

WUHAN GENERAL GROUP (CHINA), INC
Form 10QSB/A
June 22, 2007

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

FORM 10-QSB/A

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

For the quarterly period ended March 31, 2007

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 033-25350-FW

WUHAN GENERAL GROUP (CHINA), INC.
(Exact Name of Small Business Issuer as Specified in Its Charter)

Nevada
(State of 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 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 No

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

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 outstanding as of June 22, 2007.

Transitional Small Business Disclosure Format: Yes No

EXPLANATORY NOTE

This Form 10-QSB/A (this "Amendment") amends the Form 10-QSB of Wuhan General Group (China), Inc. (the "Company") for the quarter ended March 31, 2007, as originally filed with the Securities and Exchange Commission ("SEC") on June 19, 2007 (the "Original Filing"). The Statements of Income in the Original Filing incorrectly stated that diluted earnings per share for the quarter ended March 31, 2007 were \$0.09 per share. This Amendment amends the Statement of Income to correctly reflect that diluted earnings per share for the quarter ended March 31, 2007 were \$0.06 per share. Also, the Statements of Stockholders' Equity in the Original Filing incorrectly stated that total net income for the quarter ended March 31, 2007 was \$1,848,265. This Amendment amends the Statements of Stockholders' Equity to correctly reflect that total net income was \$1,850,545 for the quarter ended March 31, 2007. This Amendment also revises Note 13 to the Financial Statements to correct and clarify the discussion of the Company's share exchange transaction and private placement of preferred stock and warrants, both of which occurred in February 2007. This Amendment also corrects the description of one of the series of warrants contained in Note 17 to the Financial Statements. Finally, this Amendment corrects immaterial typographical errors.

For the convenience of the reader, this Amendment sets forth only Part I, Item 1 - Financial Statements. No other information in the Original Filing is amended hereby. Part I, Item 1 has not been updated to reflect other events occurring after the Original Filing or to modify or update those disclosures affected by subsequent events. In addition, pursuant to SEC rules, Part II, Item 6 of the Original Filing has been amended to contain currently-dated certificates from the Company's Chief Executive Officer and Chief Financial Officer, as required by Sections 302 and 906 of the Sarbanes-Oxley Act of 2002. The certifications of the Company's Chief Executive Officer and Chief Financial Officer are attached to this Form 10-QSB/A as exhibits 31.1, 31.2, 32.1 and 32.2.

PART I

FINANCIAL INFORMATION

Item 1. Financial Statements.

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

| ASSETS | Note | March 31, 2007 | December 31, 2006 (audited) |
|---|---------|----------------------|--------------------------------------|
| Cash | 2(e) | 5,385,436 | 248,243 |
| Restricted Cash | 3 | 1,306,836 | 382,530 |
| Accounts Receivable | 2(f),4 | 22,901,906 | 12,488,083 |
| Other Receivable | | 9,486,685 | 8,810,699 |
| Notes Receivable | 5 | 1,841,453 | 1,535,868 |
| Inventory | 2(g),6 | 6,249,403 | 4,544,662 |
| Advance to Suppliers | | 6,004,598 | 2,746,325 |
| Related Party Receivable | 7 | 13,243,463 | 255,836 |
| Prepaid Taxes | | 17,143 | 3,889 |
| Total Current Assets | | 66,436,923 | 31,016,135 |
| Property, Plant & Equipment, <i>net</i> | 2(h),8 | 17,136,935 | 17,252,577 |
| Land Use Rights, <i>net</i> | 2(j),9 | 1,757,679 | 1,749,740 |
| Construction in Progress | | 2,891,390 | 35,304 |
| Intangible Assets, <i>net</i> | 2(i),10 | 359,067 | 364,565 |
| Total Assets | | \$ 88,581,994 | \$ 50,418,321 |
| LIABILITIES & STOCKHOLDERS' EQUITY | | | |
| Liabilities | | | |
| Bank Loans & Notes | 11 | 18,949,763 | 13,545,059 |
| Accounts Payable | | 17,345,341 | 8,531,852 |
| Accrued Liabilities | | 542,559 | 354,169 |
| Contract Payable | 12 | 1,148,880 | 1,137,623 |
| Taxes Payable | | 1,416,310 | 1,723,544 |
| Other Payable | | 5,019,397 | 4,594,639 |
| Dividend Payable | | 174,000 | - |
| Customer Deposits | | 2,397,021 | 1,587,306 |
| Total Current Liabilities | | 46,993,271 | 31,474,192 |
| Total Liabilities | | 46,993,271 | 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 March 31, 2007, and December 31, 2006
(Stated in US Dollars)

