WUHAN GENERAL GROUP (CHINA), INC
Form 10-K/A
September 04, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K/A

Amendment No. 2

(Mark One)

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2011

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	84-1092589
(State or 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, People's Republic of China	430200
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: 86-27-5970-0069

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
None	None

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 x

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 x

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 x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x 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 ¨ (Do not check if a smaller reporting company)	Smaller reporting company x

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

As of June 30, 2011, the aggregate market value of the registrant's common stock held by non-affiliates was approximately $7,901,774 based on the closing sale price as quoted on the NASDAQ Capital Market.

As of August 30, 2012, the registrant had a total of 32,505,000 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

None.

TABLE OF CONTENTS

EXPLANATORY NOTE

This Amendment No. 2 (the “Second Amendment”) to our Annual Report on Form 10-K for the year ended December 31, 2011 filed on April 6, 2012 (the “Original 10-K”), as amended by Amendment No.1 to Form 10-K filed on April 30, 2012 (the “Amendment”), of Wuhan General Group (China), Inc. (the “Company”) is being filed with the Securities and Exchange Commission (the “SEC”) to provide the information in response to comments received from the Securities and Exchange Commission (the “Commission”) as a result of the Commission’s review of the Original 10-K and Amendment. Only Items 8 and 15 have been amended and restated in this Amendment. Specifically, the audit report attached to our financials was revised to reference the appropriate periods covered by audit report. No other changes were made to the financial statements. No changes have been made to the Original 10-K or Amendment other than the changes in Item 8 and updates to the Exhibit Index and Cover Page.

Unless expressly stated, this Second Amendment does not reflect events occurring after the filing of the Original 10-K or the Amendment, nor does it modify or update in any way the disclosures contained in the Original 10-K or Amendment, which speak as of the date of their original filings. Accordingly, this Second Amendment should be read in conjunction with the Original 10-K, the Amendment and our other SEC filings subsequent to the filing of the Original 10-K and the Amendment.

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

PART II

Item 8. Financial Statements and Supplementary Data.

The financial statements required by Item 8 are included on pages F-1 to F- 37 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.

Part IV

Item 15. Exhibits and Financial Statement Schedules.

3. Exhibits

Exhibit No.	Description
3.1	Articles of Incorporation (incorporated herein by reference to Exhibit 3i.1 to our Form 8-K filed on November 1, 2006)
3.2	Amendment to Articles of Incorporation (incorporated herein by reference to Exhibit 3.1 to our Form 8-K filed on March 9, 2007)
3.3	Amendment to Articles of Incorporation (incorporated herein by reference to Exhibit 3.1 to our Form 8-K filed on September 11, 2008)
3.4	Amended and Restated Bylaws (as amended through March 8, 2007) (incorporated herein by reference to Exhibit 3.2 to our Form 8-K filed on March 9, 2007)
4.1	Certificate of Designation of the Relative Rights and Preferences of the Series A Convertible Preferred Stock of the Company, dated February 7, 2007, including the Certificate of Correction filed on February 12, 2007 (incorporated herein by reference to Exhibit 4.1 to our Form 8-K filed on February 13, 2007)
4.2	Certificate of Designation of the Relative Rights and Preferences of the Series B Convertible Preferred Stock of the Company, dated September 4, 2008 (incorporated herein by reference to Exhibit 4.1 to our Form 8-K filed on September 11, 2008)
4.3	Form of Series A Warrant (incorporated herein by reference to Exhibit 4.2 to our Form 8-K filed on February 13, 2007)

10.1†	Employment Agreement between the Company and Carol Pan (incorporated herein by reference to Exhibit 10.1 to our Form 8-K filed on Feb 2, 2012)
14.1	Code of Business Conduct and Ethics (incorporated herein by reference to Exhibit 14 to our Form 8-K filed on March 14, 2008)
21.1	Subsidiaries of the Registrant
31.1*	Certification of Principal Executive Officer, pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Principal Financial Officer, pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Certification of Principal Executive Officer and Chief Financial Officer, pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

101.INS**	XBRL Instance Document
101.SCH**	XBRL Taxonomy Extension Schema Document
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF**	XBRL Taxonomy Extension Definitions Linkbase Document
101.LAB**	XBRL Taxonomy Extension Label Linkbase Document
101.PRE**	XBRL Taxonomy Extension Presentation Linkbase Document

*Filed herewith.
†Management contract, compensatory plan or arrangement.

