the securities held by Fame Good. Mr. Xu does not directly own any shares of our Common Stock. Mr. Xu’s address is Canglongdao Science Park of Wuhan, East Lake Hi-Tech Development Zone, Wuhan, Hubei 430200, People’s Republic of China.
- (12) Includes options to purchase 20,000 shares of Common Stock that are currently exercisable or are exercisable within 60 days of the Record Date.
- (13) Includes options to purchase 160,000 shares of Common Stock that are currently exercisable or are exercisable within 60 days of the Record Date.

Additional Information

The proxy rules under the Exchange Act permit companies to satisfy the delivery requirements for information statements with respect to two or more stockholders sharing the same address by delivering a single information statement to those stockholders unless the Company is otherwise advised by the stockholders. This reduces the amount of duplicate information that stockholders receive and lowers the Company's printing and mailing costs.

If your household received a single copy of this Information Statement and you wish to receive multiple copies in the future, or if you would like to receive additional copies of this documentation, we will send them to you upon your written request, forwarded to the Company by mail to c/o Troutman Sanders LLP, 600 Peachtree Street, N.E., Suite 5200, Atlanta, Georgia 30308, Attention Paul Davis Fancher, phone number 404-885-3000.

If you received multiple copies of this Information Statement and, in the future, wish to receive only a single copy, we will send it to you upon your written request, forwarded to the Company by mail to c/o Troutman Sanders LLP, 600 Peachtree Street, N.E., Suite 5200, Atlanta, Georgia 30308, Attention Paul Davis Fancher, phone number 404-885-3000.

The Company will provide upon written request and without charge to each stockholder receiving this Information Statement a copy of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2009, including the financial statements included therein, as filed with the SEC. You are encouraged to review the Annual Report together with subsequent information filed by the Company with the SEC and other publicly available information.

By order of the Board of Directors,

/s/ Qi Ruilong
Qi Ruilong, President and Chief Executive Officer

December ____, 2010

WARRANT EXCHANGE AGREEMENT

THIS WARRANT EXCHANGE AGREEMENT, dated as of December 13, 2010 (this “Agreement”) is entered into by and among Wuhan General Group (China), Inc., a Nevada corporation (the “Company”) and the undersigned holders of the Company’s Series A Warrants and/or Series B Warrants (collectively, the “Holders”).

WITNESSETH

WHEREAS, the Company currently has Series A and B warrants outstanding (the “Warrants”) representing the right to purchase an aggregate of 9,993,977 shares of the Company’s common stock, \$0.0001 par value per share (the “Warrant Stock”);

WHEREAS, the Company has offered to exchange all or part of each Holder’s Warrant for the issuance by the Company of 0.5 shares of the Company’s common stock, \$0.0001 par value per share (the “Common Stock”), per share of Warrant Stock underlying the Warrant;

WHEREAS, the Transaction (as defined below) shall be made pursuant to an exemption under the Securities Act of 1933, as amended (the “Securities Act”); and

WHEREAS, the parties desire to enter into the Transaction upon the terms and conditions herein.

NOW, THEREFORE, in consideration of the mutual covenants contained in this Agreement and for other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, intending to be legally bound hereby, the parties hereto agree as follows:

1. Each Holder agrees to transfer the number of shares of Warrant Stock underlying its Series A Warrant and/or the number of shares of Warrant Stock underlying its Series B Warrant indicated on such Holder’s signature page hereto (the “Elected Warrant Stock”) for the issuance by the Company of 0.5 shares of the Company’s Common Stock per share of Elected Warrant Stock (the “Transaction”). Each Holder shall relinquish such Holder’s right, title and interest in the Elected Warrant Stock to the Company.

2. In connection with the Transaction, (i) each Holder that also holds the Company’s Series A Convertible Preferred Stock, \$0.0001 par value per share, has signed and delivered the Waiver, of even date herewith (the “Waiver”), of the Lock-Up Agreement, dated February 7, 2007, between the Company and Fame Good International Limited (“Fame Good”) and (ii) certain of the Holders have signed and delivered the Stockholders Agreement, of even date herewith, with the Company, Fame Good and Xu Jie (the “Stockholders Agreement”).

3. Each Holder hereby represents and warrants that:
 - a. it acknowledges and agrees to the terms and conditions of the Transaction as provided for herein;
 - b. it is duly incorporated or organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation or organization;
 - c. it has the requisite power and authority to enter into and perform this Agreement and, if applicable, the Stockholders Agreement and the Waiver, and to consummate the transactions contemplated hereby and thereby. The execution, delivery and performance of this Agreement and, if applicable, the Stockholders Agreement and the Waiver, by such Holder and the consummation by it of the transactions contemplated hereby and thereby have been duly authorized by all necessary corporate or partnership action, and no further consent or authorization of such Holder or its Board of Directors, stockholders, or partners, as the case may be, is required. Each of this Agreement and, if applicable, the Stockholders Agreement and the Waiver, has been duly authorized, executed and delivered by such Holder and constitutes, or shall constitute when executed and delivered, a valid and binding obligation of the Holder enforceable against the Holder in accordance with the terms thereof;
 - d. the execution, delivery and performance of this Agreement and, if applicable, the Stockholders Agreement and the Waiver, and the consummation by such Holder of the transactions contemplated hereby and thereby or relating hereto do not and will not (i) result in a violation of such Holder's charter documents or bylaws or other organizational documents or (ii) conflict with, or constitute a default (or an event which with notice or lapse of time or both would become a default) under, or give to others any rights of termination, amendment, acceleration or cancellation of any agreement, indenture or instrument or obligation to which such Holder is a party or by which its properties or assets are bound, or result in a violation of any law, rule, or regulation, or any order, judgment or decree of any court or governmental agency applicable to such Holder or its properties (except for such conflicts, defaults and violations as would not, individually or in the aggregate, have a material adverse effect on such Holder). Such Holder is not required to obtain any consent, authorization or order of, or make any filing or registration with, any court or governmental agency in order for it to execute, deliver or perform any of its obligations under this Agreement or, if applicable, the Stockholders Agreement and the Waiver;
 - e. it is acquiring the Common Stock solely for its own account for the purpose of investment and not with a view to or for sale in connection with distribution. Each Holder does not have a present intenti