| <u>Stockholders' Equity</u> | Note | March 31, 2007 | 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 March 31, 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 March 31, 2007, and December 31, 2006 | 13 | 1,971 | 1,971 |
| Additional Paid in Capital | | 12,349,602 | 12,349,602 |
| Statutory Reserve | 2(q),14 | 622,151 | 622,151 |
| Retained Earnings | | 6,876,830 | 5,200,285 |
| Accumulated Other Comprehensive Income | 2(r) | 971,730 | 770,120 |
| Total Stockholders' Equity | | 41,588,723 | 18,944,129 |
| Total Liabilities & Stockholders' Equity | | \$ 88,581,994 | \$ 50,418,321 |

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

Wuhan General Group (China), Inc.
Statements of Income
For the three months ended March 31, 2007 and 2006
(Stated in US Dollars)

| <u>Revenue</u> | Note | March 31, 2007 | March 31, 2006 |
|---|---------|---------------------|-------------------|
| Sales | 2(l) | \$ 12,277,339 | \$ 2,307,274 |
| Cost of Sales | | 8,337,981 | 1,255,718 |
| Gross Profit | | 3,939,358 | 1,051,556 |
| <u>Operating Expenses</u> | | | |
| Selling Expenses | | 262,122 | 156,652 |
| General & Administrative Expenses | | 1,461,604 | 358,349 |
| Warranty Expense | | 184,160 | - |
| Total Operating Expense | | 1,907,886 | 515,003 |
| Operating Income/(Loss) | | 2,031,472 | 536,553 |
| <u>Other Income (Expenses)</u> | | | |
| Other Income | 15 | - | 314 |
| Interest Income | | 12,749 | - |
| Other Expenses | | (965) | (409) |
| Interest Expense | | (192,711) | (116,466) |
| Total Other Income (Loss) and Expense | | (180,927) | (116,561) |
| Earnings before Tax | | 1,850,545 | 419,992 |
| Income Tax | 2(p),16 | - | - |
| Net Income | | \$ 1,850,545 | \$ 419,992 |
| Preferred Dividends Declared | | 174,000 | - |
| Net Income Available to Common Stockholders | | 1,674,545 | 419,992 |
| Basic Earnings Per Share | | \$ 0.09 | \$ 0.02 |
| Basic Weighted Average Shares Outstanding | | 19,712,446 | 19,712,446 |
| Diluted Earnings Per Share | | \$ 0.06 | \$ 0.02 |
| Diluted Weighted Average Shares Outstanding | | 30,262,152 | 19,712,446 |

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

Wuhan General Group (China), Inc.
Statements of Stockholders' Equity
For the three months ended March 31, 2007 and 2006
(Stated in US Dollars)

| | Preferred Stock | | Preferred Warrants | | Common Stock | | | Accumulated Other Comprehensive Income | | | Total |
|---|--------------------|--------|----------------------------|----------------------------|--------------------|--------|-------------------|--|----------------------|---------|-----------|
| | Shares Outstanding | Amount | Additional Paid in Capital | Additional Paid in Capital | Shares Outstanding | Amount | Statutory Reserve | Retained Earnings | Comprehensive Income | | |
| Balance, January 1, 2006 | - | - | 6,110,567 | - | 19,712,446 | 1,971 | - | - | 2,620,166 | 206,080 | 8,938,784 |
| Net Income | | | | | | | | | 419,992 | | 419,992 |
| Foreign Currency Translation Adjustment | | | | | | | | | | 43,574 | 43,574 |
| Balance, March 31, 2006 | - | - | 6,110,567 | - | 19,712,446 | 1,971 | - | - | 3,040,158 | 249,654 | 9,402,350 |

