

WUHAN GENERAL GROUP (CHINA), INC
Form 10-K/A
March 07, 2011

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K/A

(Amendment No. 2)

(Mark One)

Annual Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended December 31, 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)

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

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

Securities registered under Section 12(g) of the Exchange Act: None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the

Act. Yes " No ý

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for past 90 days. Yes ý 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. "

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

Large accelerated filer "

Accelerated filer "

Non-accelerated filer "

Smaller reporting company ý

(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 Act). Yes " No ý

As of June 30, 2009, the aggregate market value of the registrant's common stock held by non-affiliates was approximately \$46,551,455 based on the closing sale price as quoted on the NASDAQ Capital Market.

As of March 30, 2010, the registrant had a total of 25,351,950 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

None.

TABLE OF CONTENTS

	Page
PART II	
Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.	
Item 8. Financial Statements and Supplementary Data.	19
Item 9A. Controls and Procedures.	19
PART IV	
Item 15. Exhibits and Financial Statement Schedules.	22

EXPLANATORY NOTE

This Amendment No. 2 (this “Amended Report”) to our Annual Report on Form 10-K for the year ended December 31, 2009 (the “Original Report”) of Wuhan General Group (China), Inc. (the “Company”) is being filed with the Securities and Exchange Commission (the “SEC”) to provide the Company’s amended and restated financial statements for the year ended December 31, 2009 and the comparative year ended December 31, 2008 (the “Restated Financial Statements”).

On March 7, 2011, the Company’s Chief Financial Officer, after consultation with the Company’s Audit Committee, concluded that the Company’s previously filed financial statements included in the Original Report could no longer be relied upon because of errors in such financial statements. Below is a summary of these errors and the related corrections.

- The Company reclassified inventory related to the Huangli Project, which is considered a correction of a classification error. The amount of \$2,188,439 was previously classified in construction-in-progress at December 31, 2008. The Company moved the amount to the inventory account, and it has been subcategorized as raw materials. The reclassification caused a \$2,188,439 decrease in construction in progress from \$30,276,011 to \$28,087,572 and a corresponding increase of \$2,188,439 in the inventory accounts from \$8,395,467 to \$10,583,906. The related total of current assets increased from \$88,760,427 to \$90,948,867 while the total of non-current assets decreased from \$66,311,941 to \$64,123,502. Total assets remain unchanged. The statement of cash flows for the year ended December 31, 2008 was also impacted by the reclassification. Cash sourced from operating activities were previously overstated, and cash used in investing activities was previously overstated. The correction of error decreased the cash generated by operating activities by \$2,188,439 and also decreased the amount of cash used in investing activities by \$2,188,439. The impact of the restatement was limited to the presentation of the balance sheet and the related statements of cash flows. There was no related impact to earnings for the year ended December 31, 2008.
- The Company restated the long term loans outstanding due to Standard Chartered Bank at December 31, 2009 as short term, rather than long term as a result of the Company’s noncompliance with certain loan covenants disclosed in Note 12 Bank Loans and Notes to the Company’s Restated Financial Statements. The impact of the restatement is limited to the Company’s classification of liabilities on the Company’s Consolidated Balance Sheets and Note 12 Bank Loans and Notes. As a result of the restatement, the short term balance increased from \$35,276,347 to \$46,758,253 while the corresponding long term loans decreased from \$11,481,906 to \$0. The Company’s current liabilities increased from \$59,671,630 to \$71,153,536. The Company’s long term liabilities decreased from \$11,481,906 to \$0. The Company’s total liabilities remain unchanged.
- The Company restated its diluted earnings per share for the year ended December 31, 2008, as a correction of error. The Company previously reported diluted earnings per share of \$0.26 based on the assumption that the constructive preferred dividend related to the issuance of Series B Convertible Preferred Stock during the year should not be added back to “net income available to common stockholders” to arrive at “income available to common stockholders on a converted basis” for the purposes of computing the diluted earnings per share. The Company assumed that even if the holders of the Series B Convertible Preferred Stock had converted their preferred stock using the “as-if” method the constructive preferred dividend would not be made available to common stockholders because the constructive preferred dividend was charged immediately upon the issuance of the Series B Convertible Preferred Stock. The Company later determined that this treatment was erroneous. Therefore, the Company revised the calculation of the “income available to common stockholders on a converted basis” to include the constructive preferred dividend. As a result of the restatement, the Company’s diluted earnings per share increased to \$0.34 per share. For detailed computations, see Note 18 Earnings Per Share to the Restated Financial Statements.

- The Company restated its statements of cash flow for the year ended December 31, 2008. The change is related to the purchase of Sukong Assets as detailed in Note 1 Organization and Principal Activities to the Restated Financial Statements. The purchase was previously presented as an all cash transaction. The restated presentation shows that a significant portion of the total purchase price was a non-cash transaction where the Company transferred certain advances to suppliers and receivables without recourse valued at \$20,064,965 to the seller in exchange for the Sukong Assets. The Company did not make any adjustment to its general ledger accounts. The restatement was limited to the presentation of the statement of cash flows. Net cash sourced from operations was previously \$16,776,026. The restated presentation shows net cash used in operations is \$5,477,378. The net cash used in investing activities was previously \$39,087,376. The restated presentation shows cash used in investing activities as \$16,833,972. The restated figures in the statement of cash flows are primarily attributable to the effect of the non-cash purchase of Sukong assets; however, a small portion of the difference is attributable to the restatement of the inventory and construction in progress account as detailed in Note 23 Restatement of Inventory and Construction in Progress in the Restated Financial Statements. The Company's earnings for the year ended December 31, 2008 were unaffected by the change in presentation caused by the non-cash investing activity related to both the non-cash purchase of the Sukong Assets and the restatement of inventory and construction in progress.

No changes have been made to the Original Report other than the amendment and restatement of Items 7, 8, 9A and 15. This Amended Report does not include any items that were not affected by the amendment and restatement. Unless expressly stated, this Amended Report does not reflect events occurring after the filing of the Original Report, nor does it modify or update in any way the disclosures contained in the Original Report, which speak as of the date of the original filing. Accordingly, this Amended Report should be read in conjunction with the Original Report.

Unless the context requires otherwise, references to “we,” “us,” “our,” “Wuhan General” and the “Company” refer specifically to Wuhan General Group (China), Inc. and its subsidiaries.

Cautionary Statement Regarding Forward-Looking Statements

The information contained in this Amended Report includes some statements that are not purely historical fact and that are “forward-looking statements” as defined by the Private Securities Litigation Reform Act of 1995. Such forward-looking statements include, but are not limited to, statements regarding our management’s expectations, hopes, beliefs, intentions or strategies regarding the future, including our financial condition, results of operations, available liquidity, ability to refinance outstanding debt, ability to collect on our accounts receivable, completion of our turbine manufacturing facility on our main Wuhan campus and workshop and related facilities of Wuhan Sungreen Environment Protection Equipment Co., Ltd., the development of our industrial parts and machinery equipment business and growth of our businesses. The words “anticipates,” “believes,” “could,” “estimates,” “expects,” “intends,” “may,” “projects,” “should,” and similar expressions, or the negatives of such terms, identify forward-looking statements.

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

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

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

PART II

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

Overview

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

The information and data contained in this Management's Discussion and Analysis of Financial Condition and Results of Operations reflect the operating results and financial condition for the years ended December 31, 2009 and 2008.

Year Ended December 31, 2009 Compared to Year Ended December 31, 2008

Sales. Sales decreased \$25.55 million, or 21.54%, to \$93.08 million in 2009 from \$118.63 million in 2008. The decrease in sales was primarily due to a delay in the equipment replacement cycle within China's steel manufacturing companies which resulted in fewer sales in 2009 and capital expenditure restrictions on our power plant customers due to the global economic crisis.

Cost of Sales. Our cost of sales decreased \$14.72 million, or 17.43%, to \$69.72 million in 2009 from \$84.44 million in 2008. This decrease was due to the significant decrease in sales of \$10.66 million due to lower demand from steel companies for our blower products and a decrease in sales of \$15.64 million in our turbine business.

Gross Profit. Our gross profit decreased \$10.83 million, or 31.68%, to \$23.36 million in 2009 from \$34.19 million in 2008. Gross profit as a percentage of sales was 25.10% in 2009 compared to 28.82% in 2008. The decline in gross profit is primarily driven by the decrease in sale price of our turbine products, which decreased about 12.04% due to increased competition and from the lower economies of scale due to our decrease in sales.

Selling Expenses. Our selling expenses in 2009 decreased approximately \$1.74 million, or 51.99%, to approximately \$1.61 million from approximately \$3.35 million in 2008. As a percentage of sales, selling expenses were 1.73% in 2009 compared to 2.82% in 2008. This decrease as a percentage of sales was primarily attributable to lower incentive expenses as a result of the significant decrease in sales.

General and Administrative Expenses. Our general and administrative expenses decreased approximately \$157,408, or 2.03%, to \$7.60 million in 2009 from approximately \$7.75 million in 2008. This decrease was primarily due to management's effective control of expenses, offset by a consultancy fee of approximately \$187,624 relating to a bridge loan in 2009. As a percentage of sales, general and administrative expenses were 8.16% in 2009 compared to 6.54% in 2008. This increase as a percentage of sales was primarily attributable to the lower economies of scale as a result of the significant decrease in sales and the reasons mentioned above.

Warranty Expense. Our warranty expense decreased to approximately \$371,764 in 2009 from approximately \$469,586 in 2008. This decrease was primarily due to our decrease in sales. As a percentage of sales, warranty expense was 0.40% in 2009, which is consistent with that in 2008.

Operating Income. Our operating income decreased \$8.84 million, or 39.06%, to \$13.78 million in 2009 from \$22.62 million in 2008. As a percentage of sales, operating income was 14.81% in 2009 compared to 19.07% in 2008. This decrease as a percentage of sales was primarily attributable to the lower economies of scale as a result of the significant decrease in sales and the reasons mentioned above.

Interest Income. Our interest income increased to approximately \$341,071 in 2009 from approximately \$84,525 in 2008. This income was primarily due to the interest on the restricted cash deposit.

Other Income (Expenses). Our other income decreased to approximately \$226,798 in 2009 from approximately \$986,678 in 2008. As a percentage of sales, other income was 0.24% in 2009 compared to 0.83% in 2008. Our other expenses decreased to approximately \$92,132 in 2009 from approximately \$199,621 in 2008. As a percentage of sales, other expenses was 0.10% in 2009 compared to 0.17% in 2008.

Interest Expense. Our interest expense increased to approximately \$3.20 million in 2009 from approximately \$1.99 million in 2008. This increase was primarily due to an increase in bank borrowings to approximately \$46.76 million at December 31, 2009 from approximately \$36.63 million at 2008. Moreover, additional interest of approximately \$555,484 relating to bridge loan and a fee of approximately \$58,572 relating to a loan arrangement was incurred in 2009. As a percentage of sales, interest expense was 3.44% in 2009 and 1.68% in 2008.

Income Taxes. The Company's income tax liability was approximately \$1.45 million in 2009 compared to \$0 in 2008. This increase resulted from the expiration of a tax holiday enjoyed by the Company in 2008. For the year ended December 31, 2009, Wuhan Blower and Wuhan Generating were subject to a 12.5% tax rate and Wuhan Sungreen was subject to a 25% tax rate.

Net Income. Our net income decreased \$7.69 million, or 47.60%, to \$8.46 million in 2009 from \$16.15 million in 2008, as a result of the factors described above, offset by a non-cash charge of \$1.15 million in 2009 compared to \$5.36 million in 2008.

Liquidity and Capital Resources

Our primary capital needs have been to fund the working capital requirements necessitated by the expansion of our manufacturing facilities and the development of our new industrial parts and machinery equipment business. We finance our business operations primarily through cash generated by our operations, bank loans and various financing transactions. As of December 31, 2009, we had cash and cash equivalents of \$8.17 million, including restricted cash of \$7.76 million.

As discussed above, in 2009, our sales decreased 21.54% compared to 2008. This decrease in sales was primarily due to a delay in the equipment replacement cycle within China's steel manufacturing companies which resulted in fewer sales and capital expenditure restrictions on our power plant customers due to the global economic crisis. For many of the same reasons, we also have experienced significant delays in receiving payments from our customers. As discussed in more detail below, the number of days sales were outstanding increased 93 days at December 31, 2009, compared to December 31, 2008. The combination of these factors resulted in our income from operations being insufficient to meet our working capital needs. At the same time, banks tightened their lending policies as a result of the turmoil in the credit markets. This required us to use bridge loans to finance our working capital needs during this period.

On November 11, 2009, we closed a new loan facility with Standard Chartered Bank (China) Limited, Guangzhou Branch; this loan facility provides up to RMB 303,100,000 (approximately \$44.4 million) in senior secured debt financing. As described in more detail below, the proceeds received to date have been used to repay our existing bank loans and notes and fund our ongoing construction projects. In addition, the loan proceeds should allow us to use our operating income to fund our working capital needs.

The majority of our customers pay us in installments at various stages of project completion. The percentage of the purchase price due at the various stages varies somewhat between contracts. In our standard sales contract, we receive 60% of the purchase price of a piece of equipment at the time of delivery. Alternatively, some sales contracts provide for 15% due upon signing and 45% due upon delivery. We generally receive an additional 30% of the purchase price when the equipment is installed and runs without problem for 72 hours. However, since our equipment is generally a component of a larger project, there are times that customers do not allow us to install the equipment immediately upon delivery. We generally require the final 10% no less than 18 months following the installation. Moreover, for our customers with restricted capital expenditures, the payment due upon delivery and after installation is occasionally delayed. Due to the global economic crisis, some customers did not strictly adhere to the contractual payment terms. This increased our accounts receivable, which is discussed in detail below. Although the payment terms in our standard sales contract result in a long payment cycle, we believe our payment terms are typical in our industry in China and the allowance of bad debts according to our accounting policy is effective and sufficient.

Accounts receivable are recognized and carried at the original invoice amount less allowance for any uncollectible amounts. Pursuant to the Company's accounting policies, the allowance for doubtful accounts is determined by applying a rate of five percent on outstanding accounts receivable. In addition, the Company uses a specific review process to determine if any additional allowances for doubtful accounts are required. Bad debts are charged against the allowance when outstanding accounts receivable have been determined to be uncollectible. We provide for bad debts principally based upon the aging of accounts receivable, in addition to collectability of specific customer accounts, our history of bad debts and the general condition of the industry. Due to the difficulty in assessing future trends and the global economic downturn, we could be required to increase our provisions for doubtful accounts. As our accounts receivable age and become uncollectible, our cash flow and results of operations are negatively impacted.

Accounts receivable increased from \$41.5 million to \$54.0 million from December 31, 2008 to December 31, 2009. The allowance for bad debt provided in accordance with the Company's accounting policy was \$2.8 million at December 31, 2009. The Company applied a rate of 5% on outstanding accounts receivable, which results in an allowance of \$1.6 million. The number of days that sales were outstanding increased in 2009 when compared to 2008; so, the Company made an assessment of its outstanding receivables and provided a specific write off during the year in the amount of \$1.9 million to reflect actual unrecoverable amounts. Although the Company's results of operations were adversely impacted by the global economic slowdown in 2008 and in the first half of 2009, the Company is experiencing a recovery and it believes that its customers will make payments on their outstanding balances.

In order to manage this increase in accounts receivable, we have employed additional resources in collecting on outstanding accounts receivable and have aligned more closely sales commissions with the collection on sales. The accounts receivable balance increased by \$12.48 million, with a corresponding increase in days sales outstanding of 93 days, at December 31, 2009 compared to December 31, 2008. This increase resulted primarily from delayed payments from our major customers. Our major customers, particularly state-owned steel companies and power generating companies, delayed their payments to the Company due to the economic slow down and the resulting restrictions on their cash. This resulted in a significant increase in days sales outstanding for our accounts receivable. In addition, most of our major customers demanded lower prepayments and progress billings and longer payment terms. All of these factors negatively affected the Company's operating cash flow.

At December 31, 2009, we had \$4.68 million in other receivables, which is an increase of approximately \$2.97 million compared to the balance at December 31, 2008.

We also had advances to suppliers of \$24.62 million at December 31, 2009, which increased by \$4.34 million compared to the balance at December 31, 2008. The increase was mainly due to significant payments made during the year 2009 to suppliers for electrical power generators and raw materials. We typically need to place a deposit in advance with our suppliers on a portion of the purchase price, and for some suppliers, we must maintain a deposit for future orders.

