WUHAN GENERAL GROUP (CHINA), INC
Form 10-Q
May 19, 2008

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

**Form 10-Q**

**(Mark One)**

x Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended March 31, 2008

**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 33-25350-FW

**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) |

86-27-5970-0069

(Registrant's Telephone Number, Including Area Code)

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 (the "Exchange Act") 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 the past 90 days.

Yes o No x*

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 o | Accelerated filer o |
| Non-accelerated filer o | Smaller reporting company x |
| (Do not check if a smaller reporting company) | |

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

As of May 15, 2008, the registrant had a total of 21,876,390 shares of common stock outstanding.

* The Company has 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 Company was required to file such reports). The Company has been required to file reports by Section 15(d) since February 5, 2008.

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**PART I**

**FINANCIAL INFORMATION**

**Item 1. Financial Statements.**

**Wuhan General Group (China), Inc.**
**Consolidated Balance Sheets**
**At March 31, 2008 and December 31, 2007**
**(Stated in US Dollars)**

| | *Note* | March 31, 2008 | (Audited) December 31, 2007 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current Assets** | | | |
| Cash | *2(e)* | 1,151,907 | 992,965 |
| Restricted Cash | 3 | 8,114,767 | 9,108,866 |
| Notes Receivable | 4 | 2,614,549 | 1,865,491 |
| Accounts Receivable | *2(f)*,5 | 41,838,073 | 31,875,411 |
| Other Receivable | | 4,091,671 | 1,977,646 |
| Inventory | *2(g)*,6 | 11,069,251 | 7,895,960 |
| Advances to Suppliers | | 18,384,820 | 12,743,130 |
| Advances to Employees | 7 | 358,857 | 138,420 |
| Prepaid Taxes | | 281,397 | 257,553 |
| Real Property Available for Sale | | 1,035,174 | 993,861 |
| Total Current Assets | | 88,940,466 | 67,849,304 |
| | | | |
| **Non-Current Assets** | | | |
| Property, Plant & Equipment, *net* | *2(h)*,8 | 20,851,227 | 20,401,546 |
| Land Use Rights, *net* | *2(j),10* | 1,943,619 | 1,830,476 |
| Construction in Progress | 9 | 10,633,581 | 9,897,484 |
| Intangible Assets, *net* | *2(i)*,11 | 386,294 | 381,281 |
| Total Assets | | $ **122,755,187** | $ **100,360,092** |
| | | | |
| **LIABILITIES & STOCKHOLDERS' EQUITY** | | | |
| | | | |
| Liabilities | | | |
| **Current Liabilities** | | | |
| Bank Loans & Notes | 12 | 32,958,803 | 28,132,664 |
| Accounts Payable | | 6,234,333 | 4,747,298 |
| Taxes Payable | | 879,139 | 1,043,383 |
| Other Payable | | 9,559,623 | 3,137,575 |
| Dividend Payable | | 326,463 | 898,875 |
| Accrued Liabilities | | 2,671,447 | 2,003,800 |
| Customer Deposits | | 7,702,110 | 5,034,464 |
| Total Current Liabilities | | 60,331,918 | 44,998,059 |
| | | | |
| Total Liabilities | | **60,331,918** | **44,998,059** |

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

1

**Wuhan General Group (China), Inc.**
**Consolidated Balance Sheets**
**At March 31, 2008 and December 31, 2007**
**(Stated in US Dollars)**

| | *Note* | March 31, 2008 | (Audited) December 31, 2007 |
|---|---|---|---|
| Stockholders' Equity | | | |
| | | | |
| Preferred Stock - $0.0001 Par Value, 50,000,000 Shares Authorized; 8,561,658 & 10,287,554 Shares of Series A Convertible Preferred Stock Issued & Outstanding at March 31, 2008 and December 31, 2007, respectively | 14 | 856 | 1,029 |
| Additional Paid-in Capital - Preferred Stock | | 11,207,694 | 13,466,990 |
| Additional Paid-in Capital - Warrants | 14 | 6,572,334 | 6,572,334 |
| Additional Paid-in Capital - Beneficial Conversion Feature | | 8,740,112 | 10,501,982 |
| Common Stock - $0.0001 Par Value 100,000,000 Shares Authorized; 21,876,390 and 19,712,446 Shares Issued & Outstanding at March 31, 2008 and December 31, 2007, respectively | 14 | 2,187 | 1,971 |
| Additional Paid-in Capital | | 16,370,723 | 12,349,602 |
| Statutory Reserve | 2*(t)*,15 | 2,249,758 | 633,771 |
| Retained Earnings | | 11,395,206 | 8,483,648 |
| Accumulated Other Comprehensive Income | 2*(u)* | 5,884,398 | 3,350,706 |
| Total Stockholders' Equity | | **62,423,270** | **55,362,033** |
| | | | |
| Total Liabilities & Stockholders' Equity | | **$ 122,755,187** | **$ 100,360,092** |

**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 months ended March 31, 2008 and 2007**
**(Stated in US Dollars)**

| | *Note* | **Three Months Ended March 31, 2008** | **Three Months Ended March 31, 2007** |
|---|---|---|---|
| Sales | 2(*l*) | $ 25,618,901 | $ 12,277,339 |
| Cost of Sales | 2(*m*) | 17,561,279 | 8,337,981 |
| Gross Profit | | 8,057,622 | 3,939,358 |
| | | | |
| Operating Expenses | | | |
| Selling Expenses | 2(*n*) | 370,639 | 262,122 |
| General & Administrative Expenses | 2(*o*),20 | 2,248,542 | 1,461,604 |
| Warranty Expense | 2(*v*),13 | 30,284 | 184,160 |
| Total Operating Expense | | 2,649,465 | 1,907,886 |
| | | | |
| Operating Income | | 5,408,157 | 2,031,472 |
| | | | |
| Other Income (Expenses) | | | |
| Other Income | | - | - |
| Interest Income | | 313,959 | 12,749 |
| Other Expenses | | (764) | (965) |
| Interest Expense | | (913,442) | (192,711) |
| Total Other Income (Loss) & Expense | | (600,247) | (180,927) |
| | | | |
| Earnings before Tax | | 4,807,910 | 1,850,545 |
| | | | |
| Income Tax | 2(*s*),16 | - | - |
| | | | |
| **Net Income** | | **$ 4,807,910** | **$ 1,850,545** |
| | | | |
| Preferred Dividends Declared | | 280,365 | 174,000 |
| Constructive Preferred Stock Dividend | 21 | - | 10,501,982 |
| | | | |
| **Income Available to Common Stockholders** | | **$ 4,527,545** | **$ (8,825,437)** |
| | | | |
| Earnings Per Share | 17 | | |
| Basic | | $ 0.22 | $ (0.45) |
| Diluted | | $ 0.10 | $ 0.08 |
| Weighted Average Shares Outstanding | | | |
| Basic | | 20,378,815 | 19,712,446 |
| Diluted | | 47,760,852 | 24,203,926 |
| **Earnings Per Share excluding effect of Constructive Preferred Dividend** | | | |
| **Basic** | | **$ 0.22** | **$ 0.09** |
| **Diluted** | | **$ 0.10** | **$ 0.06** |
| Weighted Average Shares Outstanding | | | |
| Basic | | 20,378,815 | 19,712,446 |

| Diluted | 47,760,852 | 30,262,152 |
|---|---|---|

**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, 2008 and the year ended December 31, 2007**
**(Stated in US Dollars)**

| | Preferred Stock Shares Outstanding | Amount | Preferred Stock Additional Paid-in Capital | Warrants Additional Paid-in Capital | Beneficial Conversion Feature Additional Paid-in Capital | Common Stock Shares Outstanding | Amount | Common Stock Additional Paid-in Capital | Statuto Reserv |
|---|---|---|---|---|---|---|---|---|---|
| Balance, January 1, 2007 | - | - | - | - | - | 19,712,446 | 1,971 | 12,349,602 | 622,1 |
| Issuance of Series A Convertible Preferred Stock and Warrants for Cash | 10,287,554 | 1,029 | 13,466,990 | 6,572,334 | | | | | |
| Net Income | | | | | | | | | |
| Appropriations of Retained Earnings | | | | | | | | | 11,6 |
| Preferred Dividends Declared | | | | | | | | | |
| Constructive Preferred Stock Dividend-Amortization of Beneficial Conversion Feature | | | | | 10,501,982 | | | | |
| Foreign Currency Translation Adjustment | | | | | | | | | |
| Balance, December 31, 2007 | 10,287,554 | 1,029 | 13,466,990 | 6,572,334 | 10,501,982 | 19,712,446 | 1,971 | 12,349,602 | 633,7 |
| | | | | | | | | | |
| Balance, January 1, 2008 | 10,287,554 | 1,029 | 13,466,990 | 6,572,334 | 10,501,982 | 19,712,446 | 1,971 | 12,349,602 | 633,7 |
| Conversion of Preferred Stock | (1,725,896) | (173) | (2,259,295) | | (1,761,870) | 1,725,896 | 173 | 4,021,165 | |
| Issuance of Common Stock | | | | | | 438,048 | 44 | (44) | |
| Net Income | | | | | | | | | |
| Preferred Dividends Declared | | | | | | | | | |
| Appropriations of Retained Earnings | | | | | | | | | 1,615,9 |
| Foreign Currency Translation Adjustment | | | | | | | | | |
| Balance, March 31, 2008 | 8,561,658 | 856 | 11,207,694 | 6,572,334 | 8,740,112 | 21,876,390 | 2,187 | 16,370,723 | 2,249,7 |

**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 three months ended March 31, 2008 and 2007**
**(Stated in US Dollars)**

| | Three Months Ended March 31, 2008 | Three Months Ended March 31, 2007 |
|---|---|---|
| *Comprehensive Income* | | |
| Net Income | $ 4,807,910 | $ 1,850,545 |
| *Other Comprehensive Income* | | |
| Foreign Currency Translation Adjustment | 2,533,692 | 201,565 |
| | | |
| **Total Comprehensive Income** | **$ 7,341,602** | **$ 2,052,110** |

**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, 2008 and 2007**
**(Stated in US Dollars)**

| | Three Months Ended March 31, 2008 | Three Months Ended March 31, 2007 |
|---|---|---|
| **Cash Flow from Operating Activities** | | |
| Cash Received from Customers | $ 16,291,029 | $ 1,997,609 |
| Cash Paid to Suppliers & Employees | (20,244,559) | (18,698,918) |
| Interest Received | 313,959 | 12,749 |
| Interest Paid | (913,442) | (192,711) |
| Income Tax Paid | - | - |
| Miscellaneous Receipts | - | - |
| Cash Sourced/(Used) in Operating Activities | (4,553,012) | (16,881,271) |
| | | |
| **Cash Flows from Investing Activities** | | |
| Cash Repayment/(Investment) in Restricted Time Deposits | 994,099 | (924,306) |
| Repayment/(Investment) in Notes | (830,227) | (305,949) |
| Investment in Real Property | (41,313) | - |
| Payments for Purchases of Plant & Equipment | (1,031,539) | (245,372) |
| Payments for Construction of Plant & Equipment | (736,097) | (2,856,086) |
| Payments for Purchases of Land Use Rights | (129,883) | (18,374) |
| Payments for Purchases of Intangible Assets | (20,141) | (4,202) |
| Cash Used/(Sourced) in Investing Activities | (1,795,101) | ( 4,354,289) |
| | | |
| **Cash Flows from Financing Activities** | | |
| Increases to Preferred Stock & Additional Paid in Capital | - | 20,766,439 |
| Proceeds from Bank Borrowings | 2,849,209 | 5,289,903 |
| Proceeds from Issuance of Notes | 1,976,930 | 114,801 |
| Dividends Paid | (852,777) | - |
| Cash Sourced/(Used) in Financing Activities | 3,973,362 | 26,171,143 |
| | | |
| **Net Increase/(Decrease) in Cash & Cash Equivalents for the Period** | (2,374,750) | 4,935,583 |
| | | |
| **Effect of Currency Translation** | 2,533,692 | 201,610 |
| | | |
| **Cash & Cash Equivalents at Beginning of Period** | 992,965 | 248,243 |
| | | |
| **Cash & Cash Equivalents at End of Period** | **$ 1,151,907** | **$ 5,385,436** |
| | | |
| *Non-Cash Financing Activity:* | | |
| Constructive Preferred Dividend | $ - | $ 10,501,982 |
| Conversion of Preferred Stock to Common Stock | $ 4,021,338 | $ - |

**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, 2008 and 2007**
**(Stated in US Dollars)**

| | Three Months Ended March 31, 2008 | Three Months Ended March 31, 2007 |
|---|---|---|
| Net Income | $ 4,807,910 | $ 1,850,545 |
| | | |
| *Adjustments to Reconcile Net Income to* | | |
| *Net Cash Provided by Cash Activities:* | | |
| | | |
| Amortization | 31,868 | 20,135 |
| Depreciation | 581,858 | 372,271 |
| Provision for Bad Debt on Note Receivable | 81,169 | 364 |
| Decrease/(Increase) in Accounts Receivable | (9,962,662) | (10,413,823) |
| Decrease/(Increase) in Other Receivable | (2,114,025) | (675,986) |
| Decrease/(Increase) in Inventory | (3,173,291) | (1,704,741) |
| Decrease/(Increase) in Advances to Suppliers | (5,641,690) | (3,258,273) |
| Decrease/(Increase) in Advances to Employees | (220,436) | - |
| Decrease/(Increase) in Related Party Receivable | - | (12,987,627) |
| Decrease/(Increase) in Prepaid Taxes | (23,843) | (13,254) |
| Increase/(Decrease) in Accounts Payable | 1,487,034 | 8,813,489 |
| Increase/(Decrease) in Taxes Payable | (164,244) | (307,234) |
| Increase/(Decrease) in Other Payable | 6,422,048 | 424,758 |
| Increase/(Decrease) in Accrued Liabilities | 667,646 | 188,390 |
| Increase/(Decrease) in Customer Deposits | 2,667,646 | 809,715 |
| | | |
| Total of all adjustments | (9,360,922) | (18,731,816) |
| | | |
| **Net Cash Provided by Operating Activities** | $ (4,553,012) | $ (16,881,271) |

**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 financial data included in the accompanying consolidated financial statements for all periods prior to February 7, 2007 is that of the accounting acquirer (UFG). The historical stockholders’ equity of the accounting acquirer prior to the share exchange has been retroactively restated as if the share exchange transaction occurred as of the beginning of the first period presented. See also Note 14 – 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, UFG, 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 the financial statements in conformity with accounting principles generally accepted in the United States of America, management makes estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the dates of the financial statements, as well as the reported amounts of revenues and expenses during the reporting years. These estimates and assumptions include, but are not limited to, the valuation of accounts receivable, inventories, deferred income taxes 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 People's Republic of China, and an escrow account 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. See also Note 5 - Accounts Receivable.