| | Preferred Stock | | Preferred Warrants | | Common Stock | | | Accumulated Other Comprehensive Income | | |
|---|--------------------|--------|----------------------------|----------------------------|--------------------|--------|-------------------|--|----------------------|---------|
| | Shares Outstanding | Amount | Additional Paid in Capital | Additional Paid in Capital | Shares Outstanding | Amount | Statutory Reserve | Retained Earnings | Comprehensive Income | |
| Balance, January 1, 2007 | - | - | - | - | 19,712,446 | 1,971 | 12,349,602 | 622,151 | 5,200,285 | 770,166 |
| 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 | | | 13,954,940 | | | | | | | |

| | | | | | | | | | | | | |
|--|------------|-------|------------|-----------|------------|-------|------------|---------|-----------|-----------|---|---------|
| Stock | | | | | | | | | | | | |
| Increase in Additional Paid in Capital from Issuance of Warrants | | | | 6,810,470 | | | | | | | | |
| Net Income | | | | | | | | | | 1,850,545 | | |
| Preferred Dividends Declared | | | | | | | | | | (174,000) | | |
| Foreign Currency Translation Adjustment | | | | | | | | | | | | 201,564 |
| Balance, March 31, 2007 | 10,287,554 | 1,029 | 13,954,940 | 6,810,470 | 19,712,446 | 1,971 | 12,349,602 | 622,151 | 6,876,830 | 971,730 | 4 | |

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

Wuhan General Group (China), Inc.
Statements of Cash Flows
For the three months ended March 31, 2007 and 2006
(Stated in US Dollars)

| | March 31, 2007 | March 31, 2006 |
|--|---------------------|-------------------|
| Cash Flow from Operating Activities | | |
| Cash Received from Customers | \$ 1,997,609 | \$ (1,598,371) |
| Cash Paid to Suppliers & Employees | (18,698,918) | 2,743,325 |
| Interest Received | 12,749 | - |
| Interest Paid | (192,711) | (116,466) |
| Income Tax Paid | - | - |
| Miscellaneous Receipts | - | 314 |
| Cash Sourced/(Used) in Operating Activities | (16,881,271) | 1,028,802 |
| Cash Flows from Investing Activities | | |
| Cash Invested in Restricted Time Deposits | 924,306 | 38,748 |
| Investment in Note | 305,949 | 24,827 |
| Payments for Purchases of Plant & Equipment | 245,372 | 723,542 |
| Payments for Construction of Plant & Equipment | 2,856,086 | 24,827 |
| Payments for Purchases of Land Use Rights | 18,374 | - |
| Payments for Purchases of Intangible Assets | 4,202 | 1,862 |
| Cash Used/(Sourced) in Investing Activities | 4,354,289 | 813,806 |
| Cash Flows from Financing Activities | | |
| Increases to Preferred Stock & Additional Paid in Capital | 20,766,439 | - |
| Increases in Additional Paid in Capital from Contribution of Capital Equipment | - | - |
| Proceeds from Bank Borrowings | 5,289,903 | - |
| Proceeds from Issuance of Notes | 114,801 | (18,620) |
| Dividends Paid | - | - |
| Cash Sourced/(Used) in Financing Activities | 26,171,143 | (18,620) |
| Net Increase/(Decrease) in Cash & Cash Equivalents for the Year | 4,935,583 | 196,376 |
| Effect of Currency Translation | 201,610 | 932 |
| Cash & Cash Equivalents at Beginning of Year | 248,243 | 166,851 |
| Cash & Cash Equivalents at End of Year | \$ 5,385,436 | \$ 364,159 |

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 ended March 31, 2007 and 2006
(Stated in US Dollars)

| | March 31, 2007 | March 31, 2006 |
|---|------------------------|-----------------------|
| Net Income | \$ 1,850,545 | \$ 419,992 |
| Adjustments to Reconcile Net Income to Net Cash Provided by Cash Activities: | | |
| Amortization | 20,135 | 0 |
| Depreciation | 372,271 | 177,959 |
| Provision for Bad Debt on Note Receivable | 364 | 0 |
| Decrease/(Increase) in Accounts Receivable | (10,413,823) | (967,889) |
| Decrease/(Increase) in Other Receivable | (675,986) | (3,460,251) |
| Decrease/(Increase) in Inventory | (1,704,741) | (501,764) |
| Decrease/(Increase) in Advance to Suppliers | (3,258,273) | (3,486,927) |
| Decrease/(Increase) in Related Party Receivable | (12,987,627) | - |
| Decrease/(Increase) in Prepaid Taxes | (13,254) | - |
| Increase/(Decrease) in Accounts Payable | 8,813,489 | 4,762,444 |
| Increase/(Decrease) in Taxes Payable | (307,234) | (86,555) |
| Increase/(Decrease) in Other Payable | 424,758 | 3,649,298 |
| Increase/(Decrease) in Accrued Liabilities | 188,390 | - |
| Increase/(Decrease) in Customer Advances | 809,715 | 522,495 |
| Total of all adjustments | (18,731,816) | 608,810 |
| Net Cash Provided by Operating Activities | \$ (16,881,271) | \$ 1,028,802 |

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

Wuhan General Group (China) Inc.
Notes to Financial Statements
As of and for the three months ended March 31, 2007 and 2006;
as of and for the year ended December 31, 2006
(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 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 (“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
As of and for the three months ended March 31, 2007 and 2006;
as of and for the year ended December 31, 2006
(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 only in the PRC. The company does not maintain any bank accounts in 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
As of and for the three months ended March 31, 2007 and 2006;
as of and for the year ended December 31, 2006
(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 December 31, 2006 and 2005, there were no significant impairments of its long-lived assets.

Wuhan General Group (China) Inc.
Notes to Financial Statements
As of and for the three months ended March 31, 2007 and 2006;
as of and for the year ended December 31, 2006
(Stated in US Dollars)

(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.

(m) Advertising

The Company expensed all advertising costs as incurred.

(n) Research and Development

All research and development costs are expensed as incurred.

(o) 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 | March 31, 2007 | December 31, 2006 | March 31, 2006 |
|--|---------------------------|------------------------------|---------------------------|
| Period end RMB : US\$ exchange rate | 7.7409 | 7.8175 | 8.07240 |
| Average period RMB : US\$ exchange rate | 7.77136 | 7.98189 | 8.20329 |

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.

(p) 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.

Wuhan General Group (China) Inc.
Notes to Financial Statements
As of and for the three months ended March 31, 2007 and 2006;
as of and for the year ended December 31, 2006
(Stated in US Dollars)

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 in November 2010, the Company will be allowed a 15% tax rate as long as the Company is located and registered in the high and advance 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

| <i>Rate</i> | <i>Over</i> | <i>But not over</i> | <i>Of Amount Over</i> |
|-------------|-------------|---------------------|-----------------------|
| 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 |

(q) 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.

(r) 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.

Wuhan General Group (China) Inc.
Notes to Financial Statements
As of and for the three months ended March 31, 2007 and 2006;
as of and for the year ended December 31, 2006
(Stated in US Dollars)

(s) 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.

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 of being sustained on 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 Measurement", 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 year beginning after November 15, 2007, and interim periods within those fiscal years.

Wuhan General Group (China) Inc.
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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.

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.

An escrow account held in the United States is also included as a part of restricted cash. The funds in the escrow account have been designated for the payment of dividends to holders of preferred stock. The escrow account has also been used to pay general and administrative expenses that include legal, consulting, and accounting services.