In accordance with SEC Release 33-8238, Exhibit 32.1 is being furnished and not filed.

* *Furnished herewith. XBRL (Extensible Business Reporting Language) information is furnished and not filed or a part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.

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: August 31, 2012	By: /s/ *Qi Ruilong*
	Name: Qi Ruilong
	Title: President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant in the capacities and on the date indicated.

Signatures	Title	Date
/s/ *Qi Ruilong* Qi Ruilong	President, Chief Executive Officer and Director (principal executive officer)	August 31, 2012
/s/ *Carol Pan* Carol Pan	Principle Accounting Officer (principal financial and accounting officer)	August 31, 2012
/s/ *Xu Jie* Xu Jie	Chairman of the Board of Directors	August 31, 2012
/s/ *Huang Zhaoqi* Huang Zhaoqi	Director	August 31, 2012
/s/ *Brian Lin* Brian Lin	Director	August 31, 2012
/s/ *Shi Yu* Shi Yu	Director	August 31, 2012
/s/ *Zheng Qingsong*	Director	August 31, 2012

Zheng Qingsong

/s/ *Yaojun (Larry) Liu* Yaojun (Larry) Liu	Director	August 31, 2012

2

Wuhan General Group (China), Inc.

Consolidated Financial Statements

December 31, 2011 and 2010

(Stated in US Dollars)

Wuhan General Group (China), Inc.

Contents

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, 2011 and 2010, 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, 2011 and 2010, 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.

San Mateo, California
March 26, 2012
August 22, 2012, revision to reflect appropriate periods

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

F-1

Wuhan General Group (China), Inc.

Consolidated Balance Sheets

As of December 31, 2011 and 2010

(Stated in US Dollars)

	Note	At December 31, 2011	At December 31, 2010
ASSETS			
Current Assets			
Cash	2*(e)*	$ 57,522,050	$ 26,856,317
Restricted Cash	3	13,953,294	30,599,958
Notes Receivable	4	-	251,066
Accounts Receivable	2*(f)*,5	56,567,722	49,485,978
Other Receivable		18,487,992	16,269,293
Related Party Receivable	23	7,041,613	-
Inventory	2*(g)*,6	13,300,792	9,867,301
Advances to Suppliers		25,184,728	35,433,751
Advances to Employees	7	30,158	322,205
Prepaid Expenses		7,041	517
Prepaid Taxes		41,210	1,351
Deferred Tax Asset		1,238,831	1,192,532
Current assets held for sale	2*(bb)*, 21	2,223,395	1,756,460
Total Current Assets		195,598,826	172,036,729
Non-Current Assets			
Real Property Available for Sale		-	1,140,718
Property, Plant & Equipment, *net*	2*(h)*,8	29,591,719	30,617,120
Land Use Rights, *net*	2*(j)*,9	1,976,326	1,945,678
Construction in Progress	10	15,031,490	12,371,309
Deposits		5,555,926	-
Intangible Assets, *net*	2*(i)*,11	145,041	179,837
Long-term assets held for sale	2*(bb)*, 21	24,672,213	24,215,927
Total Assets		$ 272,571,541	$ 242,507,318
LIABILITIES & STOCKHOLDERS' EQUITY			
Liabilities			
Current Liabilities			
Bank Loans & Notes	12	$ 113,966,333	$ 72,007,623
Accounts Payable		5,478,580	9,619,808
Taxes Payable		10,841,233	10,459,789

Other Payable		5,035,021	4,123,669
Dividend Payable		1,454,257	727,129
Accrued Liabilities	13	3,593,025	2,885,931
Customer Deposits		7,177,771	8,005,336
Current liabilities associated with assets held for sale	2*(bb),* 21	1,401,330	726,232
Total Current Liabilities		148,947,550	108,555,517
Long Term Liabilities			
Bank Loans and Notes	12	6,048,989	21,627,999
Total Liabilities		$ 154,996,539	$ 130,183,516

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

F-2

Wuhan General Group (China), Inc.