We had inventory turnover of 7.10 times and 12.84 times for the year ended December 31, 2009 and December 31, 2008, respectively. We calculate inventory turnover as sales divided by average inventory. Inventory increased \$987,021 in raw materials, \$4.25 million in work in progress and decreased \$194,561 in finished goods for the year ended December 31, 2009. The raw materials increase resulted from the Company's effort to increase desired stock levels to take advantage of decreased steel prices during 2009 and to increase production level.

Net cash used in operating activities for 2009 was approximately \$15.42 million, as compared to approximately \$5.48 million used in 2008. This change was primarily due to a decrease in net operating income coupled with an increase in receivables with a relatively long collection period and increased advances to suppliers, but partially offset by an increase in customer deposits.

Net cash provided in investing activities in 2009 was approximately \$2.92 million, as compared to approximately \$16.83 million used in 2008. This change was mainly a result of a decrease in restricted cash.

Net cash provided by financing activities in 2009 was approximately \$9.93 million, as compared to approximately \$19.95 million provided in 2008. This change was primarily due to the proceeds raised from the exercise of warrants by investors in 2008.

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

Bank Loans Generally

As of December 31, 2009, we had banking facilities in the form of bank loans and loan facilities from other non-bank entities totaling approximately \$46.76 million (based on an exchange rate of 6.83720 RMB per 1 U.S. dollar). The Company had no availability under its bank facilities and loan facilities as of December 31, 2009. Information regarding these loans is set forth below in US \$.

Subsidiary	Type	Name of Creditor	Due Date	Interest Rate Per Annum	Restated	Original	
					At December 31, 2009	At December 31, 2009	At December 31, 2008
Wuhan Blower	Bank Loans	Shanghai Pudong Development Bank	5/20/2009	8.96%	—	—	729,479
Wuhan Blower	Bank Loans	Shanghai Pudong Development Bank	5/22/2009	8.96%	—	—	729,479
Wuhan Blower	Bank Loans	Shanghai Pudong Development Bank	5/25/2009	8.96%	—	—	729,480
Wuhan Blower	Bank Loans	Shanghai Pudong Development Bank	5/27/2009	8.96%	—	—	729,480
Wuhan Blower	Bank Loans	Shanghai Pudong Development Bank	5/29/2009	8.96%	—	—	729,480
Wuhan Blower	Bank Loans	Shanghai Pudong Development Bank	6/4/2009	8.96%	—	—	729,480
Wuhan Blower	Bank Loans	Shanghai Pudong Development Bank	6/23/2009	8.96%	—	—	583,584
Wuhan Blower	Bank Loans	Shanghai Pudong Development Bank	8/26/2009	8.96%	—	—	1,167,168
Wuhan Blower	Bank Loans	Shanghai Pudong Development Bank	8/24/2009	8.96%	—	—	1,167,168
Wuhan Blower	Bank Loans	China Citic Bank	4/19/2010	5.31%	3,656,467	3,656,467	—
Wuhan Blower	Bank Loans	Bank of China Ltd.	3/2/2010	5.40%	804,423	804,423	—
Wuhan Blower	Bank Loans	Guangdong Development Bank	6/15/2010	6.37%	1,608,846	1,608,846	—
Wuhan Blower	Bank Loans	Agricultural Bank of China	8/6/2010	5.84%	7,312,935	7,312,935	—
Wuhan Blower	Bank Loans	Hankou Bank	7/5/2010	4.43%	833,675	833,675	—

Edgar Filing: WUHAN GENERAL GROUP (CHINA), INC - Form 10-K/A

Wuhan Blower	Bank Loans	Standard Chartered Bank****	On Demand	9.40%	7,094,145	—	—
Subtotal					21,310,491	14,216,346	7,294,798
Wuhan Blower	Notes Payable	China Minsheng Banking Corp., Ltd.	1/22/2009		—	—	1,458,959
Wuhan Blower	Notes Payable	Citic Industrial Bank	3/27/2009		—	—	3,647,399
Wuhan Blower	Notes Payable	Industrial Bank Co., Ltd.	2/28/2009		—	—	1,313,064
Wuhan Blower	Notes Payable	Industrial Bank Co., Ltd.	3/2/2009		—	—	1,750,751
Wuhan Blower	Notes Payable	Industrial Bank Co., Ltd.	2/28/2009		—	—	1,313,064
Wuhan Blower	Notes Payable	Shanghai Pudong Development Bank	2/10/2009		—	—	579,761
Wuhan Blower	Notes Payable	Shanghai Pudong Development Bank	2/18/2009		—	—	744,069
Wuhan Blower	Notes Payable	Standard Chartered Bank	4/21/2010		1,828,234	1,828,234	—
Wuhan Blower	Notes Payable	Standard Chartered Bank	3/3/2010		417,047	417,047	—
Wuhan Blower	Notes Payable	Standard Chartered Bank	3/18/2010		1,462,587	1,462,587	—
Wuhan Blower	Notes Payable	Standard Chartered Bank	2/11/2010		731,294	731,294	—
Wuhan Blower	Notes Payable	Bank of Communications	1/24/2010		892,178	892,178	—
subtotal					5,331,340	5,331,340	10,807,067

Edgar Filing: WUHAN GENERAL GROUP (CHINA), INC - Form 10-K/A

Wuhan Generating	Bank Loans	Citic Industrial Bank	3/2/2009	8.22%	—	—	2,917,919
Wuhan Generating	Bank Loans	Shanghai Pudong Development Bank	1/7/2009	7.47%	—	—	1,458,959
Wuhan Generating	Bank Loans	Hankou Bank	10/13/2010	5.31%	1,462,587	1,462,587	—
Wuhan Generating	Bank Loans	Bank of Communications	12/23/2010	5.67%	1,462,587	1,462,587	—
Wuhan Generating	Bank Loans	Bank of Communications*	12/23/2010	5.67%	1,462,587	1,462,587	1,458,959
Wuhan Generating	Bank Loans	Standard Chartered Bank***	On Demand	9.40%	2,925,174	—	—
subtotal					7,312,935	4,387,761	5,835,837
Wuhan Generating	Long Term Loan	Standard Chartered Bank***	12/17/2012	9.40%	—	2,925,714	—
Wuhan Blower	Long Term Loan	Standard Chartered Bank****	12/16/2013	9.40%	—	7,094,145	—
Wuhan Sungreen	Notes Payable	Various vendors and individuals**	On Demand		93,606	13,066	—
Wuhan Generating	Notes Payable	Bank of Communications	6/26/2009		—	—	2,480,233
Wuhan Generating	Notes Payable	Bank of Communications	1/15/2009		—	—	1,458,958
Wuhan Generating	Notes Payable	Bank of Communications	1/16/2009		—	—	4,376,878
Wuhan Generating	Notes Payable	Bank of Communications	6/24/2009		—	—	4,376,878
Wuhan Generating	Notes Payable	Bank of Communications	1/6/2010		1,462,587	1,462,587	—
Wuhan Generating	Notes Payable	Bank of Communications	1/12/2010		1,462,587	1,462,587	—

Edgar Filing: WUHAN GENERAL GROUP (CHINA), INC - Form 10-K/A

Wuhan Generating	Notes Payable	Bank of Communications	1/17/2010	1,462,587	1,462,587	—
Wuhan Generating	Notes Payable	Bank of Communications	1/22/2010	1,462,587	1,462,587	—
Wuhan Generating	Notes Payable	Hankou Bank	4/13/2010	1,462,587	1,462,587	—
Wuhan Generating	Notes Payable	Hankou Bank	4/21/2010	530,188	530,188	—
Wuhan Generating	Notes Payable	Hankou Bank	4/26/2010	917,773	917,773	—
Wuhan Generating	Notes Payable	Bank of Communications	4/8/2010	3,948,985	3,948,985	—
subtotal				12,709,881	12,709,881	12,692,947
Total				46,758,253	46,758,253	36,630,649

*The Company has corrected an error in the classification of debts between long term and short term, which appeared in the financial statements included in the Original Report. The amount related to the loan from Bank of Communications was improperly included in the total for long term loans on the consolidated balance sheet at December 31, 2009 that appeared in the Original Report; however the amount was properly disclosed as current in the notes to the financial statements appearing in the Original Report. The amount was subsequently refinanced by a loan from Standard Chartered Bank on January 29, 2010. At December 31, 2008 the loan was properly classified as long term.

**The disclosure of the amount of various notes on demand attributable to Wuhan Sungreen at December 31, 2009 has been revised from \$13,066 to \$93,066. The revision is a correction of a typing error. The total liability amount disclosed on the consolidated balance sheet under the line item Bank Loans and Notes was properly disclosed; however, the details found in Note 12 to the financial statements included in the Original Report contained an error.

***The \$2,925,714 bank loan secured from Standard Chartered has been reclassified from long term to short term. See Note 24 Restatement of Long Term Bank Loans to Short Term in the Restated Financial Statements for a detailed discussion. The amount of the loan has also been revised to \$2,925,174. The error resulted from two figures being transposed. This error was immaterial. The total on the Consolidated Balance Sheet for Bank Loans and Notes in the Original Report was correct; only the disclosure in the line item of Note 12 in the Original Report contained the error.

****The \$7,094,145 bank loan secured from Standard Chartered has been reclassified from long term to short term. See Note 24 Restatement of Long Term Bank Loans to Short Term in the Restated Financial Statements for a detailed discussion.

We plan to either repay this debt as it matures or refinance this debt with other debt. Our subsidiary, Wuhan Blower, recently financed up to RMB 303,100,000 (approximately \$44.4 million) in the form of a bank loan that was used to repay our current bank debt, purchase equipment for Wuhan Generating and complete the capital expenditure investments of Wuhan Sungreen. Since these proceeds are available to Wuhan Generating to complete its construction projects, the Company can use the funds generated from operations for working capital.

Loan Facility with Standard Chartered Bank

On November 11, 2009, Wuhan Blower, Wuhan Generating and Wuhan Sungreen (collectively, the “Borrowers”) entered into a Loan Agreement with Standard Chartered Bank (China) Limited, Guangzhou Branch (the “Standard Chartered”). The Loan Agreement provides for a loan facility totaling RMB 303,100,000 (approximately \$44.4 million) in senior secured debt financing consisting of a term loan facility for up to RMB 211,600,000 (approximately \$31.0 million) (the “Tranche A Loan”) and a term loan facility for up to RMB 91,500,000 (approximately \$13.4 million) (the “Tranche B Loan,” together with the Tranche A Loan, the “Loans”). The Tranche A Loan was used primarily to repay the existing bank debts of Wuhan Blower and Wuhan Generating and to purchase equipment for Wuhan Generating. The Tranche B Loan will be used primarily to facilitate the capital expenditure investments of Wuhan Sungreen.

As of December 31, 2009, the Company had used approximately \$10.02 million under the Tranche A Loan and approximately \$4.44 million under a bridge loan with Standard Chartered. As of December 31, 2009, the Company had under the Tranche A Loan and Tranche B Loan unused amounts of approximately \$20.93 million and \$13.38 million, respectively. The Company also had approximately \$1.41 million unused under the bridge loan with Standard Chartered. These unused amounts are not available to the Company until the Company meets certain conditions. As of January 29, 2010, the Company received an additional amount of approximately \$13.03 million under the Tranche A Loan.

The obligations under the Loan Agreement are guaranteed by the Company, Universe Faith Group Limited and Mr. Xu Jie personally. Each of the guarantors also is a party to the Loan Agreement.

Both the Tranche A Loan and the Tranche B Loan will mature on the third anniversary of the date of the first drawdown under the Tranche A Loan, subject to an extension of one year and a half at Standard Chartered's sole discretion. Commencing fifteen months after the first drawdown under the Tranche A Loan, the Borrowers will be required to pay eight successive quarterly installments on the Tranche A Loan. With respect to the Tranche B Loan, the Borrowers will be required to make eight installment payments commencing fifteen months after the first drawdown under the Tranche A Loan.

The Tranche A Loan bears interest at a fixed rate of 9.40%. The interest rate of the Tranche B Loan will be either a fixed rate or floating rate plus margin, to be determined at the time of the first drawdown. The Borrowers also must pay to Standard Chartered, who also serves as the facility agent, an annual commitment fee of 3%, which is to be paid monthly while the Loans are available.

Subject to certain conditions, the Borrowers may voluntarily prepay the Loans with a prepayment fee. The Borrowers are subject to a mandatory prepayment of the Loans if the Borrowers obtain any new debt financing, dispose of certain assets, distribute dividends or change control, among other circumstances.

The Loan Agreement contains covenants, which include, among others: limitation on the incurrence of additional indebtedness; limitation on guarantees, liens, investments, sales of assets, mergers, change of control and capital expenditures; and maintenance of specified financial ratios. So long as any amount is outstanding under the Loans, (1) the Borrowers must maintain a Loan to Value Ratio of 75% through June 2010 and 65% thereafter and (2) Wuhan Blower must maintain (i) a ratio of total debt to EBITDA of less than certain amounts that range from 3.0 to 3.5 during 2009 and 2010 and 2.5 in 2011 and (ii) total revenues must exceed certain amounts that range between RMB 600,000,000 (approximately \$87.9 million) to RMB 750,000,000 (approximately \$109.9 million) from 2009 through 2011.

The Company was in compliance with all loan covenants as of December 31, 2009, except that the Company did not comply with: (1) the days accounts receivable ratio covenant, and (2) the interest coverage ratio covenant. The days accounts receivable ratio is calculated by dividing the Company's 2009 revenue by 360 and then dividing that number into accounts receivable. At December 31, 2009, the Company's days account receivable ratio was 209, which was above the maximum of 180 provided in the Standard Chartered loan agreement. The interest coverage ratio is calculated by dividing the Company's 2009 earnings before interest, tax, amortization and depreciation by the interest for the year. At December 31, 2009, the interest coverage ratio was 5.24, which was below the minimum of 6.0. The Company has requested a waiver from Standard Chartered for this noncompliance. Based on the Company's conversations with Standard Chartered, the Company does not believe that Standard Chartered will take any adverse action against the Company for noncompliance with these financial covenants. In any event, the Company reclassified the loans and notes owed to Standard Chartered from long term to short term. See Note 24 Restatement of Long Term Bank Loans to Short Term to the Restated Financial Statements.

The Tranche B Loan is subject to additional conditions, including the completion of syndication of at least RMB 80,000,000 (approximately \$11.7 million) under the Tranche A Loan and the Borrowers maintaining a ratio of total debt to consolidated EBITDA of less than 2.9 and total annual revenues of at least RMB 600,000,000 (approximately \$87.9 million).

As a condition to the Loans, the Borrowers granted to Standard Chartered a security interest in substantially all of their assets, including, among other things, mortgages over land use rights and ownership of buildings, factories and equipment, pledge of shares, existing and future account receivables that exceed certain amounts and registered trademarks. In addition, each of the Borrowers agreed to provide financial and other information within certain time frames, including audited financial statements within 90 calendar days after the end of each fiscal year and unaudited financial statements within 15 calendar days after the end of each fiscal quarter. Each of the Borrowers and guarantors also agreed, among other things, that there will be no material changes in the senior officers or board of directors without the prior written consent of Standard Chartered, and all related party transactions will be at arm's-length.

The failure to satisfy the covenants under the Loan Agreement or the occurrence of other specified events that constitute an event of default could result in the acceleration of the repayment obligations of the Borrowers. The events of default include, among others: the failure to make payments under the Loan Agreement; insolvency or bankruptcy proceedings involving any of the Borrowers; cross defaults to other indebtedness by the Borrowers; material litigation or a change in control of the Borrowers; and subject to certain limitations, the failure to perform or observe covenants or other obligations under the Loan Agreement or related documents by the Borrowers or guarantors.

The Borrowers are subject to a penalty interest rate of 1% on all amounts due and unpaid if the Borrowers fail to pay any sum payable when due. In addition, the Borrowers are subject to a penalty interest rate of the People's Bank of China rate, plus a mark up of 50% to 100%, on all amounts used for purposes that do not comply with the stated purposes under the Loan Agreement.

The Loan Agreement is governed by the laws of the PRC. All financial covenants under the Loan Agreement are based on generally accepted accounting principles in the PRC. All amounts in the Loan Agreement are denominated in RMB, which is the currency used in the PRC. The dollar translations used in this summary of the Loan Agreement are based on the exchange rate of RMB 6.83 for each 1.00 U.S. Dollar, on November 12, 2009.

In connection with the Loan Agreement, the Borrowers entered into an agreement with Standard Chartered Corporate Advisory Co. (Beijing), Ltd. (the "Advisor") for certain advisory and management services. Under this agreement, the Borrowers agreed to pay to the Advisor a management fee of 1% of the net gross revenues of the Borrowers in connection with the Tranche B Loan. This management fee remains valid and payable until one year after the maturity date of the Loans. In addition, the Borrowers have agreed to pay to the Advisor an advisory fee of 8% of the Loans. This description of the agreement is qualified in its entirety by reference to the Consulting Service Agreement, which is filed as Exhibit 10.20 to the Original Report.