**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 Licenses | 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 March 31, 2008 and December 31, 2007, 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 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.

There are no customer acceptance clauses in the Company's standard sales contracts. Typically, installation begins between one to two weeks following delivery of the product. The installation process typically takes four to eight weeks.



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

*(p) Advertising*

The Company expenses all advertising costs as incurred.

*(q) Research and Development*

The Company expenses all research and development costs as incurred.

*(r) Foreign Currency Translation*

The Company maintains its financial statements in the functional currency, which is the Renminbi (RMB). Monetary assets and liabilities denominated in currencies other than the functional currency are translated into the functional currency at rates of exchange prevailing at the balance sheet dates. Transactions denominated in currencies other than the functional currency are translated into the functional currency at the 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. Translation adjustments are not included in determining net income but are included in foreign exchange adjustment to other comprehensive income, a component of stockholders' equity.

| ***Exchange Rates*** | ***3/31/2008*** | ***12/31/2007*** | ***3/31/2007*** |
|---|---|---|---|
| Period end RMB : US$ exchange rate | 7.0222 | 7.3141 | 7.7409 |
| Average period RMB : US$ exchange rate | 7.17568 | 7.6172 | 7.77136 |

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.

*(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.

*(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. See also Note 13 - Warranty Liability.

*(w) Earnings Per Share*

Basic earnings per share is computed on the basis of the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share is computed on the basis of the weighted average number of shares of common stock plus the effect of dilutive potential common shares outstanding during the period using the treasury stock method for warrants and the as-if method for convertible securities. Dilutive potential common shares include outstanding warrants, and convertible preferred stock. See also Note 17 - Earnings Per Share.

**Wuhan General Group (China) Inc.**
**Notes to Financial Statements**
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(x) *Recent Accounting Pronouncements*

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.

In December 2007, the FASB issued SFAS 141 (revised 2007), *Business Combinations*, (''SFAS 141(R)''). SFAS 141(R) retains the fundamental requirements of the original pronouncement requiring that the purchase method be used for all business combinations, but also provides revised guidance for recognizing and measuring identifiable assets and goodwill acquired and liabilities assumed arising from contingencies, the capitalization of in-process research and development at fair value, and the expensing of acquisition-related costs as incurred. SFAS 141(R) is effective for fiscal years beginning after December 15, 2008. In the event that the Company completes acquisitions subsequent to its adoption of SFAS 141 (R), the application of its provisions will likely have a material impact on the Company's results of operations, although the Company is not currently able to estimate that impact.

In December 2007, the FASB issued SFAS 160, *Non-controlling Interests in Consolidated Financial Statements − an amendment of ARB No. 51*. SFAS 160 requires that ownership interests in subsidiaries held by parties other than the parent (previously referred to as minority interests), and the amount of consolidated net income, be clearly identified, labeled and presented in the consolidated financial statements. It also requires once a subsidiary is deconsolidated, any retained non-controlling equity investment in the former subsidiary be initially measured at fair value. Sufficient disclosures are required to clearly identify and distinguish between the interests of the parent and the interests of the non-controlling owners as components of equity. It is effective for fiscal years beginning after December 15, 2008, and requires retroactive adoption of the presentation and disclosure requirements for existing minority interests. All other requirements are applied prospectively.

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 were designated for the payment of fees or expenses in connection with investor or public relations or securities law compliance, including related legal fees.

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

**4. NOTES RECEIVABLE**

| | March 31, 2008 | December 31, 2007 |
|---|---|---|
| Notes Receivable | $ 2,721,353 | $ 1,891,126 |
| *Less*: Allowance for Bad Debts | 106,804 | 25,635 |
| | $ 2,614,549 | $ 1,865,491 |

On October 31, 2007, the Company provided a loan to Shen Nong Jia Ren He Kang Ye Co., Ltd. ("Shen Nong") in the amount of $1,068,041 (RMB 7,500,000). The loan is secured by mining rights and operation rights that are owned by Shen Nong. The loan carries an interest rate of 10.00% per annum. The loan to Shen Nong was due on November 30, 2007. The loan was repaid on May 13, 2008.

The Company entered into a financing agreement with Hubei Dilong Industrial Group Co., Ltd. ("Hubei") on December 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 January 1, 2005 to December 31, 2006 at 0.5115% per month. After servicing the debt for two years, the Company determined that Hubei was in default because no further debt service had been made by Hubei, and as such the Company accrued provision for bad debts on the outstanding balance of the Note of $1,485,615 (RMB 11,500,000). Additionally, Hubei surrendered real property to the Company to partially settle its outstanding debt. The property was valued at approximately $989,167 (RMB 7,542,202); accordingly, the outstanding balance of principal was $526,471 (RMB 3,957,798). The Company also accrued interest receivable of $138,530 (RMB 1,041,414) to Hubei's outstanding balance. The Company also had $159,982 (RMB 1,202,677) of tender deposits carried in the Other Receivables line item on the balance sheet with Hubei. The Company has reclassified that balance from Other Receivables into Hubei outstanding Notes Receivable's balance. As of March 31, 2008, the total outstanding balance for Notes Receivables from Hubei was $883,183 (RMB 6,201,889). The entire outstanding balance of Notes Receivable had been re-formalized by a new repayment contract entered into by the Company and Hubei on May 24, 2007. The new contract called for repayment of the loan by April 10, 2008. The loan has not been repaid. Accordingly, the Company has accrued an allowance for bad debt of $106,804 for this loan.

The remaining balance $289,083 (RMB 2,030,000) carried in the Notes Receivable account are comprised of bank drafts from five different customers. Bank drafts are liquid instruments that can be either (a) endorsed to the Company vendors, or (b) discounted to the Company's own bank. The Company chooses to carry these instruments as notes receivable instead of cash primarily because of the associated time element of these notes, as they are normally due at a later point in time; therefore, these bank drafts represent different risk and reward characteristics.

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

**5. ACCOUNTS RECEIVABLE**

| | | March 31, 2008 | | December 31, 2007 |
|---|---|---|---|---|
| Total Accounts Receivable-Trade | $ | 44,040,077 | $ | 33,121,294 |
| *Less*: Allowance for Bad Debt | | 2,202,004 | | 1,245,883 |
| | $ | 41,838,073 | $ | 31,875,411 |
| **Allowance for Bad Debts** | | | | |
| Beginning Balance | $ | 1,245,883 | $ | 319,741 |
| Allowance Provided | | 956,121 | | 1,485,634 |
| *Less:* Bad Debt Written Off | | - | | 559,492 |
| Ending Balance | $ | 2,202,004 | $ | 1,245,883 |

**6. INVENTORY**

| | | March 31, 2008 | | December 31, 2007 |
|---|---|---|---|---|
| Raw Materials | $ | 1,660,532 | $ | 1,523,444 |
| Work in Progress | | 6,866,127 | | 4,779,339 |
| Finished Goods | | 2,542,592 | | 1,593,177 |
| | $ | 11,069,251 | $ | 7,895,960 |

**7. ADVANCES TO EMPLOYEES**

Advances to Employees of $358,857 and $138,420 as of March 31, 2008 and December 31, 2007, respectively, consisted of advances to salespeople for salary, travel, and expenses over extended periods as they work to procure new sales contracts or install and perform on existing contracts. These advances are deducted from future sales commissions earned by these salespeople. In the event that a salesperson leaves the Company prior to earning sales commissions sufficient to offset advances paid to the salesperson, the Company immediately expenses any outstanding balance to the income statement. None of the employees who have received these advances is a director or executive officer of the Company.

**Wuhan General Group (China) Inc.**
**Notes to Financial Statements**
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## 8. PROPERTY, PLANT AND EQUIPMENT

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

| | March 31, 2008 | December 31, 2007 |
|---|---|---|
| Category of Asset | | |
| Buildings | $ 10,747,618 | $ 10,318,689 |
| Machinery & Equipment | 11,797,991 | 11,278,647 |
| Furniture & Fixtures | 334,843 | 307,480 |
| Auto | 967,887 | 912,333 |
| Other | 8,732 | 8,384 |
| | **23,857,071** | **22,825,532** |
| *Less*: Accumulated Depreciation | | |
| Buildings | 1,361,182 | 1,168,101 |
| Machinery & Equipment | 1,054,708 | 742,062 |
| Furniture & Fixtures | 170,322 | 148,777 |
| Auto | 415,221 | 361,210 |
| Other | 4,411 | 3,836 |
| | **3,005,844** | **2,423,986** |
| Property, Plant, & Equipment, *Net* | $ 20,851,227 | $ 20,401,546 |

The Company's real property consisted of approximately 440,000 square feet (44,233.40 square meters) of building floor space. The Company's new turbine manufacturing workshop will be approximately 215,482 square feet (20,019 square meters) of floor space. The office building will house the business operations of Wuhan Generating and will provide an additional 134,656 square feet (12,510 square meters) of floor space.

**Wuhan General Group (China) Inc.**
**Notes to Financial Statements**
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## 9. CONSTRUCTION IN PROGRESS

The Company is in the process of developing a new turbine manufacturing facility within its factory campus.

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

The following table details the assets that are accounted for in the construction in progress account at March 31, 2008 and December 31, 2007:

| Category | March 31, 2008 | December 31, 2007 |
|---|---|---|
| Capitalized Interest | $ 198,000 | $ 190,098 |
| Construction - Design Fee | 21,019 | 20,180 |
| Construction - Inspection Fee | 2,848 | 2,734 |
| Construction - Labor Cost | 581,914 | 558,690 |
| Generating Office Equipment | 9,683 | 9,297 |
| Generating Workshop | 4,596,842 | 4,101,667 |
| Generating Workshop-Materials | 1,851,272 | 1,777,389 |
| Land Improvement | 25,208 | 24,202 |
| Landscaping | 4,816 | 4,624 |
| Miscellaneous | 63,192 | 60,670 |
| Office Building | 3,222,352 | 3,093,750 |
| Pavement | 570 | 547 |
| Showroom | 48,560 | 46,622 |
| Wall | 7,305 | 7,013 |
| **Construction in Progress** | $ 10,633,581 | $ 9,897,484 |

## 10. LAND USE RIGHTS

| | March 31, 2007 | December 31, 2007 |
|---|---|---|
| Land Use Rights | $ 2,114,433 | $ 1,984,550 |
| *Less*: Accumulated Amortization | 170,814 | 154,074 |
| Land Use Rights, *Net* | $ 1,943,619 | $ 1,830,476 |

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

**Wuhan General Group (China) Inc.**
**Notes to Financial Statements**
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**11. INTANGIBLE ASSETS**

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

| | March 31, 2008 | | December 31, 2007 | |
|---|---|---|---|---|
| Category of Asset | | | | |
| Trademarks | $ | 142,406 | $ | 136,722 |
| Mitsubishi License | | 327,942 | | 314,855 |
| Tianyu CAD License | | 4,343 | | 4,170 |
| Sunway CAD License | | 16,377 | | 15,723 |
| Microsoft License | | 13,600 | | 13,057 |
| | $ | 504,668 | $ | 484,527 |
| | | | | |
| *Less*: Accumulated Amortization | | | | |
| Trademarks | $ | 26,701 | $ | 23,926 |
| Mitsubishi License | | 86,285 | | 74,970 |
| Tianyu CAD License | | 1,032 | | 887 |
| Sunway CAD License | | 955 | | 524 |
| Microsoft License | | 3,400 | | 2,938 |
| | $ | 118,374 | $ | 103,246 |
| | | | | |
| Intangible Assets, *Net* | $ | 386,294 | $ | 381,281 |

The weighted average amortization period for the Company's intangible assets at March 31, 2008 and December 31, 2007 was 12.82 years and 12.82 years, respectively.