Consolidated Balance Sheets

As of December 31, 2011 and 2010

(Stated in US Dollars)

	Note	At December 31, 2011	At December 31, 2010
STOCKHOLDERS' EQUITY			
Preferred Stock - $0.0001 Par Value 50,000,000 Shares Authorized; 6,241,453 Shares of Series A Convertible Preferred Stock Issued & Outstanding at December 31, 2011 and 2010	14	$624	$624
Additional Paid in Capital - Preferred Stock		8,170,415	8,170,415
Additional Paid in Capital – Warrants		63,171	1,554,635
Additional Paid in Capital - Beneficial Conversion Feature		6,371,547	6,371,547
Preferred Stock - $0.0001 Par Value 50,000,000 Shares Authorized; 6,354,078 Shares of Series B Convertible Preferred Stock Issued & Outstanding at December 31, 2011 and 2010	14	635	635
Additional Paid in Capital - Preferred Stock		12,637,158	12,637,158
Additional Paid in Capital – Warrants		-	1,244,366
Additional Paid in Capital - Beneficial Conversion Feature		4,023,692	4,023,692
Common Stock - $0.0001 Par Value 100,000,000 Shares Authorized; 32,505,000 and 28,327,607 Shares Issued & Outstanding at December 31, 2011 and 2010, respectively	14	3,251	2,833
Additional Paid in Capital		42,090,417	35,895,190
Statutory Reserve	2(*u*),15	4,563,592	4,563,592
Retained Earnings		21,369,395	25,956,458
Accumulated Other Comprehensive Income	2(*v*)	18,281,105	11,902,657
Total Stockholders' Equity		117,575,002	112,323,802
Total Liabilities & Stockholders' Equity		$272,571,541	$242,507,318

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

Wuhan General Group (China), Inc.

Consolidated Statements of Income

For the years ended December 31, 2011 and 2010

(Stated in US Dollars)

	Note	December 31, 2011	December 31, 2010
Sales	2*(l)*	$127,502,723	$110,312,439
Cost of Sales	2*(m)*	97,676,431	83,949,091
Gross Profit		29,826,292	26,363,348
Operating Expenses			
Selling	2*(n)*	1,404,870	1,523,074
General & Administrative	2*(p)*	18,408,231	11,762,549
Warranty	2*(w)*,13	558,278	541,533
Total Operating Expenses		20,371,379	13,827,156
Operating Income		9,454,913	12,536,192
Other Income (Expenses)			
Other Income		152,787	511,223
Interest Income		250,912	178,053
Other Expenses		(50,054)	(78,397)
Interest Expense		(7,680,872)	(5,314,683)
Expense for warrant recapitalization		(3,455,260)	(3,103,919)
Total Other Income (Loss) & Expenses		(10,782,487)	(7,807,723)
Earnings from Continuing Operations before Taxes		(1,327,574)	4,728,469
Income Taxes	2*(t)*, 16	1,606,043	1,301,566
Income from Continuing Operations		(2,933,617)	3,426,903
Income (Loss) from Discontinued Operations, net of taxes		(926,318)	(220,555)
Net Income		$(3,859,935)	$3,206,348
Preferred Dividends Declared		727,128	727,129
Income Available to Common Stockholders		$(4,587,063)	$2,479,219
Earnings Per Share	17		
Basic-Net Income/(Loss)		$(0.14)	$0.10
- Income from Continuing Operations		(0.11)	0.11
- Loss from Discontinued Operations		(0.03)	(0.01)
Diluted- Net Income/(Loss)		(0.14)	0.10
- Income from Continuing Operations		(0.11)	0.11
- Loss from Discontinued Operations		$(0.03)	$(0.01)
Weighted Average Shares Outstanding			

Basic	32,264,657	25,531,305
Diluted	32,264,657	31,885,383

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

Wuhan General Group (China), Inc.