The foregoing summary of the Loan Agreement is qualified in its entirety by reference to the Loan Agreement, which is filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on November 16, 2009.

Critical Accounting Policies

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires our management to make assumptions, estimates and judgments that affect the amounts reported in the financial statements, including the notes thereto, and related disclosures of commitments and contingencies, if any. We consider our critical accounting policies to be those that require the more significant judgments and estimates in the preparation of financial statements, including the following:

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.

Consolidation

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

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.

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 and inventories, deferred income taxes, warranty liability and the estimation of useful lives of property, plant and equipment. Actual results could differ from these estimates.

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.

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.

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.

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	10
and	years
Equipment	
Furniture	5
and	years
Fixtures	
Motor	5
Vehicles	years

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	10
Licenses	years
Trademark	20
	years

Annually, the Company reviews the intangible assets for impairment, in accordance with ASU 350 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.

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 campus, and of 30 years for the Wuhan Sungreen campus.

- 11 -

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. The Company's long-lived assets are grouped by their presentation on the financial statements according to the balance sheet and further segregated by their operating and asset type. Long-lived assets subject to impairment include buildings, equipment, vehicles, trademarks, software licenses, land use rights and real property available for sale. The Company considers annually whether these assets are impaired. The company makes its determinations based on various factors that impact those assets. For example, the Company considers real property impaired if property prices decrease drastically and it is unlikely that the prices will recover within the foreseeable future. Although property values in the PRC have experienced a decline during the last year, prices are increasing again. Therefore, the Company believes its real property has at least retained the value of its original cost to the Company. Equipment used for production, which undergo regular maintenance, is assessed annually. The Company has maintained a profitable business amidst the economic downturn and equipment has continued to be used for production, indicating that such equipment still retains its value to the Company. Based on its review, the Company believes that, as of December 31, 2009 and December 31, 2008, there were no significant impairments of its long-lived assets.

The Company believes that cash flows generated by its ongoing business, which incorporates significant use of the long-lived assets of the Company, provide sufficient profit so that it is unnecessary to record any impairment charges. The Company believes that current annual provision of depreciation and amortization provides sufficient expense related to the use of the long-lived assets carried on the Company's books.

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.

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 the 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 until pricing is agreed upon by the customer. The Company has not filed any claims against its customers for loss or delays caused by the customers.

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.

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.

Selling Expenses

Selling expenses are comprised of outbound freight, client entertainment, commissions, depreciation and travel and lodging expenses.

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.

Research and Development

The Company expenses all research and development costs as incurred.

Shipping and Handling

Shipping and handling costs represent costs associated with shipping products to customers and handling finished goods. Shipping and handling costs billed to customers are recognized as revenue and shipping and handling costs incurred by the Company are included in cost of sales.

Foreign Currency Translation

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

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

Exchange Rates	December 31, 2009	December 31, 2008
Year-end RMB: US\$ exchange rate	6.83720	6.85420
Average 12 month RMB: US\$ exchange rate	6.84088	6.96225

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.

Income Taxes

The Company uses the accrual method of accounting to determine income taxes for the year. 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, 2009, 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, 2008. However, PRC government has established a set of transition rules to allow enterprises that had already started tax holidays before January 1, 2009, to continue enjoying the tax holidays until being fully utilized. For the year ended December 31, 2009, Wuhan Blower and Wuhan Generating were subject to a 12.5% tax rate and Wuhan Sungreen was subject to a 25% tax rate.

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	—	—

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. The Company cannot pay dividends out of statutory reserves or paid in capital registered in PRC.

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.

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 the 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.

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.

Financial Instruments

The Company's financial instruments are cash and cash equivalents, accounts receivable, other receivable, advances to suppliers, advances to employees, bank loans and notes, accounts payable, other payable, dividend payable, accrued liabilities, and long-term liabilities. The recorded values of cash and cash equivalents, accounts receivable, other receivable, advances to suppliers, advances to employees, bank loans and notes, accounts payable, other payable, dividend payable and accrued liabilities approximate their fair values based on their short-term nature. The recorded values of long-term liabilities approximate their fair values, as interest approximates market rates.

Retirement Plan

The employees of the Company participate in the defined contribution retirement plans managed by the local government authorities whereby the Company is required to contribute to the schemes at fixed rates of the employees' salary. The Company's contributions to this plan are charged to profit or loss when incurred. The Company has no obligations for the payment of retirement and other post-retirement benefits of staff other than the contributions described above.

Recent Accounting Pronouncements

In May 2009, the FASB issued SFAS No. 165, Subsequent Events ("SFAS 165"). SFAS 165 establishes general standards of accounting for and disclosing of events that occur after the balance sheet date but before the financial statements are issued or are available to be issued. SFAS 165 does not significantly change the types of subsequent events that an entity reports, but it requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date. SFAS 165 is effective for interim or annual reporting requirements ending after June 15, 2009. The adoption of this standard did not have a material impact on our financial position, results of operations or cash flows of the Company.

In June 2009, the FASB issued Accounting Standards Update ("ASU") 2009-01, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles — a replacement of FASB Statement No. 162 ("ASU 2009-01"). ASU 2009-01 established the Accounting Standards Codification (the "Codification") as the source of authoritative GAAP recognized by the FASB to be applied to nongovernmental entities. The Codification supersedes all prior non-SEC accounting and reporting standards. Following ASU 2009-01, the FASB will not issue new accounting standards in the form of FASB Statements, FASB Staff Positions, or Emerging Issues Task Force abstracts. ASU 2009-01 also modifies the existing hierarchy of GAAP to include only two levels — authoritative and non-authoritative. ASU 2009-01 is effective for financial statements issued for interim and annual periods ending after September 15, 2009, and early adoption was not permitted. The adoption of this standard did not have an impact on the financial position, results of operations or cash flows of the Company.

In August 2009, the FASB issued ASU 2009-05, Fair Value Measurements and Disclosures (Topic 820) - Measuring Liabilities at Fair Value ("ASU 2009-05"). ASU 2009-05 addresses concerns in situations where there may be a lack of observable market information to measure the fair value of a liability, and provides clarification in circumstances where a quoted market price in an active market for an identical liability is not available. In these cases, reporting entities should measure fair value using a valuation technique that uses the quoted price of the identical liability when that liability is traded as an asset, quoted prices for similar liabilities, or another valuation technique, such as an income or market approach. ASU 2009-05 also clarifies that when estimating the fair value of a liability, a reporting entity is not required to include a separate input or adjustment to other inputs relating to the existence of a restriction that prevents the transfer of the liability. ASU 2009-05 is effective for the first reporting period subsequent to August 2009 and the adoption of this update is not expected to have a material impact on the financial position, results of operations, or cash flows of the Company.

In June 2009, the FASB issued SFAS No. 166, Accounting for Transfers of Financial Assets, an amendment of FASB Statement No. 140 (“SFAS 166”). SFAS 166 amends the application and disclosure requirements of SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities — a Replacement of FASB Statement 125 (“SFAS 140”), removes the concept of a “qualifying special purpose entity” from SFAS 140 and removes the exception from applying FASB Interpretation (“FIN”) No. 46(R), Consolidation of Variable Interest Entities — an Interpretation of ARB No. 51 (“FIN 46(R)”) to qualifying special purpose entities. SFAS 166 is effective for the first annual reporting period that begins after November 15, 2009, and early adoption is not permitted. The adoption of this standard is not anticipated to have a material impact on the financial position, results of operations or cash flows of the Company.

In October 2009, the FASB issued ASU 2009-13, Revenue Recognition (Topic 605) — Multiple-Deliverable Revenue Arrangements, a consensus of the FASB Emerging Issues Task Force (“ASU 2009-13”). ASU 2009-13 addresses the accounting for multiple-deliverable arrangements where products or services are accounted for separately rather than as a combined unit, and addresses how to separate 71 deliverables and how to measure and allocate arrangement consideration to one or more units of accounting. Existing GAAP requires an entity to use vendor-specific objective evidence (“VSOE”) or third-party evidence of a selling price to separate deliverables in a multiple-deliverable selling arrangement. As a result of ASU 2009-13, multiple-deliverable arrangements will be separated in more circumstances than under current guidance. ASU 2009-13 establishes a selling price hierarchy for determining the selling price of a deliverable. The selling price will be based on VSOE if it is available, on third-party evidence if VSOE is not available, or on an estimated selling price if neither VSOE nor third-party evidence is available. ASU 2009-13 also requires that an entity determine its best estimate of selling price in a manner that is consistent with that used to determine the selling price of the deliverable on a stand-alone basis, and increases the disclosure requirements related to an entity’s multiple-deliverable revenue arrangements. ASU 2009-13 must be prospectively applied to all revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, and early adoption is permitted. Entities may elect, but are not required, to adopt the amendments retrospectively for all periods presented. The Company expects to adopt the provisions of ASU 2009-13 on January 1, 2011 and does not believe that the adoption of this standard will have a material impact on the financial position, results of operations, or cash flows of the Company.

In December 2009, the FASB issued ASU 2009-17, Consolidations (Topic 810) — Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities. ASU 2009-17 replaces the quantitative-based risk and rewards calculation for determining which reporting entity, if any, has a controlling financial interest in a variable interest entity with an approach focused on identifying which reporting entity has the power to direct the activities of a variable interest entity that most significantly impact the entity’s economic performance and (1) the obligation to absorb losses of the entity or (2) the right to receive benefits from the entity. An approach that is expected to be primarily qualitative will be more effective for identifying which reporting entity has a controlling financial interest in a variable interest entity. ASU 2009-17 also requires additional disclosures about a reporting entity’s involvement in variable interest entities. The provisions of ASU 2009-17 are to be applied beginning in the first fiscal period beginning after November 15, 2009. The Company adopted ASU 2009-17 on January 1, 2010 and does not anticipate that the adoption of this standard will have a material effect on the financial position, results of operations, or cash flows of the Company.

In January 2010, the FASB issued ASU 2010-02, Consolidation (Topic 810) — Accounting and Reporting for Decreases in Ownership of a Subsidiary — A Scope Clarification. ASU 2010-02 clarifies that the scope of previous guidance in the accounting and disclosure requirements related to decreases in ownership of a subsidiary apply to (i) a subsidiary or a group of assets that is a business or nonprofit entity; (ii) a subsidiary that is a business or nonprofit entity that is transferred to an equity method investee or joint venture; and (iii) an exchange of a group of assets that constitutes a business or nonprofit activity for a noncontrolling interest in an entity. ASU 2010-02 also expands the disclosure requirements about deconsolidation of a subsidiary or derecognition of a group of assets to include (i) the valuation techniques used to measure the fair value of any retained investment; (ii) the nature of any continuing involvement with the subsidiary or entity acquiring a group of assets; and (iii) whether the transaction that resulted in the deconsolidation or derecognition was with a related party or whether the former subsidiary or entity acquiring the assets will become a related party after the transaction. The provisions of ASU 2010-02 will be effective for the first reporting period beginning after December 13, 2009. The Company adopted the provisions of ASU 2010-02 on January 1, 2010 and does not anticipate that the adoption of this standard will have a material impact on the financial position, results of operations, or cash flows of the Company.

In January 2010 the FASB issued ASU 2010-06, Fair Value Measurements and Disclosures (Topic 820) —Improving Disclosures About Fair Value Measurements. ASU 2010-06 clarifies the requirements for certain disclosures around fair value measurements and also requires registrants to provide certain additional disclosures about those measurements. The new disclosure requirements include (i) the significant amounts of transfers into and out of Level 1 and Level 2 fair value measurements during the period, along with the reason for those transfers, and (ii) separate presentation of information about purchases, sales, issuances and settlements of fair value measurements with significant unobservable inputs. ASU 2010-06 is effective for interim and annual reporting periods beginning after December 15, 2009. The Company adopted the provisions of ASU 2010-06 on January 1, 2010 and does not anticipate that the adoption of this standard will have a material impact on the financial position, results of operations, or cash flows of the Company.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements.

Item 8. Financial Statements and Supplementary Data.

The financial statements required by Item 8 are included on pages F-1 to F-40 immediately following the signature page. As a “smaller reporting company,” as defined by Item 10 of Regulation S-K, the Company is not required to provide supplementary financial data.

Item 9A. Controls and Procedures.

Disclosure Controls and Procedures

As required by Rule 15d-15 under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), our management has carried out an evaluation, with the participation and under the supervision of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of December 31, 2009. Disclosure controls and procedures refer to controls and other procedures designed to ensure that information required to be disclosed in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating and implementing possible controls and procedures. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected.

Based upon this evaluation as of December 31, 2009, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures contained significant deficiencies and material weaknesses. Therefore, our management concluded that our disclosure controls and procedures were not effective. We believe that the deficiencies and weaknesses in our disclosure controls and procedures result from weaknesses in our internal control over financial reporting, which are described below.

Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. The Company’s internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. The Company’s internal control over financial reporting includes those policies and procedures that:

- (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”), and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and
- (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting cannot provide absolute assurance of preventing and detecting misstatements on a timely basis. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures.

Management of the Company, including the Company's Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of the Company's internal control over financial reporting as of December 31, 2009. In making this evaluation, management used the criteria set forth in the Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on this evaluation, we concluded that we had material weaknesses in our internal control over financial reporting as of December 31, 2009. The following is a description of each deficiency or weakness with respect to our internal control over financial reporting identified in connection with the management evaluation and the remediation initiatives that we have implemented or intend to implement in the near future.

- 1) The Company does not have a comprehensive framework for risk evaluation and assessment at the subsidiary level. The Company also has not established a separate risk assessment department to assess the Company's internal and external risks from a global perspective.

Remediation Initiative

We plan to establish risk assessment and evaluation policies and procedures at the subsidiary level to promote a more comprehensive framework for evaluating risks within the Company. In addition, we plan to establish a separate risk management department, which will enhance the function of our newly created internal audit department by providing regular analysis on risk assessment and implementing any necessary remedies. The risk management department will report directly to management.

- 2) The current accounting staff lacks sufficient depth, skill and experience with U.S. GAAP reporting. Further, the Company must establish an internal audit department that reports to the Audit Committee.

Remediation Initiative

We are seeking additional accountants experienced in several key areas of accounting, including persons with experience in U.S. GAAP and SEC financial reporting requirements. We are providing regular training to our accounting staff regarding U.S. GAAP reconciliation and disclosures in financial reports. We also are in the process of establishing an internal audit department for the Company.

- 3)The Company lacks a formal information technology department to manage the Company's information technology operations and risk assessment framework.

Remediation Initiative

We plan to establish a formal information technology department with clearly defined functions.

- 4)The Company does not systematically maintain records of its new and existing customers. This prevents the Company from properly managing its client relations.

Remediation Initiative

We plan to create a comprehensive customer evaluation form and will enforce documentation retention procedures to ensure proper customer information is maintained and updated in a secured database. The evaluation form will allow the Company to collect information on its customers, including information on the customer's business background and credit worthiness.

- 5)The Company does not keep invoices or other records for its customers. This prevents the Company from effectively managing its customer accounts.

Remediation Initiative

We plan to create an account statement, which we will send to our customers to confirm orders. We will keep a copy of these statements for our records.

- 6)The Company does not regularly evaluate the collectability of its outstanding accounts receivable and other receivables. This may result in an inaccurate estimation of the Company's total receivables.

Remediation Initiative

We plan to evaluate and analyze all of our material outstanding accounts receivable and other receivables on a regular basis.

Because material weaknesses exist, management concluded that the Company's internal control over financial reporting as of December 31, 2009 was not effective.

This Annual Report on Form 10-K does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to temporary rules of the SEC that permit the Company to provide only management's report in this Annual Report on Form 10-K.

Changes in Internal Control over Financial Reporting

During the quarter ended December 31, 2009, the Company implemented the following changes to its internal control over financial reporting that have materially affected, or that are reasonably likely to materially affect, its internal control over financial reporting. In order to improve the skills of our accounting staff, we provided regular training to our accounting staff regarding U.S. GAAP reconciliation and disclosures in financial reports. We began to establish an internal audit department for the Company. We continued to implement improvements to our internal control over financial reporting following the end of the fourth quarter of 2009.

PART IV

Item 15. Exhibits and Financial Statement Schedules.

The following documents are filed as part of this report:

1. Financial Statements

Contents	Pages
Report of Registered Independent Public Accounting Firm	F-1
Consolidated Balance Sheets	F-2
Consolidated Statements of Income	F-4
Consolidated Statements of Stockholders' Equity	F-6
Consolidated Statements of Cash Flows	F-8
Notes to the Financial Statements	F-10

2. Financial Statement Schedules

None.