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4. ACCOUNTS RECEIVABLE

| | March 31, 2007 | December 31, 2006 |
|---------------------------------------|-----------------------|--------------------------|
| Total Accounts Receivable-Trade | \$ 24,084,477 | \$ 12,807,824 |
| <u>Less:</u> Allowance for Bad Debt | 1,182,571 | 319,741 |
| | \$ 22,901,906 | \$ 12,488,083 |
| <u>Allowance for Bad Debts</u> | | |
| Beginning Balance | 319,741 | 13,528 |
| Allowance Provided | 862,830 | 306,213 |
| Charged Against Allowance | - | - |
| Ending Balance | 1,182,571 | 319,741 |

5. NOTES RECEIVABLE

| | March 31, 2007 | December 31, 2006 |
|--------------------------------------|-----------------------|--------------------------|
| Notes Receivable | \$ 1,878,593 | \$ 1,572,644 |
| <u>Less:</u> Allowance for Bad Debts | 37,140 | 36,776 |
| | \$ 1,841,453 | \$ 1,535,868 |

The Company entered into a financing agreement with Hubei Deeloong Group Co., Ltd. ("Hubei") on 12/31/2004. Under such agreement, the Company provided to Hubei an unsecured loan of \$2,413,564 (RMB 20,000,000) for a two-year term from 1/1/2005 to 12/31/2006 at 0.5115% per month. After servicing the debt for two years, the outstanding balance of the Note at 3/31/2007 amounted to \$1,485,615 (RMB 11,500,000). Because Hubei had yet to repay the loan in its entirety as of the 12/31/2006 per the stipulations of the financing agreement, the Company provided an allowance for bad debt in the amount of \$37,140 to account for the probability of loss of principal and accrued interest. The remaining balance of \$392,978 consists of numerous notes receivable. These notes are unsecured instruments that were created in the normal course business. The Company intends to hold these notes to their maturity.

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6. INVENTORY

| | March 31, | | December 31, |
|------------------|------------------|----|---------------------|
| | 2007 | | 2006 |
| Raw Materials | \$ 1,557,291 | \$ | 1,116,066 |
| Work in Progress | 3,123,422 | | 2,058,889 |
| Finished Goods | 1,568,690 | | 1,369,707 |
| | \$ 6,249,403 | \$ | 4,544,662 |

7. RELATED PARTY RECEIVABLE

There existed two accounts outstanding as of March 31, 2007.

The first receivable is from Mr. Xu Jie, CEO and Chairman, comprised of: 1) \$9,107,468 (RMB 70,500,000) drawn from the Company and placed in a time deposit account with Shanghai Pudong Development Bank under Mr. Xu Jie's name to serve as collateral to secure notes payable by Wuhan Blower Co., Ltd; and 2) a balance of \$258,368 (RMB 2,000,000) that was carried forward from December 31, 2006 reflecting funds lent, interest-free, to former officers and directors of the Company. Mr. Xu Jie has agreed to personally assume the full balance of these non-interest bearing debts. As of March 31, 2007, Mr. Xu Jie has not made any payments on the outstanding balance. Mr. Xu Jie has assigned all rights and privileges of the time deposit account in his name to Wuhan Blower Co., Ltd.

Mr. Xu Hong Sheng, son of Mr. Xu Jie, withdrew a sum of \$ 3,877,627 (RMB 30,016,320) from the Company and placed it in a savings account with Shanghai Pudong Development Bank under his name. On April 14, 2007, he returned the entire amount to the Company.

The Related Party Receivable consisted of the amounts due from the following: -

| <u>Related Party</u> | <u>Amount</u> |
|----------------------|-------------------------------|
| Mr. Xu Jie | \$ 9,365,836 (RMB 72,500,000) |
| Mr. Xu Hong Sheng | 3,877,627 (RMB 30,016,320) |
| | \$ 13,243,463 |

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8. PROPERTY, PLANT AND EQUIPMENT

Property, plant, and equipment stated at cost less depreciation are comprised of the following as of March 31:

| <u>Category of Asset</u> | March 31, 2007 | December 31, 2006 |
|---------------------------------------|-----------------------|--------------------------|
| Buildings | \$ 9,692,787 | \$ 9,597,812 |
| Machinery & Equipment | 8,438,343 | 8,353,453 |
| Furniture & Fixtures | 261,656 | 259,092 |
| Auto | 726,356 | 652,156 |
| | 19,119,142 | 18,862,513 |
| <u>Less: Accumulated Depreciation</u> | 1,982,207 | 1,609,936 |
| | \$ 17,136,935 | \$ 17,252,577 |

The Company's real property consisted of 44,233.40 square meters of building floor space.

9. LAND USE RIGHTS

| <u>Category of Asset</u> | March 31, 2007 | December 31, 2006 |
|---------------------------------------|-----------------------|--------------------------|
| Land Use Rights | \$ 1,875,131 | \$ 1,856,757 |
| <u>Less: Accumulated Amortization</u> | 117,452 | 107,017 |
| | \$ 1,757,679 | \$ 1,749,740 |

The Company acquired through Wuhan Hi-Tech Blower Manufacturing Co. Ltd. (WBM) the Land Use Rights for three parcels of land totaling 108,706.90 square meters for a term of 50 years from March 1, 2004 to March 1, 2054 for a consideration of \$1,856,757 (RMB 14,515,200). The land has been used to construct the Company's real property factory facility.

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As of and for the three months ended March 31, 2007 and 2006;
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10. INTANGIBLE ASSETS

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

| <u>Category of Asset</u> | March 31, 2007 | December 31, 2006 |
|---------------------------------------|-----------------------|--------------------------|
| Trademarks | \$ 129,134 | \$ 127,918 |
| Mitsubishi License | 283,297 | 280,571 |
| CAD License | 3,890 | 3,901 |
| Microsoft License | 12,288 | 12,217 |
| | 428,609 | 424,607 |
| <u>Less: Accumulated Amortization</u> | 69,542 | 60,042 |
| | \$ 359,067 | \$ 364,565 |

The weighted average amortization period for the Company's intangible assets is 13.01 years.

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11. BANK LOANS AND NOTES

As of March 31 2007, December 31, 2006, and March 31, 2006, the Company had banking facilities in the form of loans and notes payable.

| Name of Bank | Due Date | Interest Rate Per Annum | 3/31/2007 | 12/31/2006 |
|--|---------------|----------------------------|----------------------|----------------------|
| A. Bank of Communication | 4/11/2007 | 6.615% | \$ 4,779,806 | \$ 4,732,971 |
| B. Bank of Communication | 4/11/2007 | 6.615% | 1,356,431 | 1,343,140 |
| C. CITIC Industrial Bank | 10/12/2007 | 6.732% | 2,454,495 | 2,430,445 |
| D. Shanghai Pudong Development Bank | 10/18/2007 | 6.026% | 3,358,783 | 2,046,690 |
| E. Agricultural Bank of China | 10/31/2007 | 6.732% | 1,291,839 | 1,279,181 |
| F. Agricultural Bank of China | 10/31/2007 | 6.732% | 1,291,839 | 1,279,181 |
| G. Hua Xia Bank Wuhan East Lake Sub-Branch | | | 1,291,839 | - |
| H. CITIC Industrial Bank : Motor vehicles loan | 2/28/2008 | 6.696% | 38,700 | 49,697 |
| I. Wuhan East Lake Development Zone Zheng Qiao Cun: Note Payable | On Demand | 6.000% | 387,552 | 383,754 |
| J. Wu Chang Tian Long Metal Supply Co., Ltd. | 10/14/2006 | - | - | - |
| K. Citic Industrial Bank Wuhan Zhu Ye Shan | 2/16/2008 | 6.138% | 2,583,679 | - |
| L. 11 other Notes between \$1,292 to \$31,004 | Various Dates | - | 114,800 | - |
| | | | \$ 18,949,763 | \$ 13,545,059 |

Banking facilities extended by the Bank of Communication, CITIC Industrial Bank, Shanghai Pudong Development Bank and Agricultural Bank of China were secured by the Company's mortgage of real property as collateral in addition to margin deposits as disclosed in Restricted Cash on the Balance Sheet.

Motor vehicle loans extended by CITIC Industrial Bank were secured by the motor vehicles.

Note payable extended by Wuhan East Lake Development Zone Zheng Qiao Cun is unsecured and is payable on demand.

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12. CONTRACT PAYABLE

Contract Payable represented accounts payable to contractors and suppliers involved in the construction of the new buildings of the factory facilities.

13. CAPITALIZATION

The Company originally had common stock capitalization of \$ 12,349,602 as of December 31, 2006.

On February 7, 2007, the Company entered into a share exchange agreement with Fame Good International Limited (“Fame”) and Universe Faith Group (“UFG”), which became the parent of Wuhan Blower Co. Ltd. Pursuant to the share exchange agreement, the Company issued 17,912,446 shares of common stock to Fame in exchange for all of the issued and outstanding capital stock of UFG.

As a result of the share exchange transaction, the Company retroactively restated its capitalization to reflect the effect of the share exchange.

On February 7, 2007, the Company entered into a Series A Convertible Preferred Stock Purchase Agreement with nine institutional investors pursuant to which the Company issued to the investors an aggregate of 10,287,554 shares of Series A Convertible Preferred Stock at \$2.33 per share for gross proceeds of \$23,970,000. The Preferred Stock is convertible into shares of the Company’s common stock on a one-for-one basis and is entitled to a dividend equaling to 5% per annum, payable quarterly. As of March 31, 2007, none of the Preferred Stock was converted into common stock.

The net proceeds of \$20,766,439 from the sale of the Preferred Stock were accounted for as follows:

| | |
|---|----------------------|
| i. Preferred Stock at \$0.0001 par value 10,287,554 shares issued and outstanding | \$ 1,029 |
| ii. Additional Paid-in Capital attributable to Preferred Stock | 13,954,940 |
| iii. Additional Paid-in Capital attributable to Series A Warrants, Series J Warrants, and Series B Warrants | 6,810,470 |
| | \$ 20,766,439 |

Management assigned the value of additional paid-in capital to the above designated warrants for \$6,810,470 with the assumption of a 30% volatility, a 6% risk free interest rate, and a reasonably liquid market for the underlying stock and warrants.

As an inducement to purchase the Preferred Stock, the Company, pursuant to the Stock Purchase Agreement, agreed to issue the following warrants:

- Series A Warrants to each of the preferred stock investors to purchase shares of common stock equaling to 60% of the preferred shares purchased, i.e., 6,172,531 shares at an exercise price of \$2.57 per share expiring five years from the closing date.

Series J Warrants to each of the preferred stock investors who invested at least \$2,000,000 to purchase shares of common stock equaling to 100% of the preferred shares purchased, i.e., 9,358,370 shares at an exercise price of \$2.33 per share for a term of 21 months from the closing date.

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- Series B Warrants to each recipient of Series J Warrants to purchase shares of common stock equal to 60% of common stock purchased pursuant to Series J Warrants i.e. 5,615,021 shares at an exercise price of \$2.57 per share for a term of 5 years from the closing date.

The total of the above Series A, J, and B Warrants amount to 21,145,922 shares of common stock underlying warrants.

In consideration of services provided by 1st BridgeHouse Securities, LLC in connection with the private placement of preferred stock and warrants, the Company has agreed to issue to 1st BridgeHouse the following placement agent warrants for a term of ten years from the date of issuance:

| <u>Series of Warrant</u> | Number of Shares | Exercise Price |
|--------------------------|------------------|----------------|
| Series C | 1,028,755 | \$ 2.57 |
| Series AA | 617,253 | 2.83 |
| Series BB | 561,502 | 2.83 |
| Series JJ | 935,837 | 2.57 |
| | 3,143,347 | |

The grand total of all warrants issued to preferred stock purchasers and placement agent amount to 24,289,269 shares of common stock. As of March 31, 2007, none of these warrants has been exercised.

In preparation of these future stock issuances, the Company has reserved a number of shares equal to 150% of the number of shares of common stock as shall, from time to time, be sufficient to effect the conversion of all of the preferred shares and exercise of the warrants then outstanding.