Consolidated Statements of Stockholders' Equity

As of December 31, 2011 and 2010

(Stated in US Dollars)

	Series A Convertible Preferred Stock Shares Out- standing	Amount	Series A Preferred Stock Additional Paid in Capital	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
Balance, January 1, 2011	6,241,453	$624	$8,170,415	$1,554,635	$6,371,547	6,354,078	$635	$12,637,158	$1,244,366
Stock Option Compensation	-	-	-	-	-	-	-	-	-
Recapitalization of Warrants	-	-	-	(1,491,464)	-	-	-	-	(1,244,366)
Expense related to recapitalization of warrants	-	-	-	-	-	-	-	-	-
Net Income	-	-	-	-	-	-	-	-	-
Preferred Dividends Declared	-	-	-	-	-	-	-	-	-
Appropriations of Retained Earnings	-	-	-	-	-	-	-	-	-
Foreign Currency Translation Adjustment	-	-	-	-	-	-	-	-	-
Balance, December 31,	6,241,453	$624	$8,170,415	$63,171	$6,371,547	6,354,078	$635	$12,637,158	-

2011

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

Wuhan General Group (China), Inc.

Consolidated Statements of Stockholders' Equity

As of December 31, 2011 and 2010

(Stated in US Dollars)

	Series A Convertible Preferred Stock Shares Out-standing	Amount	Series A Preferred Stock Additional Paid in Capital	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
Balance, January 1, 2010	6,241,453	$624	$8,170,415	$3,484,011	$6,371,547	6,354,078	$635	$12,637,158	$2,274,181
Stock Option Compensation	-	-	-	-	-	-	-	-	-
Recapitalization of Warrants	-	-	-	(1,929,376)	-	-	-	-	(1,029,815)
Expense related to recapitalization of warrants	-	-	-	-	-	-	-	-	-
Net Income	-	-	-	-	-	-	-	-	-
Preferred Dividends Declared	-	-	-	-	-	-	-	-	-
Appropriations of Retained Earnings	-	-	-	-	-	-	-	-	-
Foreign Currency Translation Adjustment	-	-	-	-	-	-	-	-	-
Balance, December 31,	6,241,453	$624	$8,170,415	$1,554,635	$6,371,547	6,354,078	$635	$12,637,158	$1,244,366

2010

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

F-6

Wuhan General Group (China), Inc.

Consolidated Statements of Cash Flows

For the years ended December 31, 2011 and 2010

(Stated in US Dollars)

	12 months ended December 31, 2011	12 months ended December 31, 2010
Cash Flow from Operating Activities		
Cash Received from Customers	$110,616,623	$106,198,578
Cash Paid to Suppliers & Employees	(108,008,073)	(92,974,336)
Interest Received	251,120	178,060
Interest Paid	(7,680,872)	(5,314,683)
Taxes Paid	(4,130,333)	(563,826)
Miscellaneous Receipts	153,043	513,604
Cash Provided by operating activities – continuing operations	(8,798,492)	8,037,397
Cash Provided by operating activities – discontinued operations	232,067	531,029
Cash Sourced/(Used) in Operating Activities	(8,566,425)	8,568,426
Cash Flows from Investing Activities		
Cash Released/(Invested in) Restricted Time Deposits	16,646,665	(22,839,987)
Proceeds from withdraw of Short Term Investment Fund	1,140,718	-
Payments for Purchases and Construction of Plant & Equipment	(5,158,888)	(8,285,290)
Payments for Deposits	(5,510,403)	(15,124)
Cash Used in investing activities – continuing operations	7,118,092	(31,140,401)
Cash Used in investing activities – discontinued operations	(231,278)	(546,066)
Cash Sourced/(Used) in Investing Activities	6,886,814	(31,686,467)
Cash Flows from Financing Activities		
Net proceeds from Bank Loans and Notes	26,379,700	47,221,808
Dividends Paid	-	(727,129)
Cash provided by financing activities – continuing operations	26,379,700	46,494,679
Cash provided by financing activities – discontinued operations	-	(344,439)
Cash Sourced/(Used) in Financing Activities	26,379,700	46,150,240
Net Increase/(Decrease) in Cash & Cash Equivalents for the Period – continuing operations	24,699,300	23,391,675
Net Increase/(Decrease) in Cash & Cash Equivalents for the Period – discontinued operations	789	(359,476)
Net Increase/(Decrease) in Cash & Cash Equivalents for the Period	24,700,089	23,032,199
Effect of Currency Translation – continuing operations	5,966,433	3,093,750