3. Exhibits

Exhibit Description
No.

31.1*	Certification of Principal Executive Officer Pursuant to Rule 13a-14(a)
31.2*	Certification of Principal Financial Officer Pursuant to Rule 13a-14(a)
32.1*	Certifications Pursuant to 18 U.S.C. Section 1350

* Filed herewith.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

WUHAN GENERAL GROUP (CHINA), INC.

Date: March 7, 2011

By: /s/ Qi Ruilong

Name: Qi Ruilong

Title: President and Chief Executive Officer

(principal executive officer and duly authorized officer)

By: /s/ Philip Lo

Name: Philip Lo

Title: Chief Financial Officer and Treasurer

(principal financial and accounting officer)

Wuhan General Group (China), Inc.

Audited Financial Statements

December 31, 2009 and 2008

(Stated in US Dollars)

Wuhan General Group (China), Inc.

Contents	Pages
Report of Registered Independent Public Accounting Firm	F-1
Consolidated Balance Sheets	F-2 - F-3
Consolidated Statements of Income	F-4 - F-5
Consolidated Statements of Stockholders' Equity	F-6 – F-7
Consolidated Statements of Cash Flows	F-8 – F-9
Notes to the Financial Statements	F-10 – F-40

Board of Directors and Stockholders
Wuhan General Group (China), Inc.

Report of Registered Independent Public Accounting Firm

We have audited the accompanying consolidated balance sheets of Wuhan General Group (China), Inc. (the “Company”) as of December 31, 2009 and 2008, and the related consolidated statements of income, stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Wuhan General Group (China), Inc. as of December 31, 2009 and 2008, and the results of its operations and its cash flows for each of the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 23 Restatement of Inventory and Construction in Progress to the financial statements, an error resulting in an understatement of previously reported balance of inventory and overstatement of the balance of construction in progress at December 31, 2008 was discovered by the Company's management during the current year. Accordingly, the 2008 consolidated balance sheet and the related statement of cash flows and Note 6 Inventory and Note 10 Construction in Progress have been restated.

As discussed in Note 24 Restatement of Long Term Bank Loans to Short Term to the financial statements, an error resulting in an overstatement of long term bank loans and an understatement in short term bank loans at December 31, 2009 was discovered by the Company's management during the current year. Accordingly, the 2009 consolidated balance sheet and related Note 12 Bank Loans and Notes have been restated.

As discussed in Note 25 Restatement of Diluted Earnings Per Share to the financial statements, an error in computing the diluted earnings per share resulting in an understatement in diluted earnings per share for the year ended December 31, 2008 was discovered by the Company's management during the current year. Accordingly, the 2008 consolidated statement of income and related Note 18 Earnings Per Share have been restated.

As discussed in Note 26 Restatement of the Statements of Cash Flows to the financial statements, an error resulting in an overstatement of cash sourced in operating activities and an overstatement of cash used in investing activities for the year ended December 31, 2008 was discovered by the Company's management during the current year. Accordingly, the 2008 consolidated statement of cash flows have been restated.

/s/ Samuel H. Wong & Co., LLP

San Mateo, California
March 21, 2010

Samuel H. Wong & Co., LLP
Certified Public Accountants

F-1

Wuhan General Group (China), Inc.

Consolidated Balance Sheets
At December 31, 2009 and 2008
(Stated in US Dollars)

	Note	Restated At December 31, 2009	Original At December 31, 2009	Restated At December 31, 2008	Original At December 31, 2008
ASSETS					
Current Assets					
Cash	2 (e)	\$ 407,394	\$ 407,394	\$ 2,817,503	\$ 2,817,503
Restricted Cash	3	7,759,971	7,759,971	13,180,640	13,180,640
Notes Receivable	4	28,520	28,520	—	—
Accounts Receivable	2 (f),5	53,962,201	53,962,201	41,486,856	41,486,856
Other Receivable		4,684,372	4,684,372	1,719,083	1,719,083
Inventory	2 (g),6	15,630,470	15,630,470	10,583,906	8,395,467
Advances to Suppliers		24,616,120	24,616,120	20,274,473	20,274,473
Advances to Employees	7	342,829	342,829	189,516	189,516
Prepaid Expenses		928,629	928,629	92,279	92,279
Prepaid Taxes		546,050	546,050	604,610	604,610
Deferred Tax Asset		749,031	749,031	—	—
Total Current Assets		109,655,587	109,655,587	90,948,867	88,760,427
Non-Current Assets					
Real Property Available for Sale		1,103,113	1,103,113	1,100,376	1,100,376
Property, Plant & Equipment, net	2 (h),8	32,908,334	32,908,334	22,274,551	22,274,551
Land Use Rights, net	2 (j),9	12,073,139	12,073,139	12,297,429	12,297,429
Construction in Progress	10	17,864,257	17,864,257	28,087,572	30,276,011
Intangible Assets, net	2 (i),11	212,798	212,798	363,574	363,574
Total Assets		\$ 173,817,228	\$ 173,817,228	\$ 155,072,368	\$ 155,072,368
LIABILITIES & STOCKHOLDERS' EQUITY					
Liabilities					
Current Liabilities					
Bank Loans & Notes	12, 24	46,758,253	35,276,347	35,171,690	35,171,690
Accounts Payable		8,049,057	8,049,057	8,420,678	8,420,678
Taxes Payable		3,169,948	3,169,948	1,109,548	1,109,548
Other Payable	13	4,228,042	4,228,042	7,708,323	7,708,323
Dividend Payable		727,129	727,129	193,804	193,804
Accrued Liabilities	14	3,524,388	3,524,388	2,805,558	2,805,558
Customer Deposits		4,696,719	4,696,719	4,614,370	4,614,370
Total Current Liabilities	24	71,153,536	59,671,630	60,023,971	60,023,971
Long Term Liabilities					
Bank Loans and Notes	12, 24	—	11,481,906	1,458,959	1,458,959
Total Liabilities		71,153,536	71,153,536	61,482,930	61,482,930

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

F-2

Wuhan General Group (China), Inc.

Consolidated Balance Sheets
At December 31, 2009 and 2008
(Stated in US Dollars)

Stockholders' Equity	Note	Restated At December 31, 2009	Original At December 31, 2009	Restated At December 31, 2008	Original At December 31, 2008
Preferred Stock - \$0.0001 Par Value 50,000,000 Shares Authorized; 6,241,453 and 6,241,453 Shares of Series A Convertible Preferred Stock Issued & Outstanding at December 31, 2009 and 2008, respectively	15	624	624	624	624
Additional Paid in Capital - Preferred Stock		8,170,415	8,170,415	8,170,415	8,170,415
Additional Paid in Capital - Warrants		3,484,011	3,484,011	3,687,794	3,687,794
Additional Paid in Capital - Beneficial Conversion Feature		6,371,547	6,371,547	6,371,546	6,371,546
Preferred Stock - \$0.0001 Par Value 50,000,000 Shares Authorized; 6,354,078 and 6,354,078 Shares of Series B Convertible Preferred Stock Issued & Outstanding at December 31, 2009 and 2008, respectively	15	635	635	635	635
Additional Paid in Capital - Preferred Stock		12,637,158	12,637,158	12,637,158	12,637,158
Additional Paid in Capital - Warrants		2,274,181	2,274,181	2,274,181	2,274,181
Additional Paid in Capital - Beneficial Conversion Feature		4,023,692	4,023,692	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	15	2,536	2,536	2,475	2,475

Edgar Filing: WUHAN GENERAL GROUP (CHINA), INC - Form 10-K/A

December 31, 2009 and 2008, respectively						
Additional Paid in Capital			29,793,996	29,793,996	28,436,835	28,436,835
Statutory Reserve	2	(t),16	4,563,592	4,563,592	3,271,511	3,271,511
Retained Earnings			23,477,239	23,477,239	17,034,243	17,034,243
Accumulated Other Comprehensive Income	2	(u)	7,864,066	7,864,066	7,678,329	7,678,329
Total Stockholders' Equity			102,663,692	102,663,692	93,589,438	93,589,438
Total Liabilities & Stockholders' Equity			\$ 173,817,228	\$ 173,817,228	\$ 155,072,368	\$ 155,072,368

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

F-3

Wuhan General Group (China), Inc.

Consolidated Statements of Income
For the years ended December 31, 2009 and 2008
(Stated in US Dollars)

	Note	Year ended December 31, 2009	Restated Year ended December 31, 2008	Original Year ended December 31, 2008
Sales	2 (l)	\$ 93,079,755	\$ 118,633,833	\$ 118,633,833
Cost of Sales	2 (m)	69,720,627	84,442,278	84,442,278
Gross Profit		23,359,128	34,191,555	34,191,555
Operating Expenses				
Selling	2 (n)	1,606,712	3,346,586	3,346,586
General & Administrative	2 (o)	7,595,755	7,753,163	7,753,163
Warranty	2 (v),14	371,764	469,586	469,586
Total Operating Expenses		9,574,231	11,569,335	11,569,335
Operating Income		13,784,897	22,622,220	22,622,220
Other Income (Expenses)				
Other Income		226,798	986,678	986,678
Interest Income		341,071	84,525	84,525
Other Expenses		(92,132)	(199,621)	(199,621)
Interest Expense		(3,197,789)	(1,990,477)	(1,990,477)
Stock Penalty for late listing on NASDAQ	15	(1,153,439)	(5,355,233)	(5,355,233)
Total Other Income (Loss) & Expenses		(3,875,491)	(6,474,128)	(6,474,128)
Earnings before Taxes		9,909,406	16,148,092	16,148,092
Income Taxes	2 (s), 17	1,447,200	—	—
Net Income		\$ 8,462,206	\$ 16,148,092	\$ 16,148,092
Preferred Dividends Declared				
Series A Constructive Preferred Dividend	22	—	—	—
Series B Constructive Preferred Dividend	22	—	4,032,656	4,032,656
Income Available to Common Stockholders		\$ 7,735,076	\$ 11,188,335	\$ 11,188,335
Earnings Per Share				
Basic	18, 25	\$ 0.31	\$ 0.49	\$ 0.49
Diluted	25	\$ 0.22	\$ 0.34	\$ 0.26
Weighted Average Shares Outstanding				
Basic		25,176,026	22,675,532	22,675,532
Diluted		37,810,439	47,085,048	47,085,048

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

F-4

Wuhan General Group (China), Inc.

Consolidated Statements of Income
For the years ended December 31, 2009 and 2008
(Stated in US Dollars)

	Year ended December 31, 2009	Year ended December 31, 2008
Comprehensive Income		
Net Income	\$8,462,206	\$16,148,092
Other Comprehensive Income		
Foreign Currency Translation Adjustment	185,737	4,327,623
Total Comprehensive Income	\$8,647,943	\$20,475,715

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

F-5

Wuhan General Group (China), Inc.

Consolidated Statements of Stockholders' Equity
For the years ended December 31, 2009 and 2008
(Stated in US Dollars)

Series A, J, C Warrants	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	Stockholders' Equity
6,572,334	10,501,982	—	—	—	—	—	19,712,446	1,971	12,349,602	63,317,235
(1,860,866)		6,369,078	637	12,667,526	2,274,181	4,032,657				22,537,003
	(4,130,436)	(15,000)	(2)	(30,368)		(8,963)	4,061,101	406	9,466,342	22,537,003
(150,287)							115,361	12	150,275	22,386,716
									227,603	22,386,716
							863,894	86	5,355,147	22,386,716
(873,387)									873,387	21,513,329
									14,479	21,513,329

\$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,

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

F-6

Wuhan General Group (China), Inc.

Consolidated Statements of Stockholders' Equity
For the years ended December 31, 2009 and 2008 (Stated in US Dollars)

Series A, J, C Warrants Additional Paid in Capital	Beneficial Conversion Feature Additional Paid in Capital	Series B Convertible Preferred Stock Shares Out-standing Amount	Series B Preferred Stock Additional Paid in Capital	Series B, JJ Warrants Additional Paid in Capital	Beneficial Conversion Feature Additional Paid in Capital	Common Stock Shares Out-standing Amount	Additional Paid in Capital	Statutory Reserve		
\$3,687,794	\$6,371,547	6,354,078	\$635	\$12,637,158	\$2,274,181	\$4,023,692	24,752,802	\$2,475	\$28,436,835	\$3,271,5
						529,787	53	1,153,386		
						69,361	8	(8)		
									203,783	
(203,783)										
										1,292,0
\$3,484,011	\$6,371,547	6,354,078	\$635	\$12,637,158	\$2,274,181	\$4,023,692	25,351,950	\$2,536	\$29,793,996	\$4,563,5

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

Wuhan General Group (China), Inc.

Consolidated Statements of Cash Flows
For the years ended December 31, 2009 and 2008
(Stated in US Dollars)

	Note	12 months ended December 31, 2009	(Restated) 12 months ended December 31, 2008	(Original) 12 months ended December 31, 2008
Cash Flow from Operating Activities				
Cash Received from Customers		\$77,692,950	\$110,726,349	\$110,726,349
Cash Paid to Suppliers & Employees	23, 26	(89,535,620)	(115,284,453)	(93,031,049)
Interest Received		341,071	84,525	84,525
Interest Paid		(3,197,789)	(1,990,477)	(1,990,477)
Taxes Paid		(943,923)	—	—
Miscellaneous Receipts		226,798	986,678	986,678
Cash Sourced/(Used) in Operating Activities	23, 26	(15,416,513)	(5,477,378)	16,776,026
Cash Flows from Investing Activities				
Cash Released/(Invested in) Restricted Time Deposits		5,420,669	(4,071,775)	(4,071,775)
Payments for Purchases and Construction of Plant & Equipment	23, 26	(2,498,470)	(2,155,271)	(24,408,675)
Purchases of Land Use Rights		—	(10,606,926)	(10,606,926)
Cash Sourced/(Used) in Investing Activities	23, 26	2,922,199	(16,833,972)	(39,087,376)
Cash Flows from Financing Activities				
Proceeds from Issuance of Preferred Stock		—	13,081,477	13,081,477
Proceeds from Bank Loans and Notes		45,299,293	13,594,158	13,594,158
(Repayment of Bank Loans and Notes)		(35,171,690)	(5,096,172)	(5,096,172)
Dividends Paid		(193,804)	(1,632,173)	(1,632,173)
Cash Sourced/(Used) in Financing Activities		9,933,799	19,947,290	19,947,290
Net Increase/(Decrease) in Cash & Cash Equivalents for the Period				
		(2,560,515)	(2,364,060)	(2,364,060)
Effect of Currency Translation		150,406	4,188,598	4,188,598
Cash & Cash Equivalents at Beginning of Period		2,817,503	992,965	992,965
Cash & Cash Equivalents at End of Period		\$407,394	\$2,817,503	\$2,817,503
Non-Cash Investing Activity:				
Purchase of Sukong Asset through Hubei Gong Chuang Real Estate Co., Ltd.	23, 26	—	20,064,965	—
Non-Cash Financing Activity:				
Constructive Preferred Stock Dividend		—	4,032,656	4,032,656

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

F-8

Wuhan General Group (China), Inc.

Consolidated Statements of Cash Flows
For the years ended December 31, 2009 and 2008
(Stated in US Dollars)

	12 months ended December 31, 2009	(Restated) 12 months ended December 31, 2008	(Original) 12 months ended December 31, 2008
Net Income	\$8,462,206	\$ 16,148,092	\$ 16,148,092
Adjustments to Reconcile Net Income to			
Net Cash Provided by / <Used in> Operating Activities :			
Non-Cash Purchase of Sukong Assets	—	(20,064,965)	—
Reclassification of prior period stock compensation from liability to equity	—	14,479	14,479
Stock Penalties	1,153,439	5,355,233	5,355,233
Stock Compensation	—	227,603	227,603
Amortization	407,659	190,192	190,192
Depreciation	2,088,002	2,157,143	2,157,143
Decrease/(Increase) in Notes Receivable	(28,520)	1,865,491	1,865,491
Decrease/(Increase) in Accounts Receivable	(12,475,345)	(9,611,445)	(9,611,445)
Decrease/(Increase) in Other Receivable	(2,965,288)	258,563	258,563
Decrease/(Increase) in Inventory	(5,046,563)	(2,687,946)	(499,507)
Decrease/(Increase) in Advances to Suppliers	(4,341,647)	(7,531,343)	(7,531,343)
Decrease/(Increase) in Advances to Employees	(153,313)	(51,096)	(51,096)
Decrease/(Increase) in Prepaid Expenses	(836,350)	(92,279)	(92,279)
Decrease/(Increase) in Prepaid Taxes	58,560	(347,057)	(347,057)
Decrease/(Increase) in Deferred Tax Asset	(749,031)	—	—
Increase/(Decrease) in Accounts Payable	(371,621)	3,673,380	3,673,380
Increase/(Decrease) in Taxes Payable	2,060,400	66,165	66,165
Increase/(Decrease) in Other Payable	(3,538,783)	4,570,747	4,570,748
Increase/(Decrease) in Related Party Payable	58,503	—	—
Increase/(Decrease) in Accrued Liabilities	718,830	801,759	801,759
Increase/(Decrease) in Customer Deposits	82,349	(420,094)	(420,094)
Total of all adjustments	(23,878,719)	(21,625,470)	627,934
Net Cash Provided by Operating Activities	\$(15,416,513)	\$(5,477,378)	\$ 16,776,026

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

Wuhan General Group (China), Inc.

