WUHAN GENERAL GROUP (CHINA), INC
Form 10QSB
August 20, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-QSB

x QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2007

OR

o 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 033-25350-FW

WUHAN GENERAL GROUP (CHINA), INC.

(Exact Name of Small Business Issuer as Specified in Its Charter)

Nevada	84-1092589
(State of other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

Canglongdao Science Park of Wuhan East Lake Hi-Tech Development Zone,

Wuhan, Hubei 430200, People's Republic of China

(Address of Principal Executive Offices)

86-138-7113-6999

(Issuer's Telephone Number, Including Area Code)

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

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

State the number of shares outstanding of each of the issuer's classes of common equity as of the latest practicable date: 19,712,446 shares of Common Stock, $.0001 par value per share, outstanding as of August 20, 2007.

Transitional Small Business Disclosure Format:
Yes o No x

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PART I

FINANCIAL INFORMATION

Item 1. Financial Statements.

Wuhan General Group (China), Inc.
Consolidated Balance Sheets
At June 30, 2007, and December 31, 2006
(Stated in US Dollars)

ASSETS	Note	June 30, 2007 (unaudited)		December 31, 2006 (audited)
Cash	*2(e)*	4,924,029		248,243
Restricted Cash	*3*	9,602,864		382,530
Accounts Receivable	*2(f),4*	23,152,308		12,488,083
Other Receivable		2,631,238		8,810,699
Notes Receivable	*5*	870,841		1,535,868
Inventory	*2(g),6*	8,953,322		4,544,662
Advance to Suppliers		5,769,263		2,746,325
Related Party Receivable	*7*	741,554		255,836
Prepaid Taxes		31,809		3,889
Real Property Available for Sale		989,168		-
Total Current Assets		57,666,396		31,016,135
Property, Plant & Equipment, *net*	*2(h),8*	17,143,925		17,252,577
Land Use Rights, *net*	*2(j),9*	1,774,924		1,749,740
Construction in Progress		12,573,861		35,304
Intangible Assets, *net*	*2(i),10*	355,290		364,565
Total Assets		**89,514,396**	**$**	**50,418,321**
LIABILITIES & STOCKHOLDERS' EQUITY				
<u>Liabilities</u>				
Bank Loans & Notes	*11*	23,231,663		13,545,059
Accounts Payable		11,242,839		8,531,852
Accrued Liabilities		878,066		354,169
Contract Payable	*12*	655,755		1,137,623
Taxes Payable		1,262,035		1,723,544
Other Payable		1,512,016		4,594,639
Dividend Payable		299,625		-
Customer Deposits		4,592,421		1,587,306
Total Current Liabilities		43,674,420		31,474,192
Total Liabilities		43,674,420		31,474,192

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

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Wuhan General Group (China), Inc.
Consolidated Balance Sheets
At June 30, 2007, and December 31, 2006
(Stated in US Dollars)

Stockholders' Equity	Note	June 30, 2007 (unaudited)	December 31, 2006 (audited)
Preferred Stock - $0.0001 Par Value 50,000,000 Shares Authorized; 10,287,554 Shares of Series A Convertible Preferred Stock Issued & Outstanding at June 30, 2007	*13*	1,029	-
Additional Paid in Capital - Preferred Stock		13,954,940	-
Additional Paid in Capital - Warrants	*13*	6,810,470	-
Common Stock - $0.0001 Par Value 100,000,000 Shares Authorized; 19,712,446 Shares Issued & Outstanding at June 30, 2007, December 31, 2006.	*13*	1,971	1,971
Additional Paid in Capital		12,349,602	12,349,602
Statutory Reserve	*2(t),14*	622,151	622,151
Retained Earnings		10,936,769	5,200,285
Accumulated Other Comprehensive Income	*2(u)*	1,163,044	770,120
Total Stockholders' Equity		45,839,976	18,944,129
Total Liabilities & Stockholders' Equity		**$ 89,514,396**	**$ 50,418,321**

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

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Wuhan General Group (China), Inc.
Statements of Income
For the three and six months ended June 30, 2007 and 2006
(Stated in US Dollars)

Revenue	Note	3 months ended 6/30/2007	3 months ended 6/30/2006	6 months ended 6/30/2007	6 months ended 6/30/2006
Sales		$ 17,542,361	$ 4,144,626	$ 29,819,700	$ 6,451,900
Cost of Sales		12,133,967	2,467,163	20,471,948	3,722,882
Gross Profit		5,408,394	1,677,463	9,347,752	2,729,018
Operating Expenses					
Selling Expenses		432,488	243,744	694,610	400,397
General & Administrative Expenses		357,542	383,418	1,819,146	741,767
Warranty Expense	2(*v*),18	239,301	-	423,461	-
Total Operating Expense		1,029,331	627,161	2,937,217	1,142,164
Operating Income		4,379,063	1,050,302	6,410,535	1,586,854
Other Income (Expenses)					
Other Income	15	-	23,409	-	23,723
Interest Income		1,376	-	14,125	-
Other Expenses		(78)	(105)	(1,043)	(514)
Interest Expense		(194,797)	(151,562)	(387,508)	(268,028)
Total Other Income (Loss) & Expense		(193,499)	(128,258)	(374,426)	(244,819)
Earnings before Tax		4,185,564	922,044	6,036,109	1,342,035
Income Tax	2(*n*), 16	-	-	-	-
Net Income		**4,185,564**	**922,044**	**6,036,109**	**1,342,035**
Preferred Dividends Declared		299,625	-	473,625	-
Income Available to Common Shareholders		$ 3,885,939	$ 922,044	$ 5,562,484	$ 1,342,035
Earnings Per Share					
Basic		$ 0.20	$ 0.05	$ 0.28	$ 0.07
Diluted		$ 0.11	$ 0.05	$ 0.18	$ 0.07
Weighted Average Shares Outstanding					
Basic		19,712,446	19,712,446	19,712,446	19,712,446
Diluted		38,048,658	19,712,446	34,300,371	19,712,446

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

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Wuhan General Group (China), Inc.
Statements of Stockholders' Equity
For the six months ended June 30, 2007 and 2006

	Preferred Stock Shares Outstanding	Amount	Preferred Stock Additional Paid in Capital	Warrants Additional Paid in Capital	Common Stock Shares Outstanding	Amount	Common Stock Additional Paid in Capital	Statutory Reserve	Retained Earnings	Accumul Othe Comprehe Incom
Balance, January 1, 2006					19,712,446	1,971	6,033,911	-	2,620,167	282,7
Increases to Additional Paid-In Capital from Contribution of Capital Equipment							6,315,691			
Net Income									3,202,269	
Appropriations of Retained Earnings								622,151	(622,151)	
Foreign Currency Translation Adjustment										487,3
Balance, December 31, 2006					19,712,446	1,971	12,349,602	622,151	5,200,285	770,1
Balance, January 1, 2007					19,712,446	1,971	12,349,602	622,151	5,200,285	770,1
Issuance of Common Stock for Cash										
Issuance of Preferred Stock for Cash	10,287,554	1,029								
Increase in Additional Paid in Capital from Issuance of Preferred Stock			13,954,940							
Increase in Additional Paid in Capital from Issuance				6,810,470						

of Warrants										
Net Income									6,036,109	
Preferred Dividends Declared									(299,625)	
Foreign Currency Translation Adjustment										392,9
Balance, June 30, 2007	10,287,554	1,029	13,954,940	6,810,470	19,712,446	1,971	12,349,602	622,151	10,936,769	1,163,0

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

Wuhan General Group (China), Inc.
Statements of Cash Flows
For the three months and six months ended June 30, 2007 and 2006
(Stated in US Dollars)

	3 months ended 6/30/2007	3 months ended 6/30/2006	6 months ended 6/30/2007	6 months ended 6/30/2006
Cash Flow from Operating Activities				
Cash Received from Customers	$ 26,343,372	$ 4,601,280	$ 28,340,981	$ 3,002,909
Cash Paid to Suppliers & Employees	(12,156,821)	(4,148,475)	(30,855,739)	(1,405,150)
Interest Received	1,376	-	14,125	-
Interest Paid	(194,797)	(151,562)	(387,508)	(268,028)
Income Tax Paid	-	-		-
Miscellaneous Receipts	-	23,409		23,723
Cash Sourced/(Used) in Operating Activities	13,993,130	324,652	(2,888,141)	1,353,454
Cash Flows from Investing Activities				
Cash Invested in Restricted Time Deposits	(8,296,028)	683,679	(9,220,334)	644,931
Investment in Notes	(19,122)	(258,819)	(325,071)	(283,646)
Payments for Purchases of Plant & Equipment	(895,049)	(37,768)	(1,140,421)	(761,310)
Payments for Construction of Plant & Equipment	9,682,471	(31,632)	(12,538,557)	(56,459)
Payments for Purchases of Land Use Rights	(28,552)	-	(46,926)	-
Payments for Purchases of Intangible Assets	(6,529)	-	(10,731)	(1,862)
Cash Used/(Sourced) in Investing Activities	(18,927,751)	355,460	(23,282,040)	(458,346)
Cash Flows from Financing Activities				
Proceeds from Issuance of Preferred Stock	-	-	20,766,439	-
Proceeds from Bank Borrowings	(2,098,701)	(620,669)	3,191,202	(620,669)
Proceeds from Issuance of Notes	6,380,601	(62,067)	6,495,402	(80,687)
Dividends Paid	(174,029)	-	(174,029)	
Cash Sourced/(Used) in Financing Activities	4,107,871	(682,736)	30,279,014	(701,356)
Net Increase/(Decrease) in Cash & Cash Equivalents for the Period	(826,750)	(2,624)	4,108,833	193,752
Effect of Currency Translation	365,343	(7)	566,953	925
Cash & Cash Equivalents at Beginning of Period	5,385,436	364,159	248,243	166,851

Cash & Cash Equivalents at End of Period	**$**	**4,924,029**	**$**	**361,528**	**$**	**4,924,029**	**$**	**361,528**
Non-Cash Investing Activity:								
Value of residential property procured in foreclosure proceedings taken against Hubei: Deloong Group., Ltd.		989,168		-		989,168		

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

Wuhan General Group (China), Inc.
Reconciliation of Net Income to Cash Flow Sourced/(Used) in Operating Activities
For the three months and six months ended June 30, 2007 and 2006
(Stated in US Dollars)

	3 months ended 6/30/2007	3 months ended 6/30/2006	6 months Ended 6/30/2007	6 months ended 6/30/2006
Net Income	$ 4,185,564	$ 922,044	$ 6,036,109	$ 1,342,035
Adjustments to Reconcile Net Income to Net Cash Provided by Cash Activities:				
Amortization	21,613	35,517	41,748	35,517
Depreciation	394,934	191,052	767,205	369,011
Provision for Bad Debt on Note Receivable	566	-	930	
Decrease/(Increase) in Accounts Receivable	(250,402)	4,691,537	(10,664,225)	3,723,648
Decrease/(Increase) in Other Receivable	6,855,447	3,423,528	6,179,461	(36,723)
Decrease/(Increase) in Inventory	(2,703,919)	708,944	(4,408,660)	207,180
Decrease/(Increase) in Advance to Suppliers	235,335	4,975,745	(3,022,938)	1,488,818
Decrease/(Increase) in Related Party Receivable	12,501,909	-	(485,718)	-
Decrease/(Increase) in Prepaid Local & VAT Taxes	(14,666)	-	(27,920)	
Increase/(Decrease) in Accounts Payable	(6,102,502)	(4,326,193)	2,710,987	436,251
Increase/(Decrease) in Taxes Payable	(154,275)	438,677	(461,509)	352,122
Increase/(Decrease) in Other Payable	(3,507,381)	(3,077,790)	(3,082,623)	571,508
Increase/(Decrease) in Accrued Liabilities	335,507	-	523,897	-
Increase/(Decrease) in Customer Deposits	2,195,400	(7,658,409)	3,005,115	(7,135,913)
Total of all adjustments	9,807,566	(597,392)	(8,924,250)	11,416
Net Cash Provided by Operating Activities	**$ 13,993,130**	**$ 324,652**	**$ (2,888,141)**	**$ 1,353,454**