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

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

**Wuhan General Group (China) Inc.**
**Notes to Financial Statements**
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## 12. BANK LOANS AND NOTES

The following table provides the name of the lender, due date, interest rate, and amounts outstanding at March 31, 2008 and December 31, 2007, for the Company's bank loans and notes payable.

| Name of Bank and Note Holders | Due Date | Interest Rate Per Annum | 3/31/2008 | 12/31/2007 |
|---|---|---|---|---|
| Bank of Communication | 7/2/2008 | 7.884% | 1,424,055 | $ - |
| Bank of Communication | 4/3/2008 | - | 1,424,055 | - |
| Bank of Communication | 7/7/2008 | - | 1,424,055 | - |
| Bank of Communication | 7/9/2008 | - | 4,272,165 | - |
| Shanghai Pudong Development Bank | 8/27/2008 | 7.02% | 1,139,244 | 1,093,778 |
| Shanghai Pudong Development Bank | 8/22/2008 | 7.02% | 1,139,244 | 1,093,778 |
| Shanghai Pudong Development Bank | 6/3/2008 | 6.57% | 2,848,110 | 2,734,444 |
| Shanghai Pudong Development Bank | 6/24/2008 | 6.57% | 569,622 | 546,889 |
| Shanghai Pudong Development Bank | 5/21/2008 | 6.57% | 1,424,055 | 1,367,222 |
| Shanghai Pudong Development Bank | 10/23/2008 | 7.29% | 2,848,110 | 2,734,444 |
| Shanghai Pudong Development Bank | 12/9/2008 | 7.29% | 1,424,055 | 1,367,222 |
| Shanghai Pudong Development Bank | 1/7/2009 | 7.47% | 1,424,055 | - |
| Citic Industrial Bank | 9/19/2008 | 7.29% | 3,560,138 | 3,418,056 |
| Citic Industrial Bank | 3/28/2008 | 4.80% | - | 6,143 |
| Citic Industrial Bank - Auto Loan | 3/10/2008 | 5.76% | - | 2,428 |
| Citic Industrial Bank | 2/17/2008 | 6.73% | - | 2,734,444 |
| Citic Industrial Bank | 2/17/2008 | 6.73% | - | 2,734,444 |
| Citic Industrial Bank | 9/21/2008 | - | 330,431 | - |
| Citic Industrial Bank | 9/25/2008 | - | 32,753 | - |
| Citic Industrial Bank | 3/2/2009 | 8.217% | 2,848,110 | - |
| Wuhan Rongzhong Group Ltd. | 4/10/2008 | 7.5% per month | 1,424,055 | - |
| Wuhan East Lake Development District Zheng Bridge Committee | On Demand | 6.00% | 427,217 | 410,167 |
| Bank of China | 3/14/2008 | 6.83% | - | 717,792 |
| Hubei Gong Chuang | 4/30/2008 | - | - | 5,143,490 |
| EZhou City Zhongtian Environment Equipment Co., Ltd. | 4/15/2008 | - | 33,166 | - |
| | 4/30/2008 | - | 387,343 | - |
| | | *Subtotal* | 420,509 | - |
| Wuhan City Jinnuo Economic Development Co., Ltd. | 4/17/2008 | - | 313,292 | 300,789 |
| Wuhan Power Generating Equipment Manufacturing Co., Ltd. | 4/12/2008 | - | 268,078 | 257,380 |
| | 4/17/2008 | - | 56,962 | - |
| | | *Subtotal* | *325,041* | *257,380* |
| Wuhan Zhongji Electromechanical Equipment Co., Ltd. | 9/11/2008 | - | 282,903 | - |
| | 1/11/2008 | - | - | *29,174* |

| | | | | |
|---|---|---|---|---|
| Wuhan City Jianghan District Zhongnan Material Supply Co., Ltd. | | | | |
| | 2/9/2008 | - | - | *104,757* |
| | 3/10/2008 | - | - | *27,344* |

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**Wuhan General Group (China) Inc.**
**Notes to Financial Statements**
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| Name of Bank and Note Holders | Due Date | Interest Rate Per Annum | 3/31/2008 | 12/31/2007 |
|---|---|---|---|---|
| | 4/15/2008 | - | - | *82,033* |
| | | *Subtotal* | - | 243,310 |
| Dalian Transfer Fluid Coupling and Set Equipment Co., Ltd. | 3/10/2008 | - | - | *136,722* |
| | 4/15/2008 | - | - | *75,676* |
| | | *Subtotal* | - | 212,398 |
| Wuhan Guangzhong George Special Metal Co., Ltd. | 1/24/2008 | - | - | *65,130* |
| | 2/14/2008 | - | - | *59,365* |
| | 4/17/2008 | - | - | *54,689* |
| | | *Subtotal* | - | 179,183 |
| Wuhan Xinda Heavy Machinery Construction Co., Ltd. | 4/12/2008 | - | *6,254* | - |
| | 4/12/2008 | - | *14,508* | - |
| | 4/24/2008 | - | *142,406* | - |
| | | *Subtotal* | 163,168 | |
| Nanyang Explosion Protection Group Co., Ltd. | 7/16/2008 | - | 156,646 | - |
| Xianning Hoisting Machinery Co., Ltd. | 4/12/2008 | - | - | 142,727 |
| Wuhan Jiabao Material Co., Ltd. | 1/11/2008 | - | - | *7,565* |
| | 2/9/2008 | - | - | *10,938* |
| | 2/14/2008 | - | - | *88,869* |
| | 4/15/2008 | - | *21,361* | *20,508* |
| | | *Subtotal* | 21,361 | 127,880 |
| Wuhan City Changyi Material Trade Co., Ltd. | 1/11/2008 | - | - | *52,413* |
| | 4/15/2008 | - | - | *68,361* |
| | | *Subtotal* | - | *120,775* |
| Wuhan ShiJiHuaShang Industrial & Trade Co., Ltd. | 2/9/2008 | - | - | *45,118* |
| | 4/15/2008 | - | - | *65,627* |
| | | *Subtotal* | - | 110,745 |
| Wuhan City Huangpi General Plant | 4/17/2008 | - | *19,989* | - |
| | 4/15/2008 | - | *85,443* | - |
| | | *Subtotal* | 105,432 | - |
| Xiangtan Electric Manufacturing Co., Ltd. | 4/15/2008 | - | 100,396 | - |
| Chengdu Weida Automation Co., Ltd. | 4/12/2008 | - | *11,954* | - |
| | 4/15/2008 | - | *78,821* | - |
| | | *Subtotal* | 90,775 | |
| Nanjing Boda Heavy Forgings Co., Ltd. | 2/9/2008 | - | - | *52,568* |
| | 4/17/2008 | - | - | *27,805* |
| | | *Subtotal* | - | 80,373 |
| Hubei Yinlun Puqi Machinery Co., Ltd. | 4/24/2008 | - | 83,307 | 79,982 |
| Changsha Electric Machine Works Hunan China | 1/11/2008 | - | - | *22,132* |

| | | | | |
|---|---|---|---|---|
| | 4/15/2008 | - | - | *57,711* |
| | | *Subtotal* | - | 79,843 |

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**Wuhan General Group (China) Inc.**
**Notes to Financial Statements**
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| Name of Bank and Note Holders | Due Date | Interest Rate Per Annum | 3/31/2008 | 12/31/2007 |
|---|---|---|---|---|
| Jiamusi Electric Machine Co., Ltd. | 4/15/2008 | - | 81,717 | *77,932* |
| Nanyang Explosion Protection Group Co., Ltd. | 2/14/2008 | - | - | *43,109* |
| | 4/15/2008 | - | - | *34,454* |
| | | *Subtotal* | - | 77,563 |
| Wuhan Weihan Material Co., Ltd. | 1/24/2008 | - | - | *41,017* |
| | 3/10/2008 | - | - | *27,344* |
| | | *Subtotal* | - | 68,361 |
| Wuhan Junzhiying Economic Trade Co., Ltd. | 4/15/2008 | - | 210,760 | 68,361 |
| Xiangtan Machinery Equipment Sales Co., Ltd. | 4/15/2008 | - | - | 66,447 |
| Tianjin JinBo Instrument Technique Co., Ltd. | 2/9/2008 | - | - | *26,993* |
| | 2/14/2008 | - | - | *27,344* |
| | 4/15/2008 | - | - | *12,038* |
| | | *Subtotal* | - | 66,376 |
| Baoding City Air-Blower Technology Co., Ltd. | 2/9/2008 | - | - | 63,261 |
| Beijing XinLong Flextronics Technology Development Co., Ltd. | 4/12/2008 | - | 1,766 | - |
| | 4/15/2008 | - | 60,110 | - |
| | | *Subtotal* | *61,876* | - |
| Wuhan City Futaiyin Trade Co., Ltd. | 4/24/2008 | - | 64,082 | 61,525 |
| Wuhan City CaDian Metal Accessories Fuli Plant | 1/24/2008 | - | - | *23,853* |
| | 2/9/2008 | - | - | *27,344* |
| | | *Subtotal* | | 51,197 |
| Chonche Group Taizhou Branch | 4/15/2008 | - | 50,450 | 48,437 |
| Hubei Jiutong Electrical and Mechanical Services Co., Ltd. | 2/9/2008 | - | - | 48,327 |
| Zhejiang Zhongfa Dynamic Equipment Co., Ltd. | 2/29/2008 | - | - | *14,151* |
| | 4/15/2008 | - | - | *29,942* |
| | | *Subtotal* | | 44,093 |
| Jiangxi Tezhong Machinery Co., Ltd. | 4/15/2008 | - | 109,333 | 42,711 |
| Wuhan Hanyi Machinery Co., Ltd. | 4/15/2008 | - | 51,264 | 40,519 |
| Hubei Kuodian Development District Changfa Qi Peian | 1/24/2008 | - | - | *3,749* |
| | 2/9/2008 | - | - | *30,079* |
| | | *Subtotal* | | 39,828 |
| Jiangxia District Kanglegao Technology Development Co., Ltd. | 2/9/2008 | - | - | 39,259 |

| | | | | |
|---|---|---|---|---|
| Wuhan Huatai Welding Materials Co., Ltd. | 1/24/2008 | - | - | *10,494* |
| | 2/9/2008 | - | - | *23,243* |
| | | *Subtotal* | - | 33,736 |

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**Wuhan General Group (China) Inc.**
**Notes to Financial Statements**
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| Name of Bank and Note Holders | Due Date | Interest Rate Per Annum | 3/31/2008 | 12/31/2007 |
|---|---|---|---|---|
| Chongqing Sichuan Instrument Engineering Technology Co. Ltd. | 4/15/2008 | - | 29,813 | - |
| Wuhan Xinzhou Boli Blower Co., Ltd. | 4/15/2008 | - | 15,380 | - |
| | 4/17/2008 | - | 22,130 | 21,247 |
| | | *Subtotal* | *37,510* | *21,247* |
| Wuhan Huaxiang Casting Co., Ltd. | 7/8/2008 | - | 28,481 | - |
| Ezhou Shi Echeng Zhi Jin Machinery Plant | 1/11/2008 | - | - | *9,571* |
| | 2/9/2008 | - | - | *17,356* |
| | | *Subtotal* | - | 26,927 |
| Wuxi Houde Automation Co., Ltd. | 1/11/2008 | - | - | *13,935* |
| | 4/15/2008 | - | - | *10,391* |
| | | *Subtotal* | - | 24,326 |
| Zhengyi Valve Mechanic Product Co., Ltd. | 2/19/2008 | - | - | 23,899 |
| Shenyang Sinc Machines Co., Ltd. | 4/15/2008 | - | 46,990 | 22,685 |
| 16 Various Other Notes | Various Dates | Various Rates | 140,168 | 402,743 |
| | | | $ 32,958,803 | $ 28,132,664 |

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

Note payable extended by Wuhan East Lake Development District Zheng Bridge Committee unsecured and is payable on demand.

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

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

**Wuhan General Group (China) Inc.**
**Notes to Financial Statements**
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**13. WARRANTY LIABILITY**

Warranty liability is accrued and carried on the balance sheet under Accrued Liabilities. The Company makes its warranty accrual based on individual assessment of each contract because terms and conditions vary. The Company's typical sales contracts provide for a warranty period of 12-18 months following product installation.

The following table summarizes the activity related to the Company's product warranty liability for the three months ended March 31, 2008 and the year ended December 31, 2007: -

| | March 31, 2008 | December 31, 2007 |
|---|---|---|
| Balance at beginning of period | $ 949,603 | $ 249,234 |
| Accruals for current & pre-existing warranties issued during period | 197,111 | 725,626 |
| *Less*: Settlements made during period | (384,284) | (25,257) |
| Balance at end of period | $ 762,430 | $ 949,603 |

**14. 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 Limited ("UFG"), which is the sole stockholder 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 and warrants representing the right to purchase an aggregate of 21,145,922 shares of common stock 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. Holders of Preferred Stock are entitled to a dividend equal to 5% per annum of the amount invested, subject to adjustment. These dividends are payable quarterly. As of March 31, 2008, 1,725,896 shares of the Preferred Stock had been converted into common stock.

The net proceeds of $20,040,353 from the sale of Preferred Stock and warrants 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 | 13,466,990 |
| iii. | Additional Paid-in Capital attributable to Series A Warrants, Series J Warrants, and Series B Warrants | 6,572,334 |
| iv. | | 10,501,982 |

| | | | |
|---|---|---|---|
| | Additional Paid-in Capital attributable to Beneficial Conversion Feature | | |
| v. | Constructive Preferred Stock Dividend Charged Against Retained Earnings | | (10,501,982) |
| | | $ | 20,040,353 |

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

Pursuant to the Stock Purchase Agreement, the Company issued the following warrants:

- Series A Warrants to each of the preferred stock investors to purchase shares of common stock equal to 60% of the number of shares of preferred stock 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 equal to 100% of the number of shares of preferred stock 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.

- Series B Warrants to each recipient of Series J Warrants to purchase shares of common stock equal to 60% of the number of shares 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 five 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 issued to 1st BridgeHouse the following placement agent warrants for a term of ten years from the date of issuance:

| Series of Warrant | 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 aggregate number of shares of common stock issuable to the preferred stock purchasers and placement agent pursuant to all series of warrants is 24,289,269. As of March 31 2008, none of these warrants had been exercised.

In conjunction with the possible preferred stock conversion and warrant exercises, the Company has reserved a number of shares of common stock equal to 150% of the number of shares of common stock necessary to effect the conversion of all of the preferred stock and exercise of all the warrants outstanding.