For the years ended December 31, 2009 and 2008
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 Sungreen Environment Protection Equipment Co., Ltd. (“Wuhan Sungreen”), formerly known as Wuhan Xingelin Machinery Equipment Manufacturing Co., Ltd. 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 Sungreen 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.

On December 25, 2008, Wuhan Blower, entered into an Asset Purchase Agreement with Wuhan Gongchuang Real Estate Co., Ltd. (the “Seller”, also known as “Hubei Gongchuang Real Estate Co., Ltd”) pursuant to which Wuhan Blower acquired certain assets owned by Seller, including certain buildings, equipment, land use rights, and construction in progress. An 8-K filed with the US Securities and Exchange Commission on February 5, 2009 further details the transaction. Title of the assets purchased under the above agreement has been recorded under Wuhan Sungreen. Wuhan Blower currently owns 100% beneficial interest in Wuhan Sungreen. Wuhan Sungreen is incorporated under the laws of the PRC. The purchased assets have been accounted for on Wuhan Sungreen’s books as contributed capital.

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

F-10

Wuhan General Group (China), Inc.

For the years ended December 31, 2009 and 2008

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 consolidated financial statements include the accounts of the Company and its subsidiaries, UFG, Wuhan Blower, Wuhan Generating Equipment and Wuhan Sungreen. 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 and inventories, deferred income taxes, warranty liability 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. 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.

F-11

Wuhan General Group (China), Inc.

For the years ended December 31, 2009 and 2008

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	3	0
	years	
Machinery	1	0
and	years	
Equipment		
Furniture	5	
and	years	
Fixtures		
Motor	5	
Vehicles	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	1	0
Licenses	years	
Trademark	2	0
	years	

Annually, the Company reviews the intangible assets for impairment, in accordance with ASU 350 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 campus, and of 30 years for the Wuhan Sungreen 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. The Company's long-lived assets are grouped by their presentation on the financial statements according to the balance sheet and further segregated by their operating and asset type. Long-lived assets subject to impairment include buildings, equipment, vehicles, trademarks, software licenses, land use rights and real property available for sale. The Company considers annually whether these assets are impaired. The Company makes its determinations based on various factors that impact those assets. For example, the Company considers real property impaired if property prices decrease drastically and it is unlikely that the prices will recover within the foreseeable future. Although property values in the PRC have experienced a decline during the last year, prices are increasing again. Therefore, the Company believes its real property has at least retained the value of its original cost to the Company. Equipment used for production, which undergo regular maintenance, are assessed annually. The Company has maintained a profitable business amidst the economic downturn and equipment has continued to be used for production, indicating that such equipment still retains its value to the Company. Based on its review, the Company believes that, as of December 31, 2009 and 2008, there were no significant impairments of its long-lived assets.

Wuhan General Group (China), Inc.

For the years ended December 31, 2009 and 2008

Notes to Financial Statements

(Stated in US Dollars)

The Company believes that cash flows generated by its ongoing business, which incorporates significant use of the long-lived assets of the Company, provide sufficient profit so that it is unnecessary to record any impairment charges. The Company believes that current annual provision of depreciation and amortization provides sufficient expense related to the use of the long-lived assets carried on the Company's books.

(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.

- 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% 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 the 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, client entertainment, commissions, depreciation, and travel and lodging expenses.

F-13

Wuhan General Group (China), Inc.

For the years ended December 31, 2009 and 2008

Notes to Financial Statements

(Stated in US Dollars)

(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) Research and Development

The Company expenses all research and development costs as incurred.

(q) Shipping and Handling

Shipping and handling costs represent costs associated with shipping products to customers and handling finished goods. Shipping and handling costs billed to customers are recognized as revenue and shipping and handling costs incurred by the Company are included in cost of sales.

(r) Foreign Currency Translation

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

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

	December 31, 2009	December 31, 2008
Exchange Rates		
Year end RMB :		
US\$ exchange rate	6.83720	6.85420
Average 12-month		
RMB : US\$		
exchange rate	6.84088	6.96225

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 income taxes for the year. 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.

Wuhan General Group (China), Inc.

For the years ended December 31, 2009 and 2008

Notes to Financial Statements

(Stated in US Dollars)

Effective January 1, 2009, 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, 2008. However, PRC government has established a set of transition rules to allow enterprises already started tax holidays before January 1, 2009, to continue enjoying the tax holidays until being fully utilized. For the year ended December 31, 2009, Wuhan Blower and Wuhan Generating were subject to a 12.5% tax rate and Wuhan Sungreen was subject to a 25% tax rate.

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				Of Amount
Rate		Over	But Not Over	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	—	—

(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. The Company cannot pay dividends out of statutory reserves or paid in capital registered in PRC.

(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 the 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 14 – Warranty Liability.

F-15

Wuhan General Group (China), Inc.

For the years ended December 31, 2009 and 2008

Notes to Financial Statements

(Stated in US Dollars)

(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 18 – Earnings Per Share.

(x) Financial Instruments

The Company's financial instruments are cash and cash equivalents, accounts receivable, other receivable, advances to suppliers, advances to employees, bank loans and notes, accounts payable, other payable, dividend payable, accrued liabilities, and long-term liabilities. The recorded values of cash and cash equivalents, accounts receivable, other receivable, advances to suppliers, advances to employees, bank loans and notes, accounts payable, other payable, dividend payable and accrued liabilities approximate their fair values based on their short-term nature. The recorded values of long-term liabilities approximate their fair values, as interest approximates market rates.

(y) Retirement Plan

The employees of the Company participate in the defined contribution retirement plans managed by the local government authorities whereby the Company is required to contribute to the schemes at fixed rates of the employees' salary. The Company's contributions to this plan are charged to profit or loss when incurred. The Company has no obligations for the payment of retirement and other post-retirement benefits of staff other than the contributions described above.

(z) Recent Accounting Pronouncements

In May 2009, the FASB issued SFAS No. 165, Subsequent Events ("SFAS 165"). SFAS 165 establishes general standards of accounting for and disclosing of events that occur after the balance sheet date but before the financial statements are issued or are available to be issued. SFAS 165 does not significantly change the types of subsequent events that an entity reports, but it requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date. SFAS 165 is effective for interim or annual reporting requirements ending after June 15, 2009. The adoption of this standard did not have a material impact on our financial position, results of operations or cash flows of the Company.

In June 2009, the FASB issued Accounting Standards Update ("ASU") 2009-01, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles — a replacement of FASB Statement No. 162 ("ASU 2009-01"). ASU 2009-01 established the Accounting Standards Codification (the "Codification") as the source of authoritative GAAP recognized by the FASB to be applied to nongovernmental entities. The Codification supersedes all prior non-SEC accounting and reporting standards. Following ASU 2009-01, the FASB will not issue new accounting standards in the form of FASB Statements, FASB Staff Positions, or Emerging Issues Task Force abstracts. ASU 2009-01 also modifies the existing hierarchy of GAAP to include only two levels — authoritative and non-authoritative. ASU 2009-01 is effective for financial statements issued for interim and annual periods ending after September 15, 2009, and early adoption was not permitted. The adoption of this standard did not have an impact

on the financial position, results of operations or cash flows of the Company.

In August 2009, the FASB issued ASU 2009-05, Fair Value Measurements and Disclosures (Topic 820) - Measuring Liabilities at Fair Value (“ASU 2009-05”). ASU 2009-05 addresses concerns in situations where there may be a lack of observable market information to measure the fair value of a liability, and provides clarification in circumstances where a quoted market price in an active market for an identical liability is not available. In these cases, reporting entities should measure fair value using a valuation technique that uses the quoted price of the identical liability when that liability is traded as an asset, quoted prices for similar liabilities, or another valuation technique, such as an income or market approach. ASU 2009-05 also clarifies that when estimating the fair value of a liability, a reporting entity is not required to include a separate input or adjustment to other inputs relating to the existence of a restriction that prevents the transfer of the liability. ASU 2009-05 is effective for the first reporting period subsequent to August 2009 and the adoption of this update is not expected to have a material impact on the financial position, results of operations, or cash flows of the Company.

F-16

Wuhan General Group (China), Inc.

For the years ended December 31, 2009 and 2008

Notes to Financial Statements

(Stated in US Dollars)

In June 2009, the FASB issued SFAS No. 166, Accounting for Transfers of Financial Assets, an amendment of FASB Statement No. 140 (“SFAS 166”). SFAS 166 amends the application and disclosure requirements of SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities — a Replacement of FASB Statement 125 (“SFAS 140”), removes the concept of a “qualifying special purpose entity” from SFAS 140 and removes the exception from applying FASB Interpretation (“FIN”) No. 46(R), Consolidation of Variable Interest Entities — an Interpretation of ARB No. 51 (“FIN 46(R)”) to qualifying special purpose entities. SFAS 166 is effective for the first annual reporting period that begins after November 15, 2009, and early adoption is not permitted. The adoption of this standard is not anticipated to have a material impact on the financial position, results of operations or cash flows of the Company.

In October 2009, the FASB issued ASU 2009-13, Revenue Recognition (Topic 605) — Multiple-Deliverable Revenue Arrangements, a consensus of the FASB Emerging Issues Task Force (“ASU 2009-13”). ASU 2009-13 addresses the accounting for multiple-deliverable arrangements where products or services are accounted for separately rather than as a combined unit, and addresses how to separate 71 deliverables and how to measure and allocate arrangement consideration to one or more units of accounting. Existing GAAP requires an entity to use vendor-specific objective evidence (“VSOE”) or third-party evidence of a selling price to separate deliverables in a multiple-deliverable selling arrangement. As a result of ASU 2009-13, multiple-deliverable arrangements will be separated in more circumstances than under current guidance. ASU 2009-13 establishes a selling price hierarchy for determining the selling price of a deliverable. The selling price will be based on VSOE if it is available, on third-party evidence if VSOE is not available, or on an estimated selling price if neither VSOE nor third-party evidence is available. ASU 2009-13 also requires that an entity determine its best estimate of selling price in a manner that is consistent with that used to determine the selling price of the deliverable on a stand-alone basis, and increases the disclosure requirements related to an entity’s multiple-deliverable revenue arrangements. ASU 2009-13 must be prospectively applied to all revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, and early adoption is permitted. Entities may elect, but are not required, to adopt the amendments retrospectively for all periods presented. The Company expects to adopt the provisions of ASU 2009-13 on January 1, 2011 and does not believe that the adoption of this standard will have a material impact on the financial position, results of operations, or cash flows of the Company.

In December 2009, the FASB issued ASU 2009-17, Consolidations (Topic 810) — Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities. ASU 2009-17 replaces the quantitative-based risk and rewards calculation for determining which reporting entity, if any, has a controlling financial interest in a variable interest entity with an approach focused on identifying which reporting entity has the power to direct the activities of a variable interest entity that most significantly impact the entity’s economic performance and (1) the obligation to absorb losses of the entity or (2) the right to receive benefits from the entity. An approach that is expected to be primarily qualitative will be more effective for identifying which reporting entity has a controlling financial interest in a variable interest entity. ASU 2009-17 also requires additional disclosures about a reporting entity’s involvement in variable interest entities. The provisions of ASU 2009-17 are to be applied beginning in the first fiscal period beginning after November 15, 2009. The Company adopted ASU 2009-17 on January 1, 2010 and does not anticipate that the adoption of this standard will have a material effect on the financial position, results of operations, or cash flows of the Company.

Wuhan General Group (China), Inc.

For the years ended December 31, 2009 and 2008

Notes to Financial Statements

(Stated in US Dollars)

In January 2010, the FASB issued ASU 2010-02, Consolidation (Topic 810) — Accounting and Reporting for Decreases in Ownership of a Subsidiary — A Scope Clarification. ASU 2010-02 clarifies that the scope of previous guidance in the accounting and disclosure requirements related to decreases in ownership of a subsidiary apply to (i) a subsidiary or a group of assets that is a business or nonprofit entity; (ii) a subsidiary that is a business or nonprofit entity that is transferred to an equity method investee or joint venture; and (iii) an exchange of a group of assets that constitutes a business or nonprofit activity for a noncontrolling interest in an entity. ASU 2010-02 also expands the disclosure requirements about deconsolidation of a subsidiary or derecognition of a group of assets to include (i) the valuation techniques used to measure the fair value of any retained investment; (ii) the nature of any continuing involvement with the subsidiary or entity acquiring a group of assets; and (iii) whether the transaction that resulted in the deconsolidation or derecognition was with a related party or whether the former subsidiary or entity acquiring the assets will become a related party after the transaction. The provisions of ASU 2010-02 will be effective for the first reporting period beginning after December 13, 2009. The Company adopted the provisions of ASU 2010-02 on January 1, 2010 and does not anticipate that the adoption of this standard will have a material impact on the financial position, results of operations, or cash flows of the Company.

In January 2010 the FASB issued ASU 2010-06, Fair Value Measurements and Disclosures (Topic 820) —Improving Disclosures About Fair Value Measurements. ASU 2010-06 clarifies the requirements for certain disclosures around fair value measurements and also requires registrants to provide certain additional disclosures about those measurements. The new disclosure requirements include (i) the significant amounts of transfers into and out of Level 1 and Level 2 fair value measurements during the period, along with the reason for those transfers, and (ii) separate presentation of information about purchases, sales, issuances and settlements of fair value measurements with significant unobservable inputs. ASU 2010-06 is effective for interim and annual reporting periods beginning after December 15, 2009. The Company adopted the provisions of ASU 2010-06 on January 1, 2010 and does not anticipate that the adoption of this standard will have a material impact on the financial position, results of operations, or cash flows of the Company.

(aa)

Subsequent Event

The Company evaluates subsequent events that have occurred after the consolidated balance sheet date but before the consolidated financial statements are issued. There are two types of subsequent events: (1) recognized, or those that provide additional evidence with respect to conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements, and (2) nonrecognized, or those that provide evidence with respect to conditions that did not exist at the date of the balance sheet but arose subsequent to that date. The Company has evaluated subsequent events, and based on this evaluation, the Company did not identify any recognized or nonrecognized subsequent events that would have required adjustments to the consolidated financial statements.

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

	At December 31, 2009	At December 31, 2008
Notes Receivable	\$ 28,520	\$ —
Less: Allowance for Bad Debts	—	—
	\$ 28,520	\$ —

F-18

Wuhan General Group (China), Inc.

For the years ended December 31, 2009 and 2008

Notes to Financial Statements

(Stated in US Dollars)

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

	At December 31, 2009	At December 31, 2008
Total Accounts		
Receivable-Trade	\$ 56,802,317	\$ 44,619,549
Less: Allowance for Bad Debt	(2,840,116)	(3,132,693)
	\$ 53,962,201	\$ 41,486,856
Allowance for Bad Debts		
Beginning Balance	\$ (3,132,693)	\$ (1,245,883)
Allowance Provided	(1,573,535)	(1,886,810)
Less: Bad Debt Written Off	1,866,112	—
Ending Balance	\$ (2,840,116)	\$ (3,132,693)

6. INVENTORY

	At December 31, 2009	Restated At December 31, 2008	Original At December 31, 2008
Raw Materials*	\$ 4,938,537	\$ 3,951,516	\$ 1,763,077
Work in Progress	8,319,353	4,065,249	4,065,249
Finished Goods	2,372,580	2,567,141	2,567,141
	\$ 15,630,470	\$ 10,583,906	\$ 8,395,467

* See Note 23 Restatement of Inventory and Construction in Progress for a detailed explanation of the restatement of the inventory balance at December 31, 2008.

7.

ADVANCES TO EMPLOYEES

Advances to Employees of \$342,829 and \$189,516 as of December 31, 2009 and 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.

F-19

Wuhan General Group (China), Inc.