14. COMMITMENTS OF STATUTORY RESERVE

In compliance with PRC laws, the Company is committed 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 determined below:

| | March 31, 2007 | December 31, 2006 |
|--|----------------|-------------------|
| Common Stock Capital | \$ 12,351,573 | \$ 12,351,573 |
| 50% maximum thereof | \$ 6,175,786 | \$ 6,175,786 |
| <u>Less:</u> Amounts Appropriated to Statutory Reserve | 622,151 | 622,151 |
| Unfunded Commitment | \$ 5,553,635 | \$ 5,553,635 |

Wuhan General Group (China) Inc.
Notes to Financial Statements
As of and for the three months ended March 31, 2007 and 2006;
as of and for the year ended December 31, 2006
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15. OTHER INCOME

| | March 31, 2007 | March 31, 2006 |
|---------------|----------------|----------------|
| Tax Refund | \$ - | \$ - |
| Sundry Income | - | 314 |
| | \$ - | \$ 314 |

16. INCOME TAXES

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 7.5% tax rate for the next three years. Beginning in 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. Before expiration of the aforementioned two year tax exemption, the Company also applied for a six year tax free holiday under newly enacted PRC tax laws. Management believes it will be imminently granted such a holiday by the relevant Chinese government authorities; therefore, for the years ended December 31, 2006, 2005, and 2004 the Company made no provision for income taxes. On February 7, 2007, income from the Company's foreign subsidiaries became subject to U.S. income tax law; however, this tax is deferred until foreign source income is repatriated to the Company, which has not yet occurred.

17. FINANCING - ISSUANCE OF SERIES A CONVERTIBLE PREFERRED STOCK

On February 7, 2007, the Company entered into a Series A Convertible Preferred Stock Purchase Agreement (the "Stock Purchase Agreement") with nine institutional investors pursuant to which the Company issued to the investors an aggregate of 10,287,554 shares of Series A Convertible Preferred Stock (the "Preferred Stock") at \$2.33 per share for gross proceeds of \$23,970,000. The Preferred Stock is convertible into shares of the Company's common stock on a 1-for-1 basis and is entitled to a dividend equal to 5% per annum, payable quarterly.

Pursuant to the Stock Purchase Agreement, the Company issued to the investors, on a pro rata basis, warrants to purchase an aggregate of 6,172,531 shares of common stock at an exercise price of \$2.57 per share (subject to adjustment), expiring five years from the date of issuance. Certain of the investors (those investing at least \$2 million) received additional warrants to purchase an aggregate of 9,358,370 shares at a price of \$2.33 per share for a term of 21 months, as well as warrants to purchase an aggregate of 5,615,021 shares at a price of \$2.57 per share for a term of 5 years.

Wuhan General Group (China) Inc.
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The Company plans to use the net proceeds from the sale of preferred stock and warrants to pay for the construction of the turbine manufacturing facility in Wuhan, China and for the purchase of equipment to be used in that facility. Any remaining net proceeds will be used for working capital.

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

Report of Registered Independent Public Accounting Firm

We have reviewed the accompanying interim consolidated Balance Sheets of Wuhan General Group (China), Inc. as of March 31, 2007 and 2006, and the related statements of income, stockholders' equity, and cash flows for the three-month periods then ended. These interim consolidated financial statements are the responsibility of the Company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying interim consolidated financial statements for them to be in conformity with U.S. generally accepted accounting principles.

South San Francisco, California
June 2, 2007

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

PART II

OTHER INFORMATION

Item 6. Exhibits.

**Exhibit Description of Exhibit
Number**

- 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* Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350.
- 32.2* Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350.

* Filed herewith

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: June 22, 2007

WUHAN GENERAL GROUP (CHINA), INC.

By: /s/ Xu Jie

Name: Xu Jie
Title: President and Chief Executive Officer
(principal executive officer and duly authorized officer)

By: /s/ Kuang Yuandong

Name: Kuang Yuandong
Title: Chief Financial Officer and Treasurer
(principal financial officer)

Exhibit Index

**Exhibit Description of Exhibit
Number**

- 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* Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350.
- 32.2* Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350.

* Filed herewith