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

Using a fair value approach, the value of the net proceeds raised in the private placement transaction on February 7, 2007 was ratably allocated to the preferred stock and warrants according to the following methodology. The Company priced the series A, J, and C warrants using a valuation model provided by the placement agent, which took into consideration time value, volatility, market liquidity, and an assumed risk-free rate. The Company then multiplied the per share valuation of the warrants by their total respective underlying shares to arrive at a total valuation for the warrants. The Company multiplied the total number of preferred stock in the offering by the per unit sales price of $2.33 to arrive at total valuation for the preferred stock. Upon determining the total valuation of both securities, the Company interpolated each individual securities pro-rata contribution. In accordance with EITF 00-27, the Company also calculated the value of the beneficial conversion feature of the convertible preferred stock by using the effective conversion method. The beneficial conversion feature was recognized as a constructive preferred dividend and accordingly, it was immediately charged against the Company’s retained earnings because the convertible preferred stock was convertible upon issuance.

The preferred stock is convertible into an aggregate of 10,287,554 shares of common stock.

The following table provides the total number of shares of fully diluted common stock as of March 31, 2008:

| | **Number of Shares** |
|---|---|
| Common Stock Outstanding | 21,876,390 |
| Common Stock Issuable upon: | |
| - Conversion of Preferred Stock | 8,561,658 |
| - Exercise of Warrants | 24,289,269 |
| - Exercise of Stock Options | 160,000 |
| Total Amount of Fully Diluted Common Stock | 54,887,317 |

In the event of a voluntary or involuntary liquidation, holders of preferred stock are entitled to a liquidation preference of $2.33 per share. This amount is in excess of the stock’s par value of $0.0001. The convertible preferred stock is cumulative, non-participating, and non-redeemable, and as such, there is no related sinking fund. The preferred stock contains a mandatory conversion to common stock within two years of the effective date of the registration statement related to such preferred stock if the Company’s common stock at expiration is above the closing price of $5.00.

The Company under its financing agreement has required Fame Good, from its own holdings, to deposit into an escrow account 9,000,000 shares of common stock to be transferred to investors in the event that the Company does not achieve net income of $22,000,000 for the year ended December 30, 2008. A more detailed description of the threshold that the Company must achieve can be found in the “Securities Escrow Agreement” dated February 7, 2007, which was filed as Exhibit 10.4 to the Company’s Form 8-K filed on February 13, 2007. The Company is not required to issue more shares or net cash settle to counterparty for shares initially delivered upon settlement that are subsequently sold by the counterparty, and the sales proceeds are insufficient to provide the counterparty with full return of the amount due (there are no “top-off” or “make-whole” provisions). The escrowed shares are shown on the balance sheet as shares outstanding; accordingly, these shares are included in the Company’s earnings per share calculation.

The Company under its financing agreement and related Registration Rights Agreement dated February 7, 2007 (“closing date”) is liable for liquidated damages if it fails to meet the following five requirements: (A) file a registration statement within 30 days of the closing date of the financing, (B) registration statement is not declared effective within 150 days after closing date, (C) company does not file for acceleration after the Company has been notified its

statement will no longer be reviewed, (D) the registration statement ceases to be effective and is not subsequently filed with new registration statement that covers those securities, and (E) or the Company's common stock becomes delisted on the OTC or other such exchange, or is no longer quoted. The Registration Rights Agreements does not provide for alternative terms of settlement. Since the Company's registration statement was declared effective after the deadline under the Registration Rights Agreement, the Company is liable for liquidated damages in the amount of $309,944. The Company has accrued a liability for the full amount in the year ended December 31, 2007.

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

**15. COMMITMENTS OF STATUTORY RESERVE**

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

| | | March 31, 2008 | | December 31, 2007 |
|---|---|---|---|---|
| Registered Capital in PRC | $ | 35,982,303 | $ | 35,982,303 |
| 50% maximum thereof | | 17,991,152 | | 17,991,152 |
| *Less*: Amounts Appropriated to Statutory Reserve | | 2,249,758 | | 633,771 |
| Unfunded Commitment | $ | 15,741,394 | $ | 17,357,381 |

**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 25%; 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 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 period ended March 31, 2008 and 2007 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.

Effective January 1, 2008, PRC government implemented a new 25% tax rate for all enterprises regardless of whether domestic or foreign enterprise without any tax holiday, which is defined as a "two-year exemption followed by three-year half exemption" hitherto enjoyed by tax payers; however, enterprises that are granted the status of a "hi-technology enterprise" by the PRC government enjoy a preferential tax rate of 15%. The company has and maintains its status as a hi-technology enterprise. As a result of the new tax law, the previous tax holidays are terminated as of December 31, 2007. However, the PRC government has established a set of transition rules that permit enterprises that had received an income tax exemption prior to January 1, 2008 to continue to enjoy such exemption until the original expiration date.

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

**17. EARNINGS PER SHARE**

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

| | Three Months Ended March 31, 2008 | | Three Months Ended March 31, 2007 | |
|---|---|---|---|---|
| Net Income | $ | 4,807,910 | $ | 1,850,545 |
| Preferred Dividends | | 280,365 | | 174,000 |
| Constructive Preferred Dividends | | - | | 10,501,982 |
| Income Available to Common Stockholders | **$** | **4,527,545** | | (8,825,437) |
| | | | | |
| Original Shares | | 19,712,446 | | 19,712,446 |
| Addition to Common Stock from Issuance | | 58,406 | | - |
| Addition to Common Stock from Actual Conversion | | 607,963 | | - |
| Basic Weighted Average Shares Outstanding | | 20,378,815 | | 19,712,446 |
| | | | | |
| Dilutive Shares: | | | | |
| - Addition to Common Stock if Preferred Stock Had Been Converted | | 9,679,591 | | 6,058,226 |
| - Addition to Common Stock if Warrants Had Been Exercised | | 17,652,768 | | 4,491,480 |
| - Addition to Common Stock if Employee & Director Stock Options Had Been Exercised | | 49,678 | | - |
| Diluted Weighted Average Shares Outstanding: | | 47,760,852 | | 30,262,152 |
| | | | | |
| ***Earnings Per Share*** | | | | |
| - Basic | $ | 0.22 | $ | (0.45) |
| - Diluted | $ | 0.10 | $ | 0.08 |
| | | | | |
| Weighted Average Shares Outstanding | | | | |
| - Basic | | 20,378,815 | | 19,712,446 |
| - Diluted | | 47,760,852 | | 24,203,926 |
| | | | | |
| ***Supplemental Data:*** | | | | |
| Proforma Earnings Per Shares in the Absence of Constructive Preferred Dividend | | | | |
| - Basic | $ | 0.22 | $ | 0.09 |
| - Diluted | $ | 0.10 | $ | 0.06 |
| | | | | |
| Weighted Average Shares Outstanding | | | | |
| - Basic | | 20,378,815 | | 19,712,446 |
| - Diluted | | 47,760,852 | | 30,262,152 |

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

## 18. OPERATING SEGMENTS

The Company individually tracks the performance of its two operating subsidiaries: Wuhan Blower and Wuhan Generating Equipment. Wuhan Blower is primarily engaged in the design, manufacture, installation, and service of blowers. Wuhan Generating Equipment is primarily engaged in the design, manufacture, installation, and service of power generating equipment. Below is a presentation of the Company's Statement of Income and Balance Sheet for its operating subsidiaries at March 31, 2008, and for the three months then ended. The Company has also provided reconciling adjustments with the Company and its intermediate holding company, UFG.

| | Wuhan Blower | Wuhan Generating Equipment | Company, UFG, Adjustments | Total |
|---|---|---|---|---|
| Sales | $ 12,759,212 | $ 12,859,689 | $ - | 25,618,901 |
| Cost of Sales | 8,760,338 | 8,800,941 | - | 17,561,279 |
| Gross Profit | 3,998,874 | 4,058,748 | - | 8,057,622 |
| | | | | |
| Operating Expenses | 1,296,555 | 643,268 | 709,642 | 2,649,465 |
| | | | | |
| Other Income (Expenses) | (304,537) | (296,327) | 617 | (600,247) |
| | | | | |
| Earnings before Tax | 2,397,782 | 3,119,153 | (709,025) | 4,807,910 |
| | | | | |
| Tax | - | - | - | - |
| | | | | |
| **Net Income** | **$ 2,397,782** | **$ 3,119,153** | **$ (709,025)** | **$ 4,807,910** |

| | Wuhan Blower | Wuhan Generating Equipment | Company, UFG, Adjustments | Total |
|---|---|---|---|---|
| Current Assets | $ 67,248,902 | $ 31,143,665 | $ (9,452,101) | $ 88,940,466 |
| Non Current Assets | 22,735,640 | 11,079,081 | - | 33,814,721 |
| **Total Assets** | **$ 89,984,542** | **$ 42,222,746** | **$ (9,452,101)** | **$ 122,755,187** |
| | | | | |
| Current Liabilities | 35,634,250 | 23,671,617 | 1,026,050 | 60,331,918 |
| Total Liabilities | 35,634,250 | 23,671,617 | 1,026,050 | 60,331,918 |
| | | | | |
| Net Assets | 54,350,292 | 18,551,129 | (10,478,151) | 62,423,270 |
| | | | | |
| **Total Liabilities & Net Assets** | $ 89,984,542 | $ 42,222,746 | $ (9,452,101) | $ 122,755,187 |

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

## 19. CONTINGENCY

*NASDAQ Listing Requirement*

In connection with the February 2007 private placement, the Company agreed to list its common stock on the NASDAQ Capital Market or the NASDAQ Global Market no later than December 31, 2007. Since the Company’s common stock was not listed on NASDAQ by that date, the private placement investors are entitled to receive, on a pro rata basis, shares of the Company’s common stock as follows: (x) 1,500,000 shares of common stock since the common stock was not listed by December 31, 2007, (y) an additional 3,000,000 shares of common stock since the common stock was not listed by March 31, 2008, and (z) an additional 1,500,000 shares of common stock for each calendar month thereafter that the common stock is not listed on the last day of such month. The Company believes that it currently has enough authorized capital to meet this potential liability. At the investors discretion, in lieu of the company issuing shares, Fame Good, the majority stockholder of the Company, can transfer shares from an escrow account to the investors to fulfill this obligation. Although the Company is seeking an adjustment to this penalty, there can be no assurances that the private placement investors will agree to an adjustment.

## 20. STOCK COMPENSATION EXPENSE

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

For the three months ended March 31, 2008, the Company recorded $183,515 of stock compensation expense. The entire stock option compensation expense was recorded as a general and administrative expense given the nature of the work contribution of the grantees.

The range of the exercises prices of all the shares granted since inception of the plan are shown in the following table:

| Price Range | Number of Shares |
|---|---|
| $0 - $9.99 | 160,000 shares |
| $10.00 - $19.99 | 0 shares |
| $20.00 - $29.99 | 0 shares |

No tax benefit has yet to be accrued or realized. For the three months ended March 31, 2008, the Company operated as an income tax-free entity in the PRC, and the Company has yet to repatriate its earnings, accordingly it has not recognized any deferred tax assets or liability in regards to benefits derived from the issuance of stock options.

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

| | | |
|---|---|---|
| Weighted-average fair value of grants: | $ | 4.1354 |
| Risk-free interest rate: | | 3.97% |
| Expected volatility: | | 20.00% |
| Expected life in months: | | 108.36 |

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

## 21. CONSTRUCTIVE PREFERRED DIVIDEND

In accordance with FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*, EITF 98-95 *Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios*, and EITF 00-27 *Application of Issue No. 98-5 to Certain Convertible Instruments*, the Company has recorded a non-cash preferred dividend against the companies retained earnings. This constructive preferred dividend reflects the amortization of the beneficial conversion feature of the Series A Convertible Preferred Stock issued by the Company. The beneficial conversion feature is considered a return of capital to the investors in the private placement. Since the preferred stock was convertible upon issuance the Company recognized the entire dividend at inception. The beneficial conversion feature arose from the aggregate value of the difference between the effective conversion price of the securities and the contractual conversion price of the stock issuance in the financing transaction.

## 22. SUBSEQUENT EVENTS

On May 4, 2008, the Company hired a new Chief Financial Officer, Haiming Liu.

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. (the "Company") as of March 31, 2008 and December 31, 2007, and the related statements of income, stockholders' equity, and cash flows for the three-month periods ended March 31, 2008 and 2007. 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.

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

South San Francisco, California
May 13, 2008

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

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**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.**

**Cautionary Statement Regarding Forward-Looking Statements**

The information contained in this report includes some statements that are not purely historical fact and that are "forward-looking statements" as defined by the Private Securities Litigation Reform Act of 1995. Such forward-looking statements include, but are not limited to, statements regarding our management's expectations, hopes, beliefs, intentions or strategies regarding the future, including our financial condition, results of operations, growth of our blower business and establishment of our turbine business. The words "anticipates," "believes," "could," "estimates," "expects, "intends," "may," "projects," "should," and similar expressions, or the negatives of such terms, identify forward-looking statements.

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

- vulnerability of our business to general economic downturn;
- operating in the PRC generally and the potential for changes in the laws of the PRC that affect our operations;
- our failure to meet or timely meet contractual performance standards and schedules;
- our dependence on the steel and iron markets;
- exposure to product liability and defect claims;
- our ability to obtain all necessary government certifications and/or licenses to conduct our business;
- the cost of complying with current and future governmental regulations and the impact of any changes in the regulations on our operations; and
- the other factors referenced in this report.

These risks and uncertainties, along with others, are also described in the Risk Factors section in Part I, Item 1A of this Form 10-Q. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as may be required under applicable securities laws.

***Overview***

As a result of the share exchange or "reverse acquisition" transaction consummated on February 7, 2007, Wuhan General Group (China), Inc. became a holding company conducting operations through two indirect operating subsidiaries: Wuhan Blower Co., Ltd. ("Wuhan Blower") and Wuhan Generating Equipment Co., Ltd. ("Wuhan Generating"), each a company operating in China. A wholly owned subsidiary of the Company, Universe Faith Group Limited ("UFG"), owns 100% of the capital stock of Wuhan Blower, which in turn owns 100% of the capital stock of Wuhan Generating. Our corporate structure is as follows:

For accounting purposes, the share exchange transaction is treated as a reverse acquisition with UFG as the acquirer and Wuhan General Group (China), Inc. as the acquired party. As a result, 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.

The information and data contained in this Management's Discussion and Analysis of Financial Condition and Results of Operations reflect the operating results and financial condition for the three months ended March 31, 2008 and 2007.

***Three Months Ended March 31, 2008 Compared to Three Months Ended March 31, 2007***

*Sales*. Sales increased $13.34 million, or 108.67%, to $25.62 million for the three months ended March 31, 2008 from $12.28 million for the same period in 2007. This increase was mainly attributable to increased demand for anti-pollution equipment in China and revenue from the construction of a thermal electric power plant in Jiangyin, Jiangsu.

*Cost of Sales*. Our cost of sales increased $9.22 million, or 110.62%, to $17.56 million for the three months ended March 31, 2008 from $8.34 million during the same period in 2007. This increase was due to the significant increase in blower and turbine sales and an increase in the cost of materials, particularly steel. As a percentage of sales, the cost of sales was 68.55% during the three months ended March 31, 2008 compared to 67.91% in the same period of 2007. This increase was primarily attributable to the increase in the cost of materials.

*Gross Profit*. Our gross profit increased $4.12 million, or 104.54%, to $8.06 million for the three months ended March 31, 2008 from $3.94 million for the same period in 2007. Gross profit as a percentage of sales was 31.45% for the three months ended March 31, 2008 compared to 32.09% during the same period in 2007.

*Selling Expenses*. Our selling expenses increased $108,517, or 41.40%, to $370,639 for the three months ended March 31, 2008 from $262,122 for the same period in 2007. As a percentage of sales, selling expenses were 1.45% for the three months ended March 31, 2008 compared to 2.14% for the same period in 2007. This decrease as a percentage of sales was primarily attributable to the economies of scale that we achieved due to the significant increase in sales.

*General and Administrative Expenses*. Our general and administrative expenses increased $786,938, or 53.84%, to $2.25 million for the three months ended March 31, 2008 from $1.46 million for the same period in 2007. As a percentage of sales, general and administrative expenses were 8.78% for the three months ended March 31, 2008 compared to 11.90% for the same period in 2007. This decrease as a percentage of sales was primarily attributable to the economies of scale that we achieved due to the significant increase in sales.

*Warranty Expense*. Our warranty expense decreased to $30,284 for the three months ended March 31, 2008 from $184,160 for the same period in 2007. As a percentage of sales, warranty expense was 0.12% for the three months ended March 31, 2008 compared to 1.5% for the same period in 2007.

*Operating Income*. Our operating income increased $3.38 million, or 166.22%, to $5.41 million for the three months ended March 31, 2008 from $2.03 million for the same period in 2007. As a percentage of sales, operating income was 21.11% for the three months ended March 31, 2008 compared to 16.55% for the same period in 2007. This increase as a percentage of sales was primarily attributable to the economies of scale that we achieved due to the significant increase in sales.

*Other Income*. We had no "other income" for the three months ended March 31, 2008 and for the same period in 2007.

*Interest Income*. Our interest income increased to $313,959 for the three months ended March 31, 2008 from $12,749 for the same period in 2007. This increase was due to an increase in bank deposits.

*Interest Expense*. Our interest expense increased $720,731, or 374%, to $913,442 for the three months ended March 31, 2008 from $192,711 for the same period in 2007. This increase was due to the significant increase in bank loans and notes. As a percentage of sales, interest expense was 3.57% for the three months ended March 31, 2008 compared to 1.57% for the same period in 2007. This increase as a percentage of sales was primarily attributable to the significant amount of debt we have incurred in order to finance our significant growth.

*Income Tax*. Based on our understanding of the implementation of new Chinese tax rules, we do not believe Wuhan Blower and Wuhan Generating were subject to PRC income tax during the three months ended March 31, 2008. Wuhan General did not incur any U.S. income tax liability during the three months ended March 31, 2008.

*Net Income*. Net income increased $2.96 million, or 159.81%, to $4.81 million during the three months ended March 31, 2008 from $1.85 million during the same period in 2007, as a result of the factors described above.

***Liquidity and Capital Resources***

As of March 31, 2008, we had cash and cash equivalents of $9.27 million, including restricted cash of $8.11 million.

As of March 31, 2008, we had banking facilities in the form of bank loans and loan facilities from other non-bank entities totaling approximately $32.96 million (based on an exchange rate of 7.0222 RMB per 1 U.S. dollar). Information regarding these loans is set forth below in US $.

| Name of Bank and Note Holders | Due Date | Interest Rate Per Annum | | 3/31/2008 |
|---|---|---|---|---|
| Bank of Communication | 7/2/2008 | 7.884% | $ | 1,424,055 |
| Bank of Communication | 4/3/2008 | - | | 1,424,055 |
| Bank of Communication | 7/7/2008 | - | | 1,424,055 |
| Bank of Communication | 7/9/2008 | - | | 4,272,165 |
| Shanghai Pudong Development Bank | 8/27/2008 | 7.02% | | 1,139,244 |
| Shanghai Pudong Development Bank | 8/22/2008 | 7.02% | | 1,139,244 |
| Shanghai Pudong Development Bank | 6/3/2008 | 6.57% | | 2,848,110 |
| Shanghai Pudong Development Bank | 6/24/2008 | 6.57% | | 569,622 |
| Shanghai Pudong Development Bank | 5/21/2008 | 6.57% | | 1,424,055 |
| Shanghai Pudong Development Bank | 10/23/2008 | 7.29% | | 2,848,110 |
| Shanghai Pudong Development Bank | 12/9/2008 | 7.29% | | 1,424,055 |
| Shanghai Pudong Development Bank | 1/7/2009 | 7.47% | | 1,424,055 |
| Citic Industrial Bank | 9/19/2008 | 7.29% | | 3,560,138 |
| Citic Industrial Bank | 9/21/2008 | - | | 330,431 |
| Citic Industrial Bank | 9/25/2008 | - | | 32,753 |
| Citic Industrial Bank | 3/2/2009 | 8.217% | | 2,848,110 |
| Wuhan Rongzhong Group Ltd. | 4/10/2008 | 7.5% per month | | 1,424,055 |

| Name of Bank and Note Holders | Due Date | Interest Rate Per Annum | 3/31/2008 |
|---|---|---|---|
| Wuhan East Lake Development District Zheng Bridge Committee | On Demand | 6.00% | 427,217 |
| EZhou City Zhongtian Environment Equipment Co., Ltd. | 4/15/2008 | - | 33,166 |
| | 4/30/2008 | - | 387,343 |
| | | *Subtotal* | 420,509 |
| Wuhan City Jinnuo Economic Development Co., Ltd. | 4/17/2008 | - | 313,292 |
| Wuhan Power Generating Equipment Manufacturing Co., Ltd. | 4/12/2008 | - | 268,078 |
| | 4/17/2008 | - | 56,962 |
| | | *Subtotal* | 325,041 |
| Wuhan Zhongji Electromechanical Equipment Co., Ltd. | 9/11/2008 | - | 282,903 |
| Wuhan Xinda Heavy Machinery Construction Co., Ltd. | 4/12/2008 | - | 6,254 |
| | 4/12/2008 | - | 14,508 |
| | 4/24/2008 | - | 142,406 |
| | | *Subtotal* | 163,168 |
| Nanyang Explosion Protection Group Co., Ltd. | 7/16/2008 | - | 156,646 |
| | 4/15/2008 | - | 21,361 |
| | | *Subtotal* | 21,361 |
| Wuhan City Huangpi General Plant | 4/17/2008 | - | 19,989 |
| | 4/15/2008 | - | 85,443 |
| | | *Subtotal* | 105,432 |
| Xiangtan Electric Manufacturing Co., Ltd. | 4/15/2008 | - | 100,396 |
| Chengdu Weida Automation Co., Ltd. | 4/12/2008 | - | 11,954 |
| | 4/15/2008 | - | 78,821 |
| | | *Subtotal* | 90,775 |
| Hubei Yinlun Puqi Machinery Co., Ltd. | 4/24/2008 | - | 83,307 |
| Jiamusi Electric Machine Co., Ltd. | 4/15/2008 | - | 81,717 |

| Name of Bank and Note Holders | Due Date | Interest Rate Per Annum | 3/31/2008 |
|---|---|---|---|
| Wuhan Junzhiying Economic Trade Co., Ltd. | 4/15/2008 | - | 210,760 |
| Beijing XinLong Flextronics Technology Development Co., Ltd. | 4/12/2008 | - | 1,766 |
| | 4/15/2008 | - | 60,110 |
| | | *Subtotal* | 61,876 |
| Wuhan City Futaiyin Trade Co., Ltd. | 4/24/2008 | - | 64,082 |
| Chonche Group Taizhou Branch | 4/15/2008 | - | 50,450 |
| Jiangxi Tezhong Machinery Co., Ltd. | 4/15/2008 | - | 109,333 |
| Wuhan Hanyi Machinery Co., Ltd. | 4/15/2008 | - | 51,264 |
| Chongqing Sichuan Instrument Engineering Technology Co. Ltd. | 4/15/2008 | - | 29,813 |
| Wuhan Xinzhou Boli Blower Co., Ltd. | 4/15/2008 | - | 15,380 |
| | 4/17/2008 | - | 22,130 |
| | | *Subtotal* | 37,510 |
| Wuhan Huaxiang Casting Co., Ltd. | 7/8/2008 | - | 28,481 |
| Shenyang Sinc Machines Co., Ltd. | 4/15/2008 | - | 46,990 |
| 16 Various Other Notes | Various Dates | Various Rates | 140,168 |
| Total | | | $ 32,958,803 |

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

We plan to either repay this debt as it matures or refinance this debt with other debt. For the quarter ended March 31, 2008, the amount of our outstanding debt from bank loans and notes has increased $4.83 million. This significant increase in debt was necessary to fund the cost of our rapid growth.

On February 7, 2007, immediately following the consummation of the share exchange, we completed a private placement of Series A Convertible Preferred Stock ("Preferred Stock") and warrants to accredited investors. As a result of this private placement, we received approximately $24.0 million in gross proceeds. After the deduction of sales commissions and offering expenses, we received approximately $20.0 million in net proceeds.

For the quarter ended March 31, 2008, our cash flow from operating activities was $(4.55) million. For the quarter ended March 31, 2008, our net income was $4.81 million. These amounts represent significant variations between net income and cash used in operating activities. The increasing working capital needs reflect the significant growth of our business. In order to continue the pace of our significant growth, the Company will need additional capital over the next 12 months. We are seeking additional financing options, including through the exercise of currently outstanding warrants. In addition, the Company is working to increase cash provided by its operations, particularly through the management of existing and future accounts receivable.

At March 31, 2008, we had $41.84 million in accounts receivable, compared to $31.88 million at December 31, 2007. This represents an increase of $9.96 million, or 31.26%. Our sales increased 15.60% for the quarter ended March 31, 2008 compared to the prior quarter. In order to manage this significant increase in accounts receivable, even when compared to our sales growth, we have employed additional resources in collecting on outstanding accounts receivable and have aligned more closely sales commissions with the collection on sales.

The majority of our customers pay us in installments at various stages of project completion. The percentage of the purchase price due at the various stages varies somewhat between contracts. In our standard sales contract, we receive 60% of the purchase price of a piece of equipment at the time of delivery. Alternatively, some sales contracts provide for 30% due upon signing and 30% due upon delivery. We generally receive an additional 30% of the purchase price when the equipment is installed and runs without problem for 72 hours. However, since our equipment is generally a component of a larger project, there are times that customers do not allow us to install the equipment immediately upon delivery. We generally receive the final 10% at 18 months following the installation. Although the payment terms in our standard sales contract result in a long payment cycle, we believe our payment terms are typical in our industry in China. Nonetheless, we are seeking more aggressive payment schedules on new sales contracts in order to improve our liquidity position.

At March 31, 2008, we had $4.09 million in other receivables.

We also had notes receivable of $2.61 million at March 31, 2008; this amount includes an allowance for bad debts of $106,804. The notes receivable included an unsecured loan to Hubei Dilong Industrial Group Co., Ltd. (“Hubei”) with an outstanding balance of $883,183, a secured loan to Shen Nong Jia Ren He Kang Ye Co., Ltd. (“Shen Nong”) in the amount of $1.07 million, and bank drafts to five different customers for $289,083. Shen Nong repaid its debt in May 2008.

The Company entered into a financing agreement with Hubei on December 31, 2004. Under such agreement, the Company provided to Hubei an unsecured loan of approximately $2,413,564 (RMB 20,000,000) for a two-year term from January 1, 2005 to December 31, 2006 at an interest rate of 0.5115% per month. The loan was to be used by Hubei for general business purposes. After servicing the debt for two years, the Company determined that Hubei was in default and the parties entered into a Repayment Agreement on May 24, 2007. At the time of the execution of the Repayment Agreement, Hubei owed approximately $1.73 million (RMB 13,041,414) in principal and interest to the Company. The Company agreed to accept from Hubei as partial payment of this amount title to real property located in Hongjing Garden, which is worth approximately $989,167 (RMB 7,542,202). Under the Repayment Agreement, Hubei agreed to pay an interest rate for the outstanding debt equal to the bank interest rate for the same period, and repay the outstanding debt in full to the Company by April 10, 2008. However, Hubei did not repay its debt by such date. Accordingly, the Company has accrued an allowance for bad debt with respect to this loan. Hubei has informed the Company that it intends to repay this debt by the end of 2008. Except for this business relationship, there is no other relationship between Hubei and any of the Company's officers, directors, or any of their affiliates.

The bank drafts drawn by the Company's customers are written against the customer's margin deposits with their banks. These bank drafts are liquid instruments that can either be (a) endorsed to the Company's vendors, or (b) discounted to the Company's own bank. The Company chooses to carry these instruments as notes receivable instead of cash primarily because of the associated time element of these notes, as they are normally due at a later point in time; therefore, these bank drafts represent slightly different risk and reward characteristics. For more information regarding our notes receivable, see Note 4 to the Company's consolidated financial statements as of March 31, 2008 and 2007.

We had other payable of $9.56 million at March 31, 2008 related to accruals for materials that have been provided or services rendered, but for which no invoice has been received from the vendor.

**Critical Accounting Policies**

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

Method of Accounting: We maintain our 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 that we have adopted conform to generally accepted accounting principles in the United States and have been consistently applied in the presentation of financial statements, which are compiled on the accrual basis of accounting.

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

Economic and Political Risks: Our operations are conducted in the PRC. Accordingly, our business, financial condition and results of operations may be influenced by the political, economic and legal environment in the PRC and by the general state of the PRC economy.

Use of Estimates: In preparing the financial statements in conformity with accounting principles generally accepted in the United States, management makes estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the dates of the financial statements, as well as the reported amounts of revenues and expenses during the reporting years. These estimates and assumptions include, but are not limited to, the valuation of accounts receivable, inventories, deferred income taxes and the estimation of useful lives of property, plant and equipment. Actual results could differ from these estimates.

Cash and Cash Equivalents: We consider all cash and other highly liquid investments with initial maturities of three months or less to be cash equivalents. We maintain bank accounts in the PRC, and an escrow account in the United States.

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.

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

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

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

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

| | |
|---|---|
| Technical Licenses | 10 years |
| Trademark | 20 years |

Land Use Rights: We carry land use rights at cost less accumulated amortization. Land use rights are amortized straight-line over its useful life of 50 years.

Accounting for Impairment of Long-Lived Assets: We 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. We periodically evaluate 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, we believe that, as of March 31, 2008 and December 31, 2007, there were no significant impairments of long-lived assets.

Revenue Recognition: Revenue from the sale of blower products and generating 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 has passes. There are no customer acceptance clauses in the Company's standard sales contracts. Typically, installation begins between one to two weeks following delivery of the product. The installation process typically takes four to eight weeks.

Cost of Sales: Our cost of sales is comprised of raw materials, factory worker salaries and related benefits, machinery supplies, maintenance supplies, depreciation, utilities, inbound freight, purchasing and receiving costs, inspection and warehousing costs.

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

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

Advertising: We expense all advertising costs as incurred.

Research and Development: We expense all research and development costs as incurred.

Foreign Currency Translation: We maintain our financial statements in the functional currency, which is the Renminbi (RMB). Monetary assets and liabilities denominated in currencies other than the functional currency are translated into the functional currency at rates of exchange prevailing at the balance sheet dates. Transactions denominated in currencies other than the functional currency are translated into the functional currency at the 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, which are prepared using the functional currency, have been translated into U.S. dollars. Assets and liabilities are translated at the exchange rates at the balance sheet dates and revenue and expenses are translated at the average exchange rates and stockholders' equity is translated at historical exchange rates. Translation adjustments are not included in determining net income but are included in foreign exchange adjustment to other comprehensive income, a component of stockholders' equity.

| **Exchange Rates** | **Three Months Ended March 31, 2008** | **Three Months Ended March 31, 2007** |
|---|---|---|
| Period end RMB: US$ exchange rate | 7.0222 | 7.7409 |
| Average RMB during such period: US$ exchange rate | 7.17568 | 7.77136 |

RMB is not freely convertible into foreign currency and all foreign exchange transactions must take place through authorized institutions. No representation is made that the RMB amounts could have been, or could be, converted into US$ at the rates used in translation.

Income Taxes: We account for income tax using an asset and liability approach and allow 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 we are able to realize their benefits, or that future realization is uncertain.

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.

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. Our current component of other comprehensive income is the foreign currency translation adjustment.

Warranty Policy: The estimation of warranty obligations is determined in the same period that revenue from the sale of the related products is recognized. The warranty obligation is based on historical experience and reflects management's best estimate of expected costs at the time products are sold. Warranty accruals are adjusted for known or anticipated warranty claims as new information becomes available. Future events and circumstances could materially change 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.

Earnings Per Share: Basic earnings per share is computed on the basis of the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share is computed on the basis of the weighted average number of shares of common stock plus the effect of dilutive potential common shares outstanding during the period using the treasury stock method for warrants and the as-if method for convertible securities. Dilutive potential common shares include outstanding warrants and convertible Preferred Stock.

Recent Accounting Pronouncements:

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.

In December 2007, the FASB issued SFAS 141 (revised 2007), *Business Combinations* (''SFAS 141(R)''). SFAS 141(R) retains the fundamental requirements of the original pronouncement requiring that the purchase method be used for all business combinations, but also provides revised guidance for recognizing and measuring identifiable assets and goodwill acquired and liabilities assumed arising from contingencies, the capitalization of in-process research and development at fair value, and the expensing of acquisition-related costs as incurred. SFAS 141(R) is effective for fiscal years beginning after December 15, 2008. In the event that the Company completes acquisitions subsequent to its adoption of SFAS 141 (R), the application of its provisions will likely have a material impact on the Company's results of operations, although the Company is not currently able to estimate that impact.

In December 2007, the FASB issued SFAS 160, *Non-controlling Interests in Consolidated Financial Statements – an amendment of ARB No. 51* (“SFAS 160”). SFAS 160 requires that ownership interests in subsidiaries held by parties other than the parent (previously referred to as minority interests) and the amount of consolidated net income, be clearly identified, labeled and presented in the consolidated financial statements. It also requires once a subsidiary is deconsolidated, any retained non-controlling equity investment in the former subsidiary be initially measured at fair value. Sufficient disclosures are required to clearly identify and distinguish between the interests of the parent and the interests of the non-controlling owners as components of equity. It is effective for fiscal years beginning after December 15, 2008, and requires retroactive adoption of the presentation and disclosure requirements for existing minority interests. All other requirements are applied prospectively.

We do not anticipate that the adoption of the above standards will have a material impact on our consolidated financial statements.

***Off-Balance Sheet Arrangements***

We do not have any off-balance arrangements.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

This item is not required for a smaller reporting company.

**Item 4T. Controls and Procedures.**

***Disclosure Controls and Procedures***

As required by Rule 15d-15 under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), our management has carried out an evaluation, with the participation and under the supervision of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of March 31, 2008. Disclosure controls and procedures refer to controls and other procedures designed to ensure that information required to be disclosed in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating and implementing possible controls and procedures. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected.

Based upon, and as of the date of this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures contained significant deficiencies and material weaknesses. We believe that the deficiencies and weaknesses in our disclosure controls and procedures result from weaknesses in our internal control over financial reporting, which is described below.

***Internal Control over Financial Reporting***

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

(i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;

(ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and

(iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

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

Management of the Company, including the Company's Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of the Company's internal control over financial reporting as of December 31, 2007, which was the end of the Company's most recent fiscal year. Based on this evaluation, we concluded that we had material weaknesses in our internal control over financial reporting. The following is a description of each deficiency or weakness with respect to our internal control over financial reporting identified in connection with the management evaluation and the remediation initiatives that we have implemented or intend to implement in the near future.

1) The current accounting staff lacks sufficient depth, skill and experience with U.S. GAAP reporting, and the Company does not have sufficient internal financial policies and procedures to monitor the capabilities of its personnel. Further, the Company's internal audit department lacks sufficient resources to properly perform monitoring and risk assessment functions.

*Remediation Initiative*

We recently expanded our accounting staff and intend to continue this effort in the future. On May 4, 2008, we hired a new Chief Financial Officer, who is experienced in U.S. GAAP and financial reporting. We are seeking additional accountants experienced in several key areas of accounting, including persons with experience in U.S. GAAP and SEC financial reporting requirements. We also plan to retain outside consultants to assist in the training and development of our accounting staff and internal audit group and to assist with the development of internal financial policies and procedures.

2) Our information technology controls and our policies and procedures on the management of information technology require improvement. In addition, some of our accounting system servers are located in unsecured areas.

*Remediation Initiative*

We plan to establish a comprehensive information technology plan and a strategic plan designed to improve our information technology controls with assistance from outside consultants. We also plan to update our policies and procedures on the management of information technology and relocate our database servers to a secure and controlled location.

Because material weaknesses exist, management concluded that the Company's internal control over financial reporting as of December 31, 2007 was not effective. In order to resolve these weaknesses, we engaged a consultant to provide us guidance on the improvement of our internal control over financial reporting.

***Changes in Internal Control over Financial Reporting***

Other than the remediation measures described above, during the quarter ended March 31, 2008, there was no change in our internal control over financial reporting that has materially affected, or that is reasonably likely to materially affect, our internal control over financial reporting.

## PART II

## OTHER INFORMATION

### Item 1. Legal Proceedings.

A former promoter has contacted the Company claiming that it is entitled to receive shares of the Company's common stock in connection with services that it purported to render. The Company disputes this assertion and denies that the promoter is entitled to this compensation. Management believes that the Company has valid defenses to the claim of the promoter and plans to defend vigorously these allegations. As of May 15, 2008, the former promoter has not brought any formal legal proceedings.

In addition, from time to time, the Company may become involved in various lawsuits and legal proceedings which arise in the ordinary course of business.

### Item 1A. Risk Factors.

*An investment in our common stock or other securities involves a number of risks. You should carefully consider each of the risks described below before deciding to invest in our common stock. If any of the following risks develops into actual events, our business, financial condition or results of operations could be negatively affected, the market price of our common stock or other securities could decline and you may lose all or part of your investment.*

*The risk factors presented below are all of the ones that we currently consider material. However, they are not the only ones facing our company. Additional risks not presently known to us, or which we currently consider immaterial, may also adversely affect us. There may be risks that a particular investor views differently from us, and our analysis might be wrong. If any of the risks that we face actually occur, our business, financial condition and operating results could be materially adversely affected and could differ materially from any possible results suggested by any forward-looking statements that we have made or might make. In such case, the trading price of our common stock could decline, and you could lose part or all of your investment.*

***Risk Factors Related to Our Business***

**Our steam and water turbine business is a critical component of our growth and overall business strategy, yet our turbine facility is not operational and we have little experience manufacturing turbines.**

In late 2005, Wuhan Blower reached an understanding with many of the former management members of Wuhan Turbine Works, a business owned by China Chang Jiang Energy Corporation, whereby it would establish a new business utilizing their management and technology to manufacture small to mid-size steam and water turbines. Since that time, we have begun production of turbines in our existing manufacturing facilities and in shared facilities. In March 2006, we broke ground on a new turbine manufacturing facility. The construction of the new turbine manufacturing facility has been completed; however, the installation of customized equipment for this facility will not be completed until the third quarter of 2008. We plan to expand production of turbines from this facility once the installation is complete. We anticipate that the manufacture of turbines will become a critical component of our business. However, we have limited experience manufacturing turbines.

Because we have had a limited operating history in the turbine manufacturing business, it is difficult to forecast accurately our future revenues and expenses related to this segment. Additionally, our turbine operations will continue to be subject to risks inherent in the establishment of a new business, including, among other things, efficiently deploying our capital, developing our product and service offerings, developing and implementing our marketing campaigns and strategies and developing awareness and acceptance of our products. Our ability to generate future revenues from these operations will be dependent on a number of factors, many of which are beyond our control. To be successful, we must, among other things, complete the installation of the customized equipment, integrate the former managers of Wuhan Turbine Works and establish market recognition in this business. This will require us to expend significant resources, including capital and management time and there can be no assurance that this aspect of our business will be successful.

**Wuhan Blower was privatized in 2004, so it has a limited history of operations as a non-state-owned enterprise. We may not realize the benefits of privatization as quickly as we anticipate or at the level that we expect.**

Wuhan Blower was originally founded in 1958 as the Wuhan Blower Company. In 2004, Mr. Xu Jie purchased the company and implemented steps to transform it from a traditional Chinese state-owned enterprise into a modern, efficient company. Thus, we only have a limited history of operations as a non-state-owned enterprise. We cannot assure you that we will be successful in achieving the benefits we expect from our privatization, such as increased management flexibility in implementing measures to improve our cost structure, the efficient operation of our business and the expansion into new businesses in a timely manner or at all. Factors that may cause the actual benefits we may derive from privatization to deviate from our expectations include:

- inexperience of management in transforming and then operating a non-state-owned enterprise;
- unanticipated adverse developments in our attempt to achieve efficient management of our workforce and operation of our business;
- changes in regulations affecting us following our privatization; and
- the speed with which we are able to implement more efficient management systems, and the resulting levels of cost savings.

**Our management has identified material weaknesses in our internal control over financial reporting and disclosure controls and procedures that, if not properly remediated, could result in material misstatements in our financial statements in future periods.**

In conjunction with the preparation of this Form 10-Q, our management carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of March 31, 2008. Based upon this evaluation, our CEO and CFO concluded that disclosure controls and procedures contained significant deficiencies and material weaknesses. For more detailed information regarding our disclosure controls and procedures, see Part I, Item 4T Controls and Procedures.

The deficiencies and weaknesses in our disclosure controls and procedures result from weaknesses in our internal controls over financial reporting. In conjunction with the preparation of the Company's Annual Report on Form 10-KSB for the year ended December 31, 2007, the Company's management carried out an evaluation of the effectiveness of the design and operation of the Company's internal control over financial reporting as of December 31, 2007. Based upon this evaluation, the Company's CEO and CFO concluded that the Company's internal control over financial reporting contained significant deficiencies and material weaknesses.

If we are unable to improve our financial and management controls and hire additional accounting and finance staff experienced in addressing complex accounting matters applicable to public companies, in each case in a timely and effective manner, our ability to comply with the accounting and financial reporting requirements and other rules that apply to public companies would be impaired.

If the remedial policies and procedures we implement are insufficient to address the identified material weaknesses, or if additional significant deficiencies or material weaknesses in our internal controls are discovered in the future, we may fail to meet our future reporting obligations, our financial statements may contain material misstatements and our operating results may be adversely affected. Any such failure also could adversely affect the results of the periodic management evaluations regarding the effectiveness of our internal control over financial reporting.

**We must implement additional and expensive procedures and controls in order to grow our business and organization and to satisfy reporting requirements, which will increase our costs and require additional management resources.**

As a public reporting company, we are required to comply with the Sarbanes-Oxley Act and the related rules and regulations of the Securities and Exchange Commission ("SEC"), including the requirements that we maintain disclosure controls and procedures and adequate internal control over financial reporting. Upon approval for listing as a public company on NASDAQ, we also will be required to comply with marketplace rules. Compliance with the Sarbanes-Oxley Act and other SEC and NASDAQ requirements will increase our costs and require additional management resources. We recently began upgrading our procedures and controls and will need to continue to implement additional procedures and controls as we grow our business and organization and to satisfy new reporting requirements. If we are unable to complete the required assessment as to the adequacy of our internal control over financial reporting, as required by Section 404 of the Sarbanes-Oxley Act, or if we fail to maintain internal control over financial reporting, our ability to produce timely, accurate and reliable periodic financial statements could be impaired.

**Our substantial indebtedness could adversely affect our results of operations and financial condition and prevent us from fulfilling our financial obligations.**

We have incurred substantial debt to finance our growth. As of March 31, 2008, we had approximately $32.96 million of outstanding bank loans and notes. This indebtedness could have important consequences to us, such as:

- limiting our ability to obtain additional financing to fund growth, working capital, capital expenditures, debt service requirements or other cash requirements;

- limiting our operational flexibility due to the covenants contained in our debt agreements;
- limiting our ability to invest operating cash flow in our business due to debt service requirements;
- limiting our ability to compete with companies that are not as highly leveraged and that may be better positioned to withstand economic downturns; and
- increasing our vulnerability to fluctuations in market interest rates.

Our ability to meet our expenses and debt service obligations will depend on our future performance, which will be affected by financial, business, economic and other factors, including potential changes in customer preferences, the success of product and marketing innovation and pressure from competitors. If we do not have enough money to pay our debt service obligations, we may be required to raise additional equity capital, sell assets or borrow more money. We may not be able, at any given time, to raise additional equity capital, sell assets or borrow more money on terms acceptable to us or at all.

In addition, the majority of our debt matures in less than one year. In the past, we have refinanced our debt prior to maturity. However there can be no assurance that we will be able to refinance our debt on favorable terms.

**Default in payment by one or more customers that have large account receivable balances could adversely impact our results of operations and financial condition.**

A significant portion of our working capital consists of accounts receivable from customers. As of March 31, 2008, we had an aggregate amount of $41.84 million in accounts receivables. If customers responsible for a significant amount of accounts receivable were to become insolvent or otherwise unable or unwilling to make timely payments, our business, results of operation, financial condition or liquidity could be adversely affected. A significant amount of customer defaults would be most likely to occur in an economic or industry downturn. Such an event could result in longer payment cycles, increased collection costs and defaults in excess of management’s expectations.

**We rely on third-party relationships to augment our research and development capabilities. If we fail to establish new, or maintain existing, collaborative arrangements, or if our partners do not perform, we may be unable to research and develop new products and make technological advancements.**

Although we maintain our own research and development facilities, we also rely on collaborative arrangements with third-parties to research and develop new products and make technological advancements. For example, we have relationships with the Science and Technology University of Central China, Jiaotong University and the Acoustic Institute of the China Science Academy that allow us to stay abreast of the latest developments in the fields of fluid dynamics, material sciences and acoustics. We would be harmed by the loss of such relationships. In addition, we license technological information, and receive related technical assistance, from Mitsubishi Heavy Industries, Ltd. in connection with the majority of axial flow fans that we produce. If we fail to retain our rights under the license agreement, we would not be able to produce axial flow fans using the technical information provided by Mitsubishi. Additional collaborations may be necessary in the future. If we fail to enter into additional collaborative arrangements or fail to maintain our existing collaborative arrangements, we may not be able to compete successfully with other companies that achieve technological advancements.

Our dependence on collaborative arrangements with third-parties subjects us to a number of risks, including, among others:

- collaborative arrangements may not be on terms favorable to us;
- disagreements with partners may result in delays in research and development, termination of our collaboration agreements or time consuming and expensive legal action;
- we cannot control the amount and timing of resources that our partners devote to our research and development and our partners may not allocate sufficient funds or resources to our projects, or may not perform their obligations as expected;
- partners may choose to research and develop, independently or with other companies, alternative products or technological advancements, including products or advancements that would compete with ours;
- agreements with partners may expire or be terminated without renewal, or partners may breach collaboration agreements with us;
- business combinations or significant changes in a partner's business strategy might adversely affect that partner's willingness or ability to complete its obligations to us; and
- the terms and conditions of the relevant agreements may no longer be suitable.

The occurrence of any of these or similar events could adversely affect our research and development capabilities.

**We have limited business insurance coverage.**

The insurance industry in China is still at an early stage of development. Insurance companies in China offer limited business insurance products. As a result, we do not have any business liability insurance coverage for our operations. If we incur any losses, we will have to bear those losses without any assistance. As a result, we may not have sufficient capital to cover material damage to, or the loss of, our manufacturing facilities due to fire, severe weather, flood or other causes, and such damage or loss would have a material adverse effect on our financial condition, business and prospects.

**Our results could be adversely impacted by product quality and performance.**

We manufacture and install products based on specific requirements of each of our customers. We believe that future orders of our products or services will depend on our ability to maintain the performance, reliability and quality standards required by our customers. If our products or services have performance, reliability or quality problems, we may experience delays in the collection of accounts receivables, higher manufacturing or installation costs, additional warranty and service expense, and reduced, cancelled or discontinued orders. Additionally, performance, reliability or quality claims from our customers, with or without merit, could result in costly and time-consuming litigation that could require significant time and attention of management and involve significant monetary damages.

**Continued price volatility and supply constraints in the steel and iron markets could prevent us from meeting delivery schedules to our customers or reduce our profit margins.**

Our business is dependent on the prices and supply of steel and iron, which are the principal raw materials used in our products. The steel and iron industries are highly cyclical in nature, and steel and iron prices have been volatile in recent years and may remain volatile in the future. Steel and iron prices are influenced by numerous factors beyond our control, including general economic conditions, competition, labor costs, production costs, import duties and other trade restrictions. In the past, there have been unusually rapid and significant increases in steel and iron prices and severe shortages in the steel and iron industries due in part to increased demand from China's expanding economy and high energy prices. We do not have any long-term contracts for the purchase of steel and iron and normally do not maintain inventories of steel and iron in excess of our current production requirements. We can give you no assurance that steel and iron will remain available to us at competitive prices or that prices will not continue to be volatile. If the available supply of steel and iron declines, we could experience price increases that we are not able to pass on to our customers, a deterioration of service from our suppliers or interruptions or delays that may cause us not to meet delivery schedules to our customers. Any of these problems could adversely affect our results of operations and financial condition.

**Expansion of our business may strain our management and operational infrastructure and impede our ability to meet any increased demand for our products. In addition, we may need additional funding to support our growth, and this funding may not be available to us.**

Our business plan is to grow significantly our operations by meeting the anticipated growth in demand for existing products, and by introducing new products. Our planned growth includes the development of a turbine manufacturing business. Growth in our business may place a significant strain on our personnel, management, financial systems and other resources. Our business growth also presents numerous risks and challenges, including:

- our ability successfully and rapidly to expand sales to potential customers in response to potentially increasing demand;
- the costs associated with such growth, which are difficult to quantify, but could be significant; and
- rapid technological change.

To accommodate this growth and compete effectively, we may need to obtain additional funding to improve and expand our manufacturing facilities, information systems, procedures and controls and to expand, train, motivate and manage existing and additional employees. Funding may not be available in a sufficient amount or on favorable terms, if at all. If we are not able to manage these activities and implement these strategies successfully to expand to meet any increased demand, our operating results could suffer.

**We depend heavily on key personnel, and turnover of key employees and senior management could harm our business.**

Our future business and results of operations depend in significant part upon the continued contributions of our key technical and senior management personnel, including in particular Xu Jie, our President, Chief Executive Officer and Chairman of the Board. They also depend in significant part upon our ability to attract and retain additional qualified management, technical, marketing and sales and support personnel for our operations. If we lose a key employee, if a key employee fails to perform in his or her current position, or if we are not able to attract and retain skilled employees as needed, our business could suffer. Significant turnover in our senior management could significantly deplete institutional knowledge held by our existing senior management team. We depend on the skills and abilities of these key employees in managing the manufacturing, technical, marketing and sales aspects of our business, any part of which could be harmed by turnover in the future.

**We are a holding company and rely on the receipt of dividends from our operating subsidiaries. We may encounter limitations on the ability of our subsidiaries to pay dividends to us.**

As a holding company, we have no direct business operations other than the ownership of our operating subsidiaries. Our ability to pay dividends and meet other obligations depend upon the receipt of dividends or other payments from our operating subsidiaries. In addition, our operating subsidiaries, from time to time, may be subject to restrictions on their ability to make distributions to us, including as a result of restrictive covenants in loan agreements, restrictions on the conversion of local currency into U.S. dollars or other hard currency and other regulatory restrictions relating to doing business in China as discussed below. If future dividends are paid in Renminbi, fluctuations in the exchange rate for the conversion of Renminbi into U.S. dollars may reduce the amount received by U.S. stockholders upon conversion of the dividend payment into U.S. dollars.

**The ability of our Chinese operating subsidiaries to pay dividends may be restricted due to their corporate structure.**

All of our operations are conducted in China and substantially all of our revenues are generated in China. We are required to establish reserve funds and staff and workers' bonus and welfare funds, each of which is appropriated from net profit after taxation but before dividend distributions in accordance with Chinese law. We are required to allocate at least 10% of our net profits to the reserve fund until the balance of this fund has reached 50% of our registered capital.

In addition, the profit available for distribution from our Chinese operating subsidiaries is determined in accordance with generally accepted accounting principles in China. This calculation may differ from the one performed under generally accepted accounting principles in the United States, or GAAP. As a result, we may not receive sufficient distributions from our Chinese subsidiaries to enable us to make dividend distributions to our stockholders in the future. The limitations on distributions of the profits of our Chinese operating subsidiaries could negatively affect our financial condition and assets, even if our GAAP financial statements indicate that our operations have been profitable.

Chinese regulations currently permit the payment of dividends only out of accumulated profits as determined in accordance with Chinese accounting standards and regulations. Our subsidiaries in China also are required to set aside a portion of their after tax profits according to Chinese accounting standards and regulations to fund certain reserve funds. Currently, our subsidiaries in China are the only sources of revenues or investment holdings for the payment of dividends. If they do not accumulate sufficient profits under Chinese accounting standards and regulations to first fund certain reserve funds as required by Chinese accounting standards, we will be unable to pay any dividends.

**We enjoy certain preferential tax concessions, and the loss of these preferential tax concessions would cause our tax liabilities to increase and our profitability to decline.**

On March 16, 2007, the National People's Congress promulgated the Law of the People's Republic of China on Enterprise Income Tax, which became effective on January 1, 2008. In accordance with this new Chinese tax law, the corporate income tax rate will be reduced to 25%. However, certain industries and projects, such as high and new technology enterprises, may continue to receive preferential corporate income tax treatment.

The new tax legislation also provided for a transitional period for enterprises already benefiting from preferential tax treatment. The Company expects to be an enterprise that will continue to benefit from a preferential tax rate in both the transitional period, as well as thereafter. The Company believes that it will continue to benefit from a tax holiday in 2008, and, thereafter, beginning January 1, 2009, the Company will be subject to a 15% tax rate. There can be no assurance that we will continue to qualify for the preferential tax treatment or that Chinese tax regulations will remain the same. If we do not continue to receive our tax exemption or do not receive the reduced income tax rates thereafter, our tax liabilities will increase and our net income will decrease accordingly.

**Our quarterly and annual revenues and operating results are volatile and difficult to predict.**

Our quarterly and annual revenues and operating results may vary depending on a number of factors, including, but not limited to: fluctuating customer demand, delay or timing of shipments, construction delays, changes in product mix or market acceptance of new products, manufacturing or operational difficulties that may arise due to quality control, capacity utilization of our production equipment or staffing requirements, and competition, including the introduction of new products by competitors, adoption of competitive technologies by our customers and competitive pressures on prices of our products and services. Our failure to meet quarterly or annual revenue and operating result expectations would likely adversely affect the market price of our common stock.

***Risks Related to the Market for Our Stock and Our Capital Structure***

**There is only a limited trading market for our common stock.**

Our common stock is not currently listed for trading on any national securities exchange and very few shares are currently traded. We do not expect a more robust trading market for our shares to develop until we receive some level of public research coverage and/or successfully list our common stock on NASDAQ or another exchange. The OTC Bulletin Board does provide quotations of trades of our shares. The OTC Bulletin Board is an inter-dealer, over-the-counter market that provides significantly less liquidity than the NASDAQ Stock Market or the New York or American Stock Exchanges. Quotations for stocks included on the OTC Bulletin Board are not listed in the financial sections of newspapers as are those for the stock exchanges. Therefore, prices for securities traded solely on the OTC Bulletin Board may be difficult to obtain, and holders of common stock may be unable to sell their shares in a timely fashion, or at or near their original offering price or at any price.

**Although we have an agreement with the investors in the February 2007 private placement to have our common stock listed on the NASDAQ Capital Market or NASDAQ Global Market, we cannot provide any assurance that we will be able to obtain a NASDAQ listing. Since we did not obtain a NASDAQ listing by December 31, 2007, we may have to issue additional shares to these private placement investors, which would dilute the holdings of an owner of our common stock.**

In connection with the private placement, we agreed to have our common stock listed on the NASDAQ Capital Market or the NASDAQ Global Market. Although we have applied to list our common stock on NASDAQ, we cannot assure you that we will be able to meet the initial listing requirements or that our application will be accepted by NASDAQ. If our common stock is not listed on NASDAQ, the trading market for our common stock will remain illiquid.

Since our common stock was not listed and trading on NASDAQ by December 31, 2007, the private placement investors will be entitled to receive, on a pro rata basis, shares of our common stock as follows: (x) 1,500,000 shares of common stock since the shares were not listed by December 31, 2007, (y) an additional 3,000,000 shares of common stock if the shares are not listed by March 31, 2008 and (z) an additional 1,500,000 shares of common stock for each calendar month thereafter that the shares of common stock are not listed on the last day of such month. Each private placement investor has the option to elect to have these shares paid by Fame Good International Limited (“Fame”), our controlling stockholder, or issued by us. Therefore, if one or more private placement investors elects to receive newly issued shares, the holdings of an owner of our common stock would be diluted. Although we plan to seek an adjustment of this penalty liability, we cannot provide any assurance that the private placement investors will agree to such an adjustment.

**Shares eligible for future sale may adversely affect the market price of our common stock.**

From time to time, certain of our stockholders may be eligible to sell all or some of their shares of restricted common stock by means of ordinary brokerage transactions in the open market pursuant to Rule 144. Any substantial sale of our common stock pursuant to Rule 144 or pursuant to any resale prospectus may have a material adverse effect on the market price of our common stock.

**The issuance of shares of common stock upon the exercise or conversion of outstanding securities may cause significant dilution to our stockholders and may have an adverse impact on the market price of our common stock.**

As of May 15, 2008, there were 33,010,927 shares of our common stock issuable upon conversion of outstanding Preferred Stock and exercise of outstanding warrants and options. The issuance of our shares upon the exercise or conversion of these securities will increase the number of shares of our common stock outstanding, which could depress the market price of our common stock.

The perceived risk of dilution may cause our stockholders to sell their shares, which would contribute to a downward movement in the stock price of our common stock. Moreover, the perceived risk of dilution and the resulting downward pressure on our stock price could encourage investors to engage in short sales of our common stock. By increasing the number of shares offered for sale, material amounts of short selling could further contribute to progressive price declines in our common stock.

**In the event that we issue common stock or securities convertible into common stock in the future for consideration that is less than the conversion price of our outstanding Preferred Stock or the exercise prices of our outstanding warrants, the number of shares that we would be required to issue upon conversion of the Preferred Stock would be increased and the exercise prices of the warrants would be decreased.**

The terms of our outstanding convertible Preferred Stock and warrants provide for a downward adjustment in the conversion price of our Preferred Stock and exercise prices of the warrants in the event that we subsequently issue shares of our common stock, or securities convertible into or exercisable for our common stock, for consideration that is less than the conversion or exercise prices of these previously issued securities. Any reduction of the conversion price of our Preferred Stock as a result of these adjustment provisions would require that we issue a greater number of shares upon conversion of Preferred Stock than we would have issued in the absence of these provisions. Any additional shares that we issue as a result of these adjustment provisions would cause further dilution to our existing stockholders. In addition, any reduction of the exercise price of the warrants as a result of these adjustment provisions would reduce the amount of cash that we receive in connection with an exercise of such warrants.

**We may not be able to achieve the benefits we expect to result from the share exchange.**

We may not realize the benefits that we hoped to derive as a result of the February 2007 share exchange, which include:

- access to the capital markets of the United States;
- the increased market liquidity expected to result from exchanging stock in a private company for securities of a public company that are publicly traded;
- the ability to use securities to make acquisition of assets or businesses;
- increased visibility in the financial community;
- enhanced access to the capital markets;

- improved transparency of operations; and
- perceived credibility and enhanced corporate image of being a publicly traded company.

In addition, the attention and effort devoted to achieving the benefits of the share exchange and attending to the obligations of being a public company, such as reporting requirements and securities regulations, could significantly divert management's attention from operational issues, which could materially and adversely affect our operating results or stock price in the future.

**Compliance with changing regulation of corporate governance and public disclosure will result in additional expenses and pose challenges for our new management team.**

Changing laws, regulations and standards relating to corporate governance and public disclosure, including the Sarbanes-Oxley Act and SEC regulations, have created uncertainty for public companies and significantly increased the costs and risks associated with accessing the public markets and public reporting. Our new management team, which has no prior experience operating a U.S. public company, will need to devote significant time and financial resources to comply with both existing and evolving standards for public companies, which will lead to increased general and administrative expenses and a diversion of management time and attention from revenue generating activities to compliance activities.

**Standards for compliance with Section 404 of the Sarbanes-Oxley Act are uncertain, and if we fail to comply in a timely manner, our business could be harmed and our stock price could decline.**

Rules adopted by the SEC pursuant to Section 404 of the Sarbanes-Oxley Act require an annual assessment of a public company's internal control over financial reporting by management and an audit of the public company's internal control over financial reporting by such company's independent registered public accountants. We recently completed our first annual assessment of our internal controls in our annual report for the 2007 fiscal year, and the audit by our independent registered public accountants will first apply to our annual report for the 2008 fiscal year. The audit process by our independent registered public accountants is new and we may encounter problems or delays in completing the implementation of any requested improvements and receiving an audit by our independent registered public accountants. Since we were not able to assess our internal control over financial reporting as effective, and if our independent registered public accountants are unable to provide an unqualified audit report, investor confidence and share value may be negatively impacted.

**Our principal stockholder has the ability to control our operations, including the election of our directors.**

Fame, a holding company controlled by our President and Chief Executive Officer, Xu Jie, is the owner of approximately 82% of our outstanding voting securities (excluding shares of our Preferred Stock which, until converted into common stock, only vote as a class on certain matters affecting such Preferred Stock). As a result, Mr. Xu possesses significant influence, giving him the ability, among other things, to elect each member of our Board of Directors and to authorize or prevent proposed significant corporate transactions. His ownership and control also may have the effect of delaying or preventing a future change in control, impeding a merger, consolidation, takeover or other business combination or discouraging a potential acquirer from making a tender offer. Additionally, Mr. Xu's interests may differ from the interest of our other stockholders.

**Certain provisions of our Articles of Incorporation may make it more difficult for a third party to effect a change-in-control.**

Our Articles of Incorporation authorize the Board of Directors to issue up to 50,000,000 shares of preferred stock. The preferred stock may be issued in one or more series, the terms of which may be determined at the time of issuance by the Board of Directors without further action by the stockholders. These terms may include voting rights including the right to vote as a series on particular matters, preferences as to dividends and liquidation, conversion rights, redemption rights and sinking fund provisions. The issuance of any preferred stock could diminish the rights of holders of our common stock, and therefore could reduce the value of such common stock. In addition, specific rights granted to future holders of preferred stock could be used to restrict our ability to merge with, or sell assets to, a third party. The ability of the Board of Directors to issue preferred stock could make it more difficult, delay, discourage, prevent or make it more costly to acquire or effect a change-in-control, which in turn could prevent the stockholders from recognizing a gain in the event that a favorable offer is extended and could materially and negatively affect the market price of our common stock.

***Risks Related to Doing Business in China***

**Changes in China’s political or economic situation could harm us and our operating results.**

Economic reforms adopted by the Chinese government have had a positive effect on the economic development of the country, but the government could change these economic reforms or any of the legal systems at any time. This could either benefit or damage our operations and profitability. Changes or events that could possibly occur, among others, include:

- level of government involvement in the economy;
- control of foreign exchange;
- methods of allocating resources;
- balance of payments position;
- international trade restrictions;
- international conflict; and
- devaluation of the Renminbi, which is the Chinese currency.

The Chinese economy differs from the economies of most countries belonging to the Organization for Economic Cooperation and Development, or OECD, in many ways. As a result of these differences, we may not develop in the same way or at the same rate as might be expected if the Chinese economy were similar to those of the OECD member countries.

**Our business is subject to the uncertain legal environment in China.**

The Chinese legal system is a civil law system based on written statutes. Unlike common law systems, it is a system in which precedents set in earlier legal cases are not generally followed. The overall effect of legislation enacted over the past 20 years has been to enhance the protections afforded to foreign investment enterprises in China. However, these laws, regulations and legal requirements are relatively recent and are evolving rapidly, and their interpretation and enforcement involve uncertainties. These uncertainties could limit the legal protections available to foreign investors, such as the right of foreign investment enterprises to hold licenses and permits such as requisite business licenses.

**The Chinese government exerts substantial influence over the manner in which we must conduct our business activities.**

In the last 20 years, despite a process of devolution of regulatory control to provincial and local levels and resulting economic autonomy and private economic activities, the Chinese central government has exercised and continues to exercise substantial control over virtually every sector of the Chinese economy through regulation and state ownership. Our ability to operate in China may be harmed by changes in its laws and regulations, including those relating to taxation, import and export tariffs, environmental regulations, land use rights, property and other matters. We believe that our operations in China are in material compliance with all applicable legal and regulatory requirements. However, the central or local governments of the jurisdictions in which we operate may impose new, stricter regulations or interpretations of existing regulations that would require additional expenditures and efforts on our part to ensure our compliance with such regulations or interpretations.

Accordingly, government actions in the future, including any decision to adjust economic policies or even to return to a more centrally planned economy or regional or local variations in the implementation of economic policies, could have a significant effect on economic conditions in China or particular regions thereof, and could require us to divest ourselves of any interest we then hold in Chinese properties or joint ventures.

**Any recurrence of severe acute respiratory syndrome, or SARS, or another widespread public health problem, could harm our operations.**

A renewed outbreak of SARS or another widespread public health problem such as new strains of avian influenza in China could have a negative effect on our operations.

Our operations may be impacted by a number of health-related factors, including the following:

- quarantines or closures of some of our manufacturing facilities or offices which would severely disrupt our operations,
- the sickness or death of our key officers and employees, and
- a general slowdown in the Chinese economy.

Any of the foregoing events or other unforeseen consequences of public health problems could damage our operations.

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**Restrictions on currency exchange may limit our ability to receive and use our revenues effectively.**

The majority of our revenues are settled in Renminbi, and any future restrictions on currency exchanges may limit our ability to use revenue generated in Renminbi to fund any future business activities outside China or to make dividend or other payments in U.S. dollars. Although the Chinese government introduced regulations in 1996 to allow greater convertibility of the Renminbi for current account transactions, significant restrictions still remain, including primarily the restriction that foreign investment enterprises may only buy, sell or remit foreign currencies after providing valid commercial documents at those banks in China authorized to conduct foreign exchange business. In addition, conversion of Renminbi for capital account items, including direct investment and loans, is subject to governmental approval in China, and companies are required to open and maintain separate foreign exchange accounts for capital account items. We cannot be certain that the Chinese regulatory authorities will not impose more stringent restrictions on the convertibility of the Renminbi.

**The foreign currency exchange rate between U.S. Dollars and Renminbi could adversely affect our financial condition and the value of our shares.**

The value of our common stock will be affected by the foreign exchange rate between U.S. dollars and Renminbi, and between those currencies and other currencies in which our sales may be denominated. For example, to the extent that we need to convert U.S. dollars into Renminbi for our operational needs and should the Renminbi appreciate against the U.S. dollar at that time, our financial position, the business of the company and the price of our common stock may be harmed. Conversely, if we decide to convert our Renminbi into U.S. dollars for the purpose of declaring dividends on our capital stock or for other business purposes and the U.S. dollar appreciates against the Renminbi, the U.S. dollar equivalent of our earnings from our subsidiaries in China would be reduced.

Until 1994, the Renminbi experienced a gradual but significant devaluation against most major currencies, including the U.S. dollar, and there was a significant devaluation of the Renminbi on January 1, 1994 in connection with the replacement of the dual exchange rate system with a unified managed floating rate foreign exchange system. Since 1994, the value of the Renminbi relative to the U.S. dollar has remained stable and has appreciated slightly against the U.S. dollar. Countries, including the United States, have argued that the Renminbi is artificially undervalued due to China’s current monetary policies and have pressured China to allow the Renminbi to float freely in world markets. In July 2005, the PRC government changed its policy of pegging the value of the Renminbi to the U.S. dollar. Under the new policy the Renminbi is permitted to fluctuate within a narrow and managed band against a basket of designated foreign currencies. Since then, the Renminbi has appreciated by approximately 8.5%. While the international reaction to the Renminbi revaluation has generally been positive, there remains significant international pressure on the PRC government to adopt an even more flexible currency policy, which could result in further and more significant appreciation of the Renminbi against the U.S. dollar.

**Inflation in the PRC could negatively affect our profitability and growth.**

While the PRC economy has experienced rapid growth, such growth has been uneven among various sectors of the economy and in different geographical areas of the country. Rapid economic growth can lead to growth in the money supply and rising inflation. During the past 15 years, the rate of inflation in China has been as high as approximately 20% and China has experienced deflation as low as approximately minus 2%. If prices for our products and services rise at a rate that is insufficient to compensate for the rise in the costs of supplies such as raw materials, it may have an adverse effect on our profitability.

In order to control inflation in the past, the PRC government has imposed controls on bank credits, limits on loans for fixed assets and restrictions on state bank lending. Around October 2007, the Chinese government implemented a freeze on commercial lending through the end of 2007. The implementation of such policies may chill investments in the Chinese economy and impede economic growth. In October 2004, the People's Bank of China, the PRC's central bank, raised interest rates for the first