For the years ended December 31, 2009 and 2008

Notes to Financial Statements

(Stated in US Dollars)

8. PROPERTY, PLANT AND EQUIPMENT

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

At December 31, 2009

Category of Asset	Wuhan Blower	Wuhan Generating Equipment	Wuhan Sungreen	Total
Buildings	\$ 13,192,892	\$ 8,692,905	\$ —	\$ 21,885,797
Machinery & Equipment	1,908,216	12,343,760	2,020,846	16,272,822
Furniture & Fixtures	367,993	16,666	6,607	391,266
Auto	678,290	267,044	7,313	952,647
Other	74,933	—	—	74,933
	16,222,324	21,320,375	2,034,766	39,577,465
Less: Accumulated Depreciation				
Buildings	(2,237,889)	(165,239)	—	(2,403,128)
Machinery & Equipment	(811,808)	(2,352,315)	(219,212)	(3,383,335)
Furniture & Fixtures	(278,719)	(6,047)	(1,811)	(286,578)
Auto	(487,616)	(86,651)	(579)	(574,913)
Other	(21,245)	—	—	(21,245)
	(3,837,277)	(2,610,252)	(221,602)	(6,669,131)
Property, Plant, & Equipment, Net	\$ 12,385,047	\$ 18,710,123	\$ 1,813,164	\$ 32,908,334

At December 31, 2008

Category of Asset	Wuhan Blower	Wuhan Generating Equipment	Wuhan Sungreen	Total
Buildings	11,011,657	—	—	11,011,657
Machinery & Equipment	1,888,521	10,551,443	1,916,553	14,356,517
Furniture & Fixtures	362,007	13,781	—	375,788
Auto	776,312	260,951	—	1,037,263
Other	74,455	—	—	74,455
	14,112,952	10,826,175	1,916,553	26,855,680
Less: Accumulated Depreciation				
Buildings	(1,874,508)	—	—	(1,874,508)
Machinery & Equipment	(632,150)	(1,260,420)	(32,125)	(1,924,695)
Furniture & Fixtures	(221,068)	(3,826)	—	(224,894)
Auto	(501,132)	(49,070)	—	(550,202)
Other	(6,830)	—	—	(6,830)
	(3,235,688)	(1,313,316)	(32,125)	(4,581,129)
Property, Plant, & Equipment, Net	\$ 10,877,264	\$ 9,512,859	\$ 1,884,428	\$ 22,274,551

Wuhan General Group (China), Inc.

For the years ended December 31, 2009 and 2008

Notes to Financial Statements

(Stated in US Dollars)

The shared campus of Wuhan Blower and Wuhan Generating Equipment consists of approximately 440,000 square feet (44,233 square meters) of building floor space. The Company's new turbine manufacturing workshop will provide approximately 215,482 square feet (20,019 square meters) of floor space. A new office building will house the business operations of Wuhan Generating Equipment and will provide an additional 134,656 square feet (12,510 square meters) of floor space.

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

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

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

In order to complete the campus of Wuhan Sungreen, the Company anticipates incurring approximately an additional \$5.13 million (RMB 35,100,000), which is beyond the amount originally committed in the asset purchase agreement.

9. LAND USE RIGHTS

At December 31, 2009

Category of Asset	Wuhan Blower	Wuhan Generating Equipment	Wuhan Sungreen	Total
Land Use Rights	\$ 2,199,372	\$ —	\$ 10,499,810	\$ 12,699,182
Less: Accumulated Amortization	(276,049)	—	(349,994)	(626,043)
Land Use Rights, Net	\$ 1,923,323	\$ —	\$ 10,149,816	\$ 12,073,139

At December 31, 2008

Category of Asset	Wuhan Blower	Wuhan Generating Equipment	Wuhan Sungreen	Total
Land Use Rights	\$ 2,117,709	\$ —	\$ 10,473,768	\$ 12,591,477
Less: Accumulated Amortization	(206,766)	—	(87,282)	(294,048)
Land Use Rights, Net	\$ 1,910,943	\$ —	\$ 10,386,486	\$ 12,297,429

Wuhan General Group (China), Inc.

For the years ended December 31, 2009 and 2008

Notes to Financial Statements

(Stated in US Dollars)

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

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

10.

CONSTRUCTION IN PROGRESS

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

The assets reported under the construction in progress account relate to various projects at the Company's operating subsidiaries. All of the construction projects at Wuhan Blower have been substantially completed. The assets have been into use. Accordingly, the assets have been moved to the property, plant, and equipment account. Construction projects at Wuhan Generating include a new workshop, office building and the installation of equipment in the workshop. The workshop was completed in the beginning of 2009. All equipment will be fully installed and operational by the end of the second quarter of 2010. The structure of the office building has been substantially completed; however, the necessary construction of the interior to bring the building into use has been temporarily stopped. The Company is evaluating its current resources and will provide an expected completion date when it believes sufficient resources will be available to complete the construction. The construction projects at Wuhan Sungreen include a new workshop and office building. The Company expects construction on both the workshop and office building to be complete by the end of 2010.

Construction in progress increased by approximately \$18.2 million from December 31, 2007 to December 31, 2008. Approximately \$11.0 million of this increase was attributable to the acquisition of construction in progress accounts related to the purchase of Wuhan Sungreen in 2008. Approximately \$7.2 million was attributable to investments in the turbine facility of Wuhan Generating. Also, during this same period, certain assets that were completed and put into use were moved from the construction in progress account to the property, plant and equipment account. From December 31, 2008 to December 31, 2009, Construction in Progress decreased by approximately \$10.2 million which reflects those assets being moved from construction in progress account to the property, plant & equipment account.

Edgar Filing: WUHAN GENERAL GROUP (CHINA), INC - Form 10-K/A

Wuhan General Group (China), Inc.

For the years ended December 31, 2009 and 2008

Notes to Financial Statements

(Stated in US Dollars)

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

Subsidiary	Description	At December 31, 2009	Restated At December 31, 2008	Original At December 31, 2008
Wuhan Blower	Blower Workshop	\$ —	\$ 631,839	\$ 631,839
Wuhan Blower	Bus Parking	—	4,377	4,377
Wuhan Blower	Dormitory	—	20,425	20,425
Wuhan Blower	Landscaping	—	4,934	4,934
Wuhan Blower	Office Building	—	471,959	471,959
Wuhan Blower	Other	—	391,533	391,533
Wuhan Blower	Security System	—	292	292
Wuhan Blower	Street	—	584	584
Wuhan Blower	Testing Facility	—	11,380	11,380
Wuhan Blower	Wall	—	320,468	320,468
Wuhan Blower	Warehouse	—	33,518	33,518
Wuhan Blower	Badminton Courts	24,133	—	—
Wuhan Generating	Capitalized Interest	67,561	131,622	131,622
Wuhan Generating	Equipment Requiring Installation	2,528,256	3,374,825	3,374,825
Wuhan Generating	Generating Workshop	—	5,745,581	5,745,581
Wuhan Generating	Generating Workshop-Materials*	—	2,293,483	4,481,922
Wuhan Generating	Generating Office Building	3,427,899	3,346,449	3,346,449
Wuhan Generating	Miscellaneous	4,429	259	259
Wuhan Generating	Shipping Costs	—	10,213	10,213
Wuhan Sungreen	Landscaping	146,280	145,917	145,917
Wuhan Sungreen	Workshop	4,849,588	4,837,559	4,837,559
Wuhan Sungreen	Office Building	5,792,300	5,289,083	5,289,083
Wuhan Sungreen	Utility Systems Setup	1,023,811	1,021,272	1,021,272
		\$ 17,864,257	\$ 28,087,572	\$ 30,276,011

*See Note 23 Restatement of Inventory and Construction in Progress for a detailed explanation of the restatement of the construction in progress balance at December 31, 2008.

11. INTANGIBLE ASSETS

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

Category of Asset	At December 31, 2009	At December 31, 2008
Trademarks	\$ 106,038	\$ 145,896
Mitsubishi License	302,888	335,980
Tianyu CAD License	3,958	4,450
Sunway CAD License	16,820	16,778
Microsoft License	12,222	13,934
	441,926	517,038
Less: Accumulated Amortization		
Trademarks	(62,160)	(32,827)
Mitsubishi License	(152,862)	(113,599)
Tianyu CAD License	(2,287)	(1,391)
Sunway CAD License	(3,915)	(1,119)
Microsoft License	(7,904)	(4,528)
	(229,128)	(153,464)
Intangible Assets, Net	\$ 212,798	\$ 363,574

Wuhan General Group (China), Inc.

For the years ended December 31, 2009 and 2008

Notes to Financial Statements

(Stated in US Dollars)

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

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

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

F-24

Wuhan General Group (China), Inc.

For the years ended December 31, 2009 and 2008

Notes to Financial Statements

(Stated in US Dollars)

12. BANK LOANS AND NOTES

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

Subsidiary	Type	Name of Creditor	Due Date	Interest Rate Per Annum	Restated	Original	At December 31, 2008
					At December 31, 2009	At December 31, 2009	
Wuhan Blower	Bank Loans	Shanghai Pudong Development Bank	5/20/2009	8.96%	—	—	729,479
Wuhan Blower	Bank Loans	Shanghai Pudong Development Bank	5/22/2009	8.96%	—	—	729,479
Wuhan Blower	Bank Loans	Shanghai Pudong Development Bank	5/25/2009	8.96%	—	—	729,480
Wuhan Blower	Bank Loans	Shanghai Pudong Development Bank	5/27/2009	8.96%	—	—	729,480
Wuhan Blower	Bank Loans	Shanghai Pudong Development Bank	5/29/2009	8.96%	—	—	729,480
Wuhan Blower	Bank Loans	Shanghai Pudong Development Bank	6/4/2009	8.96%	—	—	729,480
Wuhan Blower	Bank Loans	Shanghai Pudong Development Bank	6/23/2009	8.96%	—	—	583,584
Wuhan Blower	Bank Loans	Shanghai Pudong Development Bank	8/26/2009	8.96%	—	—	1,167,168
Wuhan Blower	Bank Loans	Shanghai Pudong Development Bank	8/24/2009	8.96%	—	—	1,167,168

Edgar Filing: WUHAN GENERAL GROUP (CHINA), INC - Form 10-K/A

Wuhan Blower	Bank Loans	China Citic Bank	4/19/2010	5.31%	3,656,467	3,656,467	—
Wuhan Blower	Bank Loans	Bank of China Ltd.	3/2/2010	5.40%	804,423	804,423	—
Wuhan Blower	Bank Loans	Guangdong Development Bank	6/15/2010	6.37%	1,608,846	1,608,846	—
Wuhan Blower	Bank Loans	Agricultural Bank of China	8/6/2010	5.84%	7,312,935	7,312,935	—
Wuhan Blower	Bank Loans	Hankou Bank	7/5/2010	4.43%	833,675	833,675	—
Wuhan Blower	Bank Loans	Standard Chartered Bank****	On Demand	9.40%	7,094,145	—	—
Subtotal					21,310,491	14,216,346	7,294,798
Wuhan Blower	Notes Payable	China Minsheng Banking Corp., Ltd.	1/22/2009		—	—	1,458,959
Wuhan Blower	Notes Payable	Citic Industrial Bank	3/27/2009		—	—	3,647,399
Wuhan Blower	Notes Payable	Industrial Bank Co., Ltd.	2/28/2009		—	—	1,313,064
Wuhan Blower	Notes Payable	Industrial Bank Co., Ltd.	3/2/2009		—	—	1,750,751
Wuhan Blower	Notes Payable	Industrial Bank Co., Ltd.	2/28/2009		—	—	1,313,064
Wuhan Blower	Notes Payable	Shanghai Pudong Development Bank	2/10/2009		—	—	579,761
Wuhan Blower	Notes Payable	Shanghai Pudong Development Bank	2/18/2009		—	—	744,069
Wuhan Blower	Notes Payable	Standard Chartered Bank	4/21/2010		1,828,234	1,828,234	—
Wuhan Blower	Notes Payable	Standard Chartered Bank	3/3/2010		417,047	417,047	—
Wuhan Blower	Notes Payable	Standard Chartered Bank	3/18/2010		1,462,587	1,462,587	—
Wuhan Blower	Notes Payable	Standard Chartered Bank	2/11/2010		731,294	731,294	—

Edgar Filing: WUHAN GENERAL GROUP (CHINA), INC - Form 10-K/A

Wuhan Blower	Notes Payable	Bank of Communications	1/24/2010	892,178	892,178	—
subtotal				5,331,340	5,331,340	10,807,067

F-25

Wuhan General Group (China), Inc.
For the years ended December 31, 2009 and 2008
Notes to Financial Statements
(Stated in US Dollars)

Wuhan Generating	Bank Loans	Citic Industrial Bank	3/2/2009	8.22%	—	—	2,917,919
Wuhan Generating	Bank Loans	Shanghai Pudong Development Bank	1/7/2009	7.47%	—	—	1,458,959
Wuhan Generating	Bank Loans	Hankou Bank	10/13/2010	5.31%	1,462,587	1,462,587	—
Wuhan Generating	Bank Loans	Bank of Communications	12/23/2010	5.67%	1,462,587	1,462,587	—
Wuhan Generating	Bank Loans	Bank of Communications*	12/23/2010	5.67%	1,462,587	1,462,587	1,458,959
Wuhan Generating	Bank Loans	Standard Chartered Bank***	On Demand	9.40%	2,925,174	—	—
subtotal					7,312,935	4,387,761	5,835,837
Wuhan Generating	Long Term Loan	Standard Chartered Bank***	12/17/2012	9.40%	—	2,925,714	—
Wuhan Blower	Long Term Loan	Standard Chartered Bank****	12/16/2013	9.40%	—	7,094,145	—
Wuhan Sungreen	Notes Payable	Various vendors and individuals**	On Demand		93,606	13,066	—
Wuhan Generating	Notes Payable	Bank of Communications	6/26/2009		—	—	2,480,233
Wuhan Generating	Notes Payable	Bank of Communications	1/15/2009		—	—	1,458,958
Wuhan Generating	Notes Payable	Bank of Communications	1/16/2009		—	—	4,376,878
Wuhan Generating	Notes Payable	Bank of Communications	6/24/2009		—	—	4,376,878

Edgar Filing: WUHAN GENERAL GROUP (CHINA), INC - Form 10-K/A

Wuhan Generating	Notes Payable	Bank of Communications	1/6/2010	1,462,587	1,462,587	—
Wuhan Generating	Notes Payable	Bank of Communications	1/12/2010	1,462,587	1,462,587	—
Wuhan Generating	Notes Payable	Bank of Communications	1/17/2010	1,462,587	1,462,587	—
Wuhan Generating	Notes Payable	Bank of Communications	1/22/2010	1,462,587	1,462,587	—
Wuhan Generating	Notes Payable	Hankou Bank	4/13/2010	1,462,587	1,462,587	—
Wuhan Generating	Notes Payable	Hankou Bank	4/21/2010	530,188	530,188	—
Wuhan Generating	Notes Payable	Hankou Bank	4/26/2010	917,773	917,773	—
Wuhan Generating	Notes Payable	Bank of Communications	4/8/2010	3,948,985	3,948,985	—
subtotal				12,709,881	12,709,881	12,692,947
Total				46,758,253	46,758,253	36,630,649

Wuhan General Group (China), Inc.

For the years ended December 31, 2009 and 2008

Notes to Financial Statements

(Stated in US Dollars)

*The Company has corrected an error in the classification of debts between long term and short term. The amount related to the loan from Bank of Communications was improperly included in the total for long term loans on the consolidated balance sheet at December 31, 2009; however the amount was properly disclosed as current in the notes to the financial statements for the same period. The amount was subsequently refinanced by a loan from Standard Chartered Bank on January 29, 2010. In light of the amount and circumstances of the error, in accordance with SFAS 154 and SAB 99, the Company has determined that the error was immaterial and the Company's earnings were unaffected by the correction. At December 31, 2008 the loan was properly classified as long term.

**The disclosure of the amount of various notes on demand attributable to Wuhan Sungreen at December 31, 2009 has been revised from \$13,066 to \$93,066. The revision is a correction of a typing error. The total liability amount disclosed on the consolidated balance sheet under the line item Bank Loans and Notes was properly disclosed; however, the details found in Note 12 contained an error. In accordance with SFAS 154, and SAB 99, the Company believes the error was immaterial to the financial statements and there is no impact to earnings for the year ended December 31, 2009 resulting from the correction of the error.

***The \$2,925,714 bank loan secured from Standard Chartered has been reclassified from long term to short term. See Note 24 Restatement of Long Term Bank Loans to Short Term for a detailed discussion. The amount of the loan has also been revised to \$2,925,174. The error was typing error of two figures being transposed. The error of transposition was immaterial. The total on the Consolidated Balance Sheet for Bank Loans and Notes was correct only the disclosure in the line item of Note 12 contained the error.

****The \$7,094,145 bank loan secured from Standard Chartered has been reclassified from long term to short term. See Note 24 Restatement of Long Term Bank Loans to Short Term for a detailed discussion.