Effect of Currency Translation – discontinued operations	(115,560)	459,246
	5,850,873	3,552,995
Cash & Cash Equivalents at Beginning of Period - continuing operations	26,856,317	370,892
Cash & Cash Equivalents at Beginning of Period - discontinued operations	136,272	36,502
	26,992,589	407,394
Cash & Cash Equivalents at End of Period - continuing operations	57,522,050	26,856,317
Cash & Cash Equivalents at End of Period - discontinued operations	21,501	136,272
Cash & Cash Equivalents at End of Period	$57,543,551	$26,992,589

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 years ended December 31, 2011 and 2010

(Stated in US Dollars)

	12 months ended December 31, 2011	12 months ended December 31, 2010
Net Income	$ (3,859,935)	$ 3,206,348
Adjustments to Reconcile Net Income to Net Cash Provided by / <Used in> Operating Activities :		
Stock Penalties	-	-
Stock Compensation	-	38,382
Expense for warrant recapitalization	3,459,815	3,103,919
Amortization	459,208	400,043
Depreciation	3,326,094	2,623,082
Decrease/(Increase) in Notes Receivable	237,994	(237,670)
Decrease/(Increase) in Accounts Receivable	(7,087,023)	4,257,483
Decrease/(Increase) in Other Receivable	(2,474,199)	(11,606,602)
Decrease/(Increase) in Related Party Receivable	(7,113,375)	-
Decrease/(Increase) in Inventory	(3,814,861)	4,691,087
Decrease/(Increase) in Advances to Suppliers	10,120,166	(10,825,245)
Decrease/(Increase) in Advances to Employees	292,047	20,624
Decrease/(Increase) in Prepaid Expenses	(15,288)	926,062
Decrease/(Increase) in Prepaid Taxes	(39,859)	544,699
Decrease/(Increase) in Deferred Tax Asset	236,600	(726,399)
Increase/(Decrease) in Accounts Payable	(4,062,549)	1,694,460
Increase/(Decrease) in Taxes Payable	420,312	7,331,147
Increase/(Decrease) in Other Payable	1,507,933	393,355
Increase/(Decrease) in Accrued Liabilities	707,094	(638,457)
Increase/(Decrease) in Customer Deposits	(866,599)	3,372,108
Total of all adjustments	(4,706,490)	5,362,078
Net Cash Provided by Operating Activities	$ (8,566,425)	$ 8,568,426

Wuhan General Group (China), Inc.

As of December 31, 2011 and 2010

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"), 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 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. 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.

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 U.S. Securities and Exchange Commission on February 5, 2009 further details the transaction. Title of the assets purchased under the above agreement has been recorded under Wuhan 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. However, due to the limitation of insufficient resources and the Company's plan to dispose of Wuhan Sungreen, the Company has ceased any further construction of the workshop and buildings. See also Note 8 – Property, Plant and Equipment, and Note 10 – Construction in Progress.

Wuhan General Group (China), Inc.

As of December 31, 2011 and 2010

Notes to Financial Statements

(Stated in US Dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Method of Accounting

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

(b) Consolidation

The interim consolidated financial statements include the accounts of the Company and its subsidiaries, UFG, Wuhan Blower, Wuhan Generating 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 periods. 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 U.S. and 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.

Wuhan General Group (China), Inc.

As of December 31, 2011 and 2010

Notes to Financial Statements

(Stated in US Dollars)

(h) Property, Plant, and Equipment

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

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

(i) Intangible Assets

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

Technical Licenses	10 years
Trademark	20 years

Annually, the Company reviews the intangible assets for impairment, in accordance with ASC 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 September 30, 2011 and December 31, 2010, there were no significant impairments of its long-lived assets.

Wuhan General Group (China), Inc.

As of December 31, 2011 and 2010

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.

Wuhan General Group (China), Inc.

As of December 31, 2011 and 2010

Notes to Financial Statements

(Stated in US Dollars)

(o)Advertising expenses

All advertising costs are expensed as incurred.

(p)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.

(q)Research and Development