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

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

1. ORGANIZATION AND PRINCIPAL ACTIVITIES

Wuhan General Group (China), Inc. (the "Company") is a holding company whose primary business operations are conducted through its operating subsidiaries Wuhan Blower Co., Ltd. ("Wuhan Blower") and Wuhan Generating Equipment Co., Ltd. ("Wuhan Generating Equipment"). Wuhan Blower is a China-based manufacturer of industrial blowers that principally are components of steam driven electrical power generation plants. Wuhan Generating Equipment is a China-based manufacturer of industrial steam and water turbines, also principally for use in electrical power generation plants.

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

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

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

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

Accordingly, the accompanying consolidated financial statements are those of the accounting acquirer (UFG). The historical stockholders' equity of the accounting acquirer prior to the share exchange has been retroactively restated as if the share exchange transaction occurred as of the beginning of the first period presented. See also Note 13 - Capitalization.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Method of Accounting

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

(b) Consolidation

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

(c) Economic and Political Risks

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

(d) Use of Estimates

In preparing of 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 accounts and estimates include, but are not limited to, the valuation of accounts receivable, inventories, deferred income taxes and the estimation on useful lives of property, plant and equipment. Actual results could differ from those 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 both in the People's Republic of China and the United States of America.

(f) Accounts Receivable-Trade

Trade receivables are recognized and carried at the original invoice amount less allowance for any uncollectible amounts. An allowance for doubtful accounts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred.

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

(g) Inventory

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

(h) Property, Plant, and Equipment

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

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

(i) Intangible Assets

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

Technical License	10 years
Trademark	20 years

(j) Land Use Rights

The Company carries land use rights at cost less accumulated amortization. Land use rights are amortized straight-line over its useful life of 50 years.

(k) Accounting for Impairment of Long-Lived Assets

The Company adopted Statement of Financial Accounting Standards No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets” (“SFAS 144”), which addresses financial accounting and reporting for the impairment or disposal of long-lived assets. The Company periodically evaluates the carrying value of long-lived assets to be held and used in accordance with SFAS 144. SFAS 144 requires impairment losses to be recorded on long-lived assets used in operations when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets’ carrying amounts. In that event, a loss is recognized based on the amount by which the carrying amount exceeds the fair market value of the long-lived assets. Loss on long-lived assets to be disposed of is determined in a similar manner, except that fair market values are reduced for the cost of disposal. Based on its review, the Company believes that, as of June 30, 2007, and 2006, there were no significant impairments of its long-lived assets.

(l) Revenue Recognition

Revenue from the sale of blower products and generating equipment is recognized on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and the title has passed.

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

(m) Cost of Sales

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

(n) Selling Expenses

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

(o) General & Administrative Expenses

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

(p) Advertising

The Company expensed all advertising costs as incurred.

(q) Research and Development

All research and development costs are expensed as incurred.

(r) Foreign Currency Translation

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

For financial reporting purposes, the financial statements of the Company which are prepared using the functional currency have been translated into United States dollars. Assets and liabilities are translated at the exchange rates at the balance sheet dates and revenue and expenses are translated at the average exchange rates and stockholders' equity is translated at historical exchange rates. Any translation adjustments resulting 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	**June 30, 2007**	**December 31, 2006**	**June 30, 2006**
Period end RMB : US$ exchange rate	7.62480	7.8175	8.00650
Average 6 & 12 month RMB : US$ exchange rate	7.72999	7.98189	8.03924

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.

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

(s) Income Taxes

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

All of the Company's operations are in the PRC, and in accordance with the relevant tax laws and regulations of PRC, the corporation income tax rate is 33%. However, the Company was approved as a highly advanced technology foreign investment enterprise in November 2005, and in accordance with the relevant regulations regarding the favorable tax treatment for high technology companies, the Company is entitled to a two year tax exemption. Following the expiration of this tax exemption, the Company will be required to pay a 7.5% tax rate for the next three years. Beginning November 2010, the Company will be allowed a 15% tax rate as long as the Company is located and registered in the high and advanced technology development zone.

The Company is subject to United States income tax according to Internal Revenue Code Sections 951 and 957. Corporate income tax is imposed on graduated rates based on the ranges shown in the following table: -

	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	-	0

(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.

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

(u) Other Comprehensive Income

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

(v) Warranty Policy

The estimation of warranty obligations is determined in the same period that revenue from the sale of the related products is recognized. The warranty obligation is based on historical experience and reflects management's best estimate of expected costs at the time products are sold. Warranty accruals are adjusted for known or anticipated warranty claims as new information becomes available. Future events and circumstances could materially change our estimates and require adjustments to the warranty obligation. New product launches require a greater use of judgment in developing estimates until historical experience becomes available.

(w) Recent Accounting Pronouncements

In May 2005, the FASB issued SFAS 154, "Accounting Changes and Error Corrections" to replace APB Opinion No. 20, "Accounting Changes" and SFAS 3, "Reporting Accounting Changes in Interim Financial Statements" requiring retrospective application to prior periods financial statements of changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. When it is impracticable to determine the period-specific effects of an accounting change on one or more individual prior periods presented, SFAS 154 requires the new accounting principle be applied to the balances of assets and liabilities as of the beginning of the earliest period for which retrospective application is practicable and that a corresponding adjustment be made to the opening balance of retained earnings (or other appropriate components of equity or net assets in the statement of financial position) for that period rather than being reported in an income statement. When it is impracticable to determine the cumulative effect of applying a change in accounting principle to all prior periods, SFAS 154 requires that the new accounting principle be applied as if it were adopted prospectively from the earliest date practicable. The effective date for this statement is for accounting changes and corrections of errors made in fiscal year beginning after December 15, 2005.

In February 2006, the FASB issued SFAS 155, "Accounting for Certain Hybrid Financial Instruments" to amend FASB Statements No. 133, "Accounting for Derivative Instruments and Hedging Activities", and No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities". This statement permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation and eliminate the prohibition on a qualifying special-purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. This statement is effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after September 15, 2006.

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

In July 2006, the FASB issued FIN 48, Accounting for Uncertainty in Income Taxes—an Interpretation of FASB Statement No. 109, which clarifies the accounting for uncertainty in tax positions. This Interpretation requires that the Company recognizes in its consolidated financial statements the impact of a tax position if that position is more likely than not to be sustained upon an audit, based on the technical merits of the position. The provisions of FIN 48 are effective for the Company on January 1, 2007, with the cumulative effect of the change in accounting principle, if any, recorded as an adjustment to opening retained earnings.

In September 2006, the FASB issued SFAS 157, "Fair Value Measurements", which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS 157 applies under other accounting pronouncements that require or permit fair value measurements, where fair value is the relevant measurement attribute. The standard does not require any new fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years.

In September 2006, the SEC issued SAB No. 108, which provides guidance on the process of quantifying financial statement misstatements. In SAB No. 108, the SEC staff establishes an approach that requires quantification of financial statement errors, under both the iron-curtain and the roll-over methods, based on the effects of the error on each of the Company's financial statements and the related financial statement disclosures. SAB No.108 is generally effective for annual financial statements in the first fiscal year ending after November 15, 2006. The transition provisions of SAB No. 108 permits existing public companies to record the cumulative effect in the first year ending after November 15, 2006 by recording correcting adjustments to the carrying values of assets and liabilities as of the beginning of that year with the offsetting adjustment recorded to the opening balance of retained earnings.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities—Including an Amendment of SFAS 115" (SFAS No. 159), which allows for the option to measure financial instruments and certain other items at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. The objective of SFAS 159 is to provide opportunities to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply hedge accounting provisions. SFAS 159 also establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. This statement is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact of SFAS No. 159 on our consolidated financial statements.

The Company does not anticipate that the adoption of the above standards will have a material impact on these consolidated financial statements.