Banking facilities extended by the CITIC Industrial Bank, Bank of Communication, Guangdong Development Bank and Agricultural Bank of China were secured by the Company's mortgage of real property.

The Bank of China Loan is collateralized by the technical license with Mitsubishi.

Certain notes payable, as indicated above, do not have a stated rate of interest. These notes are payable on demand to the Company's creditors. The creditors have given extended credit terms secured by pledge of the Company's restricted cash.

In 2009, Standard Chartered Bank granted the Company credit facilities in the amount of \$50,181,361. The Company may borrow at a fixed rate set by the bank. The credit facilities are secured by the Company's mortgage of real property, property, plant and equipment, land use rights, assignment of accounts receivable, and trademarks.

Wuhan General Group (China), Inc.

For the years ended December 31, 2009 and 2008

Notes to Financial Statements

(Stated in US Dollars)

Credit Facilities from Standard Chartered Bank at December 31, 2009:

	Used	Unused	Total Facility
Tranche A	\$ 10,019,319	\$ 20,929,022	\$ 30,948,341
Tranche B	—	13,382,671	13,382,671
N o t e s			
Payable	4,439,162	1,411,186	5,850,348
Total	\$ 14,458,481	\$ 35,722,880	\$ 50,181,361

Subsequent to December 31, 2009, Standard Chartered Bank disbursed funds under its loan agreement to the Company's subsidiaries as detailed in the table below:

Additional Amount Disbursed under Tranche A

Borrowing Subsidiary	Disbursement Date	USD Amount
W u h a n Blower	1/29/2010	\$ 4,255,530
W u h a n Blower	1/29/2010	7,312,935
W u h a n Generating	1/29/2010	1,462,587
		\$ 13,031,052

As of January 29, 2010, the Company's outstanding principal and repayment schedule under its loan agreement with Standard Chartered Bank are detailed below:

Principal Due	Blower	Generating	Sungreen	Total
2010	\$ 4,439,162	\$ —	\$ —	\$ 4,439,162
2011	3,732,522	877,552	—	4,610,074
2012	14,930,088	3,510,209	—	18,440,297
	\$ 23,101,772	\$ 4,387,761	\$ —	\$ 27,489,533

The Company's loan agreement with Standard Chartered Bank contains covenants, which include, among others: limitation on the incurrence of additional indebtedness; limitation on guarantees, liens, investments, sale of assets, mergers, change of control and capital expenditures; and maintenance of specified financial ratios. The Company filed a copy of this loan agreement with the U.S. Securities and Exchange Commission on November 17, 2009.

The Company was in compliance with all loan covenants as of December 31, 2009, except that the Company did not comply with: (1) the days accounts receivable ratio covenant, and (2) the interest coverage ratio covenant in its loan agreement with Standard Chartered. The days accounts receivable ratio is calculated by dividing the Company's 2009

revenue by 360 and then dividing that number into accounts receivable. At December 31, 2009, the Company's days account receivable ratio was 209, which was above the maximum of 180 provided in the Standard Chartered loan agreement. The interest coverage ratio is calculated by dividing the Company's 2009 earnings before interest, tax, amortization and depreciation by the interest for the year. At December 31, 2009, the interest coverage ratio was 5.24, which was below the minimum of 6.0. The Company has requested a waiver from Standard Chartered for these non-compliances. Based on the Company's conversations with Standard Chartered, the Company does not believe that Standard Chartered will take any adverse action against the Company for noncompliance with these financial covenants. In any event, the Company reclassified the loans and notes owed to Standard Chartered from long term to short term. See Note 24 Restatement of Long Term Bank Loans to Short Term.

Wuhan General Group (China), Inc.

For the years ended December 31, 2009 and 2008

Notes to Financial Statements

(Stated in US Dollars)

13. OTHER PAYABLE

The Company included certain accruals in "Other Payable" for value added tax invoices yet to be received from vendors, who have already delivered the goods or services. The following table details the Company's Other Payable line items at December 31, 2009:

Vendor	Description	Amount
Hubei Gong Chuang	Purchase of Sukong Assets	777,475
Hubei Delisen Technology Co., Ltd.	Transportation costs	585,034
Wuhan Xiuma Technology Co., Ltd.	Transportation costs	585,034
Yu, Shijing	Regular business expenses that have yet to be reimbursed	438,776
Qiao, Cunwu	Regular business expenses that have yet to be reimbursed	201,402
Wuhan Pengmai Motor Transport Co., Ltd.	Transportation costs	192,147
Wuhan Sanhe Vehicle Service Co., Ltd.	Transportation costs	140,969
Wuhan Longyang Logistics Co., Ltd	Transportation costs	112,624
Various Vendors	Miscellaneous cost and expenses of amounts less than \$100,000	1,194,581
		\$ 4,228,042

Wuhan General Group (China), Inc.

For the years ended December 31, 2009 and 2008
 Notes to Financial Statements
 (Stated in US Dollars)

14. **WARRANTY LIABILITY**

Warranty liability is accrued and carried on the balance sheet under Accrued Liabilities. The Company makes its warranty accrual based on individual assessment of each contract because terms and conditions vary. The Company's typical sales contracts provide for a warranty period of 12-24 months following product installation.

The following table summarizes the activity related to the Company's product warranty liability for the years ended December 31 2009 and 2008:

	December 31, 2009	December 31, 2008
Balance at beginning of period \$	1,154,613	\$ 1,541,771
Adjustment	—	—
Accruals for current & pre-existing warranties issued during period	371,764	469,586
Less: Settlements made during period	(57,019)	(60,291)
Less: Reversals and warranty expirations	—	(796,453)
Balance at end of year	\$ 1,469,358	\$ 1,154,613

Wuhan General Group (China), Inc.

For the years ended December 31, 2009 and 2008
Notes to Financial Statements
(Stated in US Dollars)

15. CAPITALIZATION

At December 31, 2009, the Company's outstanding securities are shown in the following table:

Type of Security	Number	Issuance Date	Expiration Date
Common Stock	25,351,950	N/A	N/A
Series A Preferred	6,241,453	2/7/2007	N/A
Series B Preferred	6,354,078	9/5/2009	N/A
Series A Warrants	6,172,531	2/7/2007	2/6/2012
Series B Warrants	3,821,446	2/7/2007	2/6/2012
Series C Warrants	635,710	2/7/2007	2/6/2017
Series AA Warrants	617,253	2/7/2007	2/6/2017
Series BB Warrants	382,145	2/7/2007	2/6/2017
Series JJ Warrants	636,908	2/7/2007	2/6/2017
Series J Warrants	—	2/7/2007	11/7/2008
Options Issued to Directors	40,000	11/30/2007	11/30/2017
Options Issued to Directors	40,000	1/2/2008	1/2/2018
Total Shares on Fully Diluted Basis	50,293,474		

Series A Convertible Preferred Stock

The Preferred Stock is convertible into shares of the Company's common stock on a one-for-one basis. Holders of Preferred Stock are entitled to a dividend equal to 5% per annum of the amount invested, subject to adjustment. These dividends are payable quarterly. In the event of a voluntary or involuntary liquidation, holders of preferred stock are entitled to a liquidation preference of \$2.33 per share. This amount is in excess of the stock's par value of \$0.0001. The convertible preferred stock is cumulative, non-participating, and non-redeemable, and as such, there is

no related sinking fund. On or after February 5, 2010, the Series A Convertible Preferred Stock will be mandatorily converted into common stock if the Company's common stock achieves certain price and volume requirements.

Series B Convertible Preferred Stock

On September 5, 2008, the Company entered into an Agreement to Amend Series J Warrants of the Company with holders of warrants exercisable for a majority of the shares of warrant stock issuable under the Company's Series A, B and J warrants. This agreement amended the Series J Warrants so that such warrants are exercisable for shares of the Company's Series B Convertible Preferred Stock, par value \$0.0001 per share (the "Series B Preferred Stock"). Prior to this agreement, such warrants were exercisable for shares of the Company's common stock.

In connection with this agreement, the Company designated 9,358,370 shares of preferred stock as "Series B Convertible Preferred Stock, par value \$0.0001 per share" with those rights and preferences as set forth in the Certificate of Designation of the Relative Rights and Preferences of the Series B Preferred Stock of the Company. The Series B Preferred Stock ranks senior to the Company's common stock and junior to the Company's Series A Convertible Preferred Stock, par value \$0.0001 per share. The shares of Series B Preferred Stock are convertible on a one-for-one basis into shares of the Company's common stock. Except with respect to specified transactions that may affect the rights, preferences, privileges or voting power of the Series B Preferred Stock and except as otherwise required by Nevada law, the Series B Preferred Stock has no voting rights. The Series B Preferred Stock is non-redeemable and is not entitled to dividends. When accounting for the Series B Preferred Stock, the Company determined that they qualified as equity because the aforementioned characteristics made them akin to common stock.

Wuhan General Group (China), Inc.

For the years ended December 31, 2009 and 2008

Notes to Financial Statements

(Stated in US Dollars)

Investors holding the amended Series J Warrants exercised their right to purchase Series B Preferred Stock at \$2.33 per share. For the year ended December 31, 2008, certain investors exercised their amended Series J Warrants for a total of 6,369,078 shares of Series B Preferred Stock. The Company received gross proceeds of \$14,839,952 for the issuance of those shares in connection with the exercise of the Series J Warrants. The total amount of commission paid to the placement agent, 1st Bridgehouse Securities, was 10% of the gross proceeds, or \$1,483,995. The Company also paid a total of \$274,480 for other financing related expenses. The net proceeds from the transactions, after accounting for placement agent commissions and other related financing expenses, was \$13,081,477.

Simultaneously with the exercise of a portion of the Series J Warrants, a corresponding portion of the Series B and Series JJ Warrants became exercisable. Accordingly, the Company accounted for the net proceeds of this issuance by allocating to Par Value, Additional Paid in Capital attributable to Series B Preferred Stock, and Additional Paid in Capital attributable to Series B and JJ Warrants. The Company determined that the Series B Preferred Stock had a beneficial conversion feature (BCF). Accordingly, the Company accounted for this BCF as a constructive preferred dividend, which is a charge that reduces retained earnings and increases additional paid in capital attributable to the Series B Preferred Stock. The Company also transferred a prorated portion of proceeds previously recorded under Warrants A, J, B, and C to the Additional Paid in Capital of Series B Preferred Stock to reflect the exercise of the amended Series J Warrants.

In accordance to EITF 00-27 and EITF 98-5, the Company accounted for the modification of the Series J warrants as capital transaction because the modification of the warrants was concurrent with the Company's investors contributing more working capital to the Company through the exercise of the Series J warrants. In consideration of SFAS 123(R), the Company does not believe there is additional incremental value that should be charged to earnings because the fair value assigned to the Series B Convertible Preferred Stock was less than the fair value of the Company's common stock based on the market's closing price on September 5, 2008 and the valuation provided by investment bankers on September 3, 2008. The Series J warrant holders did not receive any additional value as a result of the amendment.

Penalty Shares

Pursuant to terms provided in the Series A Convertible Preferred Stock Purchase Agreement, dated February 7, 2007, the Company issued shares of its common stock to holders of its Series A Convertible Preferred Stock in 2009 and 2008 as a penalty for not obtaining a NASDAQ listing within a specified time frame. The Company recorded expenses to its statements of income of \$1,153,439 for the 529,787 shares issued in 2009 and \$5,355,233 for the 863,894 shares issued in 2008. To calculate this expense, the Company used a price of \$2.00 for the 216,896 shares issued on April 16, 2009, \$2.30 for the 312,891 shares issued on April 8, 2009 and \$5.30 for the 300,690 shares issued on September 3, 2008. These prices were the closing market prices for the Company's common stock on NASDAQ for each of those corresponding dates. Due to the limited trading in the Company's common stock prior to the July 2008 listing on NASDAQ, the expense for the shares issued on May 30, 2008 and March 18, 2008 was based on a valuation provided by Spring House Capital. The Company used a price of \$7.83 for the 125,156 shares issued on May 30, 2008 and \$6.35 for the 438,048 shares issued on March 18, 2008.

Exercise of Series C Warrants

During the year ended December 31, 2009, holders of Series C Warrants exercised the right to purchase 187,294 shares of common stock. The transaction was a cashless exercise. Accordingly, the Company issued to the holder

69,361 shares of common stock and cancelled warrants with the rights to purchase 117,933 of common stock.

F-32

Wuhan General Group (China), Inc.

For the years ended December 31, 2009 and 2008

Notes to Financial Statements

(Stated in US Dollars)

16. COMMITMENTS OF STATUTORY RESERVE

In compliance with PRC laws, the Company is required to appropriate 10% of its net income to its statutory reserve up to a maximum of 50% of an enterprise's registered Paid-in capital. The Company had future unfunded commitments, as provided below.

	December 31, 2009	December 31, 2008
Unadjusted Registered Capital in PRC	\$ 52,575,256	\$ 43,826,004
50% maximum thereof	26,287,628	21,913,001
Less: Amounts Appropriated to Statutory Reserve	(4,563,593)	(3,271,511)
Unfunded Commitment	\$ 21,724,035	\$ 18,641,490

17. INCOME TAXES

On February 7, 2007, income from the Company's foreign subsidiaries became subject to U.S. income tax liability; however, this tax is deferred until foreign source income is repatriated to the Company from earnings and profits after foreign income taxes, which has not yet occurred.

The Company has engaged a U.S. CPA firm to prepare its U.S. income tax returns in order to maintain a high level of compliance with U.S. tax laws.

All of the Company's operations are in the PRC, and in accordance with the relevant tax laws and regulations of PRC, the corporate income tax rate is 25%. As a business incentive, the Company was approved as a foreign investment enterprise in March 2007, and in accordance with the relevant regulations regarding the favorable tax treatment for a foreign investment enterprise, the Company was entitled to a two-year tax exemption followed by a three-year half exemption. For the years ended December 31, 2008 and 2007, the Company was still within the two year tax exemption period, and accordingly, made no provision for income taxes. For the year ended December 31, 2009, Wuhan Blower and Wuhan Generating were subject to a 12.5% tax rate and Wuhan Sungreen was subject to a 25% tax rate.

Edgar Filing: WUHAN GENERAL GROUP (CHINA), INC - Form 10-K/A

Effective January 1, 2008, the PRC income tax rules were changed. The PRC government implemented a new 25% tax rate for all enterprises whether domestic or foreign enterprise, and abolished the tax holiday. However, the PRC government has established grandfathering transition rules that permit enterprises that had received an income tax exemption prior to January 1, 2008 to continue to enjoy the exemption until the original expiration date.

The provision for income taxes in the PRC for China sourced net income amounted to \$1,502,884 and \$0 for the years ended December 31, 2009 and 2008, respectively.

Income before taxes and the provision for taxes consists of the following:

	December 31, 2009	December 31, 2008
Income (loss) before taxes:		
US	\$ (2,475,455)	\$ —
BVI	(27,927)	—
PRC	12,412,787	16,148,092
Total income before taxes	\$ 9,909,405	\$ 16,148,092

Wuhan General Group (China), Inc.
 For the years ended December 31, 2009 and 2008
 Notes to Financial Statements
 (Stated in US Dollars)

Provision			
for taxes:			
Current:			
U.S.			
Federal	—		—
State	—		—
China	2,195,828		—
Currency effect	403		
	\$2,196,231		\$—
Deferred:			
U.S.			
Federal	—		—
China	(749,031)		—
	(749,031)		—
Total provision for taxes	\$ 1,447,200		\$—
Effective tax rate	14.60	%	N/A

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts for income tax purposes. Significant components of our deferred tax assets and liabilities at December 31, 2009 and December 31, 2008 are as follows:

	December 31, 2009	December 31, 2008
Deferred tax assets		
Bad debt expense & accrual expense	\$ 749,031	\$ —
	749,031	—
Valuation allowance	—	—
Total deferred tax assets	749,031	—
Deferred tax liabilities	—	—

T o t a l deferred tax liabilities		
N e t deferred tax assets	749,031	—
Reported as:		
C u r r e n t deferred tax assets	749,031	—
Non-current deferred tax assets	—	—
Non-current deferred tax liabilities	—	—
N e t deferred taxes	\$ 749,031	\$ —

The differences between the U.S. federal statutory income tax rates and the Company's effective tax rate for the years ended December 31, 2009 and 2008 are shown in the following table:

	2009	2008
U.S. federal statutory income tax rate	34.00 %	35.00 %
Lower rates in PRC, net	-9.00 %	-10.00%
Accruals in f o r e i g n jurisdictions	2.10 %	0.00 %
Tax holiday	-12.50%	-25.00%
Effective tax rate	14.60 %	0.00 %

Wuhan General Group (China), Inc.

For the years ended December 31, 2009 and 2008

Notes to Financial Statements

(Stated in US Dollars)

18. EARNINGS PER SHARE

Components of basic and diluted earnings per share were as follows:

	12 months ended December 31, 2009	Restated 12 months ended December 31, 2008	Original 12 months Ended December 31, 2008
Basic Earnings Per Share Numerator			
Net Income	\$ 8,462,206	\$ 16,148,092	\$ 16,148,092
Less:			
Preferred Dividends	727,129	927,102	927,102
Series A Constructive Preferred Dividend	—	—	—
Series B Constructive Preferred Dividend	—	4,032,656	4,032,656
Income Available to Common Stockholders	\$ 7,735,077	\$ 11,188,334	\$ 11,188,334
Diluted Earnings Per Share Numerator			
Income Available to Common Stockholders	\$ 7,735,077	\$ 11,188,334	\$ 11,188,334
Add:			
Constructive Preferred Dividends	—	4,032,656	—
Preferred Dividends	727,129	927,102	927,102
Income Available to Common Stockholders on Converted Basis	\$ 8,462,206	\$ 16,148,092	\$ 12,115,436
Original Shares:			
Additions from Actual Events			
- Issuance of Common Stock	24,752,802	19,712,446	19,712,446
- Conversion of Series A Preferred Stock into Common Stock	—	2,329,527	2,329,527
- Conversion of Series B Preferred Stock into Common Stock	—	2,219	2,219
- Issuance of Common Stock resulting from the Exercise of Warrants	40,355	115,361	115,361
- Issuance of Penalty Shares	382,869	515,979	515,979
Basic Weighted Average Shares Outstanding	25,176,026	22,675,532	22,675,532
Dilutive Shares:			
Additions from Potential Events			
- Conversion of Series A Preferred Stock	6,241,453	7,958,027	7,958,027
- Conversion of Series B Preferred Stock	6,354,078	1,507,851	1,507,851
- Exercise of Investor Warrants & Placement Agent Warrants	38,881	14,943,638	14,943,638
- Exercise of Employee & Director Stock Options	—	—	—

Edgar Filing: WUHAN GENERAL GROUP (CHINA), INC - Form 10-K/A

Diluted Weighted Average Shares Outstanding:	37,810,439	47,085,048	47,085,048
Earnings Per Share			
- Basic	\$ 0.31	\$ 0.49	\$ 0.49
- Diluted	\$ 0.22	\$ 0.34	\$ 0.26
Weighted Average Shares Outstanding			
- Basic	25,176,026	22,675,532	22,675,532
- Diluted	37,810,439	47,085,048	47,085,048

F-35

Wuhan General Group (China), Inc.

For the years ended December 31, 2009 and 2008

Notes to Financial Statements

(Stated in US Dollars)

19. OPERATING SEGMENTS

The Company individually tracks the performance of its three operating subsidiaries: Wuhan Blower, Wuhan Generating Equipment, and Wuhan Sungreen. Wuhan Blower is primarily engaged in the design, manufacture, installation, and service of blowers. Wuhan Generating Equipment is primarily engaged in the design, manufacture, installation, and service of power generating equipment. Wuhan Sungreen is in the business of design, production, and sale of blower silencers, connectors, and other general spare parts for blowers and electrical equipment. Below is a presentation of the Company's results of operations and financial position for its operating subsidiaries at December 31, 2009 and 2008, and for the years then ended.

Results of Operations For the year ended December 31, 2009	Wuhan Blower	Wuhan Generating Equipment	Wuhan Sungreen	Company, UFG, Adjustments	Total
Sales	\$ 48,160,348	\$ 44,176,236	\$ 743,171	\$ —	\$ 93,079,755
Cost of Sales	36,981,602	32,127,881	611,145	—	69,720,628
Gross Profit	11,178,746	12,048,356	132,026	—	23,359,128
Operating Expenses	5,467,358	1,918,573	838,357	1,349,943	9,574,231
Other Income (Expenses)	(2,080,210)	(495,027)	(146,816)	(1,153,439)	(3,875,492)
Earnings before Taxes	3,631,178	9,634,756	(853,147)	—	9,909,405
Taxes/(Deferred Tax Benefit)	453,897	1,204,345	(211,042)	—	1,447,200
Net Income	\$ 3,177,281	\$ 8,430,412	\$ (642,105)	\$ (2,503,382)	\$ 8,462,206
Financial Position At December 31, 2009	Wuhan Blower	Wuhan Generating Equipment	Wuhan Sungreen	Company, UFG, Adjustments	Total
Current Assets	\$ 76,072,289	\$ 58,026,006	\$ 1,606,646	\$ (26,049,354)	\$ 109,655,587
Non Current Assets	48,160,407	24,738,269	23,774,958	(32,511,993)	64,161,641
Total Assets	124,232,696	82,764,275	25,381,604	(58,561,347)	173,817,228
Current Liabilities	39,083,033	41,069,298	1,279,778	(21,760,479)	59,671,630
Total Long Term Liabilities	7,094,145	4,387,761	—	—	11,481,906
Total Liabilities	46,177,178	45,457,059	1,279,778	(21,760,479)	71,153,536
Net Assets	78,055,518	37,307,216	24,101,826	(36,800,868)	102,663,692
Total Liabilities & Net Assets	\$ 124,232,696	\$ 82,764,275	\$ 25,381,604	\$ (58,561,347)	\$ 173,817,228

F-36

Wuhan General Group (China), Inc.

For the years ended December 31, 2009 and 2008

Notes to Financial Statements

(Stated in US Dollars)

Results of Operations For the year ended December 31, 2008	Wuhan Blower	Wuhan Generating Equipment	Wuhan Sungreen	Company, UFG, Adjustments	Total
Sales	\$ 58,820,320	\$ 59,813,513	\$ —	\$ —	\$ 118,633,833
Cost of Sales	41,372,480	43,069,798	—	—	84,442,278
Gross Profit	17,447,840	16,743,715	—	—	34,191,555
Operating Expenses	6,292,955	3,469,376	117,553	1,689,451	11,569,335
Other Income (Expenses)	(742,736)	(416,748)	—	(5,314,644)	(6,474,128)
Earnings before Taxes	10,412,149	12,857,591	(117,553)	(7,004,095)	16,148,092
Taxes	—	—	—	—	—
Net Income	\$ 10,412,149	\$ 12,857,591	\$ (117,553)	\$ (7,004,095)	\$ 16,148,092
Financial Position At December 31, 2008	Wuhan Blower	Wuhan Generating Equipment	Wuhan Sungreen	Company, UFG, Adjustments	Total
Current Assets	\$ 64,326,040	48,151,218	\$ 1,293,482	(22,821,873)	90,948,867
Non Current Assets	47,991,237	24,415,293	23,564,745	(31,847,772)	64,123,502
Total Assets	112,317,277	72,566,511	24,858,227	(54,669,647)	155,072,368
Current Liabilities	37,626,457	42,306,896	467,114	(20,376,496)	60,023,971
Total Long Term Liabilities	—	1,458,959	—	—	1,458,959
Total Liabilities	37,626,457	43,765,855	467,114	(20,376,496)	61,482,930
Net Assets	74,690,820	28,800,656	24,391,113	(34,293,151)	93,589,438
Total Liabilities & Net Assets	\$ 112,317,277	\$ 72,566,511	\$ 24,858,227	\$ (54,669,647)	\$ 155,072,368

The amounts carried in the column for the Company, UFG and adjustments reflect the corporate expenses of the Company and its wholly owned subsidiary, Universe Faith Group, Ltd., which has no operations and only serves to hold the Company's operating subsidiaries. Our corporate expenses include the costs for professional fees related to corporate matters and compliance efforts. The majority of the costs are directly a result of the Company being a U.S. public company. The Company believes that these costs are not costs which are directly attributable to the operations of our operating segments and thus any allocation of these costs would be discretionary and may misrepresent the performance of our operating segments. We discuss the reasons for the fluctuation in these costs in our selling and general and administrative expenses in our MD&A. The adjustments represent the eliminations necessary to consolidate the financial statements. See Note 2(b) - Consolidation.

20.

STOCK COMPENSATION EXPENSE

On November 30, 2007, the Company's Board of Directors adopted the Wuhan General Group (China), Inc. 2007 Stock Option Plan (the "Plan"). The Plan provides that the maximum number of shares of the Company's common stock that may be issued under the Plan is 3,000,000 shares. The Company's employees, directors, and service providers are eligible to participate in the Plan.

F-37

Wuhan General Group (China), Inc.

For the years ended December 31, 2009 and 2008
Notes to Financial Statements
(Stated in US Dollars)

For the years ended December 31, 2009 and 2008, the Company recorded \$0 and \$227,603 of stock compensation expense, respectively. The entire stock option compensation expenses were recorded as general and administrative expenses given the nature of the work contribution of the grantees.

The range of the exercise prices of the stock options granted since inception of the plan are shown in the following table:

Price Range	Number of Shares
\$0 - \$9.99	80,000 shares
\$10.00 - \$19.99	0 shares
\$20.00 - \$29.99	0 shares

The Company has not accrued or realized tax benefit related to the expense of stock options in the United States because it does not currently have a plan to repatriate its earnings.

The Company used the Black-Scholes Model to value the options granted. The following shows the weighted average fair value of the grants as of December 31, 2009 and 2008 and the assumptions that were employed in the model:

	2009	2008
Weighted-average fair value of grants:	\$ 0.0000	\$ 0.8665
Risk-free interest rate:	2.69 %	3.97 %
Expected volatility:	7.51 %	20.00 %
Expected life in months:	95.50	107.50

21. CONCENTRATION OF CREDIT RISK AND OTHER RISKS

Financial instruments, which potentially subject the Company to concentrations of credit risk, consist primarily of cash and cash equivalents, accounts receivable, other receivable, and advances to suppliers. The Company maintains cash and cash equivalents with several financial institutions. It invests with high credit quality financial institutions and, by policy, limits the amount of credit exposure to any one financial institution. Receivables are from customers and suppliers and concentrated in the People's Republic of China. The Company performs ongoing credit evaluations of its customers and suppliers. The Company generally does not require collateral, but in most cases can place liens

against the property, plant, or equipment constructed or terminate the contract if a material default occurs. The Company maintains an allowance for doubtful accounts which has been within management's expectations.

The Company is subject to the concentration of supply risk because it contracted with a single vendor, Hubei Gongchuang Real Estate Co., Ltd. to perform all of the construction of its two campuses detailed in Note 8 - Property, Plant and Equipment.

22. CONSTRUCTIVE PREFERRED DIVIDEND

In accordance with FASB Statement No. 133, Accounting for Derivative Instruments and Hedging Activities, EITF 98-95 Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios, and EITF 00-27 Application of Issue No. 98-5 to Certain Convertible Instruments, the Company has recorded two non-cash preferred dividends against the companies retained earnings in the amounts of \$0 and \$4,032,656 in 2009, and 2008, respectively. These constructive preferred dividends reflect the amortizations of the beneficial conversion feature of both the Series A Preferred Stock, and Series B Preferred Stock issued by the Company in its private placement financing transactions in February of 2007, and October and November of 2008. The beneficial conversion features are considered returns of capital to the investors in the private placements. Since the two series of preferred stock were convertible upon issuance the Company recognized the entire dividend at inception. The beneficial conversion features arose from the aggregate value of the differences between the effective conversion prices of the securities and the contractual conversion prices of the stock issuances in the financing transactions.

Wuhan General Group (China), Inc.

For the years ended December 31, 2009 and 2008

Notes to Financial Statements

(Stated in US Dollars)

23. RESTATEMENT OF INVENTORY AND CONSTRUCTION IN PROGRESS

The Company has reclassified inventory related to the Huangli Project, which is considered a correction of a classification error. The amount of \$2,188,439 was previously classified in the construction-in-progress at December 31, 2008. The Company has moved the amount to the inventory account, and it has been subcategorized as raw materials. The reclassification caused a \$2,188,439 decrease in construction in progress from \$30,276,011 to \$28,087,572 and a corresponding increase of \$2,188,439 in the inventory accounts from \$8,395,467 to \$10,583,906. The related total of current assets increased from \$88,760,427 to \$90,948,867 while the total of non-current assets decreased from \$66,311,941 to \$64,123,502. Total assets remained unchanged. The statement of cash flows for the year ended December 31, 2008 was also impacted by the reclassification. Cash sourced from operating activities were previously overstated, and cash used in investing activities was previously overstated. The correction of error has decreased the cash generated by operating activities by \$2,188,439 and also has decreased the amount of cash used in investing activities by \$2,188,439. The impact of the restatement was limited to the presentation of the balance sheet and the related statements of cash flows. There was no impact to earnings for the year ended December 31, 2008.

24. RESTATEMENT OF LONG TERM BANK LOANS TO SHORT TERM

In accordance with "Accounting Changes and Error Corrections", SFAS 154 (ASC 250), and to improve comparability between periods of the financial positions of the Company, the Company has restated the long term loans outstanding due to Standard Chartered Bank at December 31, 2009 as short term, rather than long term as a result of the Company's noncompliance with certain loan covenants disclosed in Note 12 - Bank Loans and Notes. This restatement, which should be considered a correction of error, is considered material to the financial statements. However, the impact of the restatement is limited to the Company's classification of liabilities on the Company's Consolidated Balance Sheets and Note 12 - Bank Loans and Notes. As a result of the restatement, the short term balance has increased from \$35,276,347 to \$46,758,253 while the corresponding long term loans have decreased from \$11,481,906 to \$0. The Company's current liabilities have increased from \$59,671,630 to \$71,153,536. The Company's long term liabilities have decreased from \$11,481,906 to \$0. The Company's total liabilities remain unchanged. The increase in the amount of current liabilities may require the Company to seek methods to refinance the debt or use more working capital to repay the debt when it becomes due. While the Company is restating the presentation of the Consolidated Balance Sheets in order to improve comparability, the Company has previously disclosed the violation of the loan covenants. The Company believes that the restatement will provide greater prominence to the Company's obligations that are due within one operating period, and the related need for capital to satisfy those obligations when they become due.

25. RESTATEMENT OF DILUTED EARNINGS PER SHARE

The Company has restated its diluted earnings per share for the year ended December 31, 2008, as a correction of error. The Company previously reported diluted earnings per share of \$0.26 per share based on the assumption that the constructive preferred dividend related to the issuance of Series B Convertible Preferred Stock during the year should not be added back to "net income available to common stockholders" to arrive at "income available to common stockholders on a converted basis" for the purposes of computing the diluted earnings per share because it was assumed that even the holders of the Series B Convertible Preferred had converted their preferred stock using the "as-if" method the constructive preferred dividend would not be made available to common stockholders because the constructive

preferred dividend was charged immediately upon the issuance of the Series B Convertible Preferred Stock; however, the Company later determined that this treatment was erroneous. Therefore, the Company has revised the calculation of the “income available to common stockholders on a converted basis” to include the constructive preferred dividend. As a result of the restatement, the Company’s diluted earnings per share has increased to \$0.34 per share. For detailed computations, see Note 18 Earnings Per Share.

Wuhan General Group (China), Inc.

For the years ended December 31, 2009 and 2008

Notes to Financial Statements

(Stated in US Dollars)

26. RESTATEMENT OF STATEMENT OF CASH FLOW RELATED TO SUKONG ASSETS

The Company has restated its statements of cash flow for the year ended December 31, 2008. The change is related to the purchase of Sukong Assets as detailed in Note 1 - Organization and Principal Activities. The purchase was previously presented as an all cash transaction. The restated presentation shows that a significant portion of the total purchase price was a non-cash transaction where the Company transferred certain advances to suppliers and receivables without recourse valued at \$20,064,965 to the seller in exchange for the Sukong Assets. In accordance with SFAS 154 (ASC Topic 250) Accounting Changes and Error Corrections, the revision has been accounted for as a correction of error by the Company. The Company did not make any adjustment to its general ledger accounts. The restatement was limited to the presentation of the statement of cash flows.

Net cash sourced from operations was previously \$16,776,026. The restated presentation shows net cash used in operations is \$5,477,378. The net cash used in investing activities was previously \$39,087,376. The restated presentation shows cash used in investing activities as \$16,833,972. The restated figures in the statement of cash flows are primarily attributable to the effect of the non-cash purchase of Sukong assets; however, a small portion of the difference is attributable to the restatement of the inventory and construction in progress account as detailed in Note 23 Restatement of Inventory and Construction in Progress.

The Company's earnings for the year ended December 31, 2008 were unaffected by the change in presentation caused by the non-cash investing activity related to both the non-cash purchase of the Sukong Assets and the restatement of inventory and construction in progress.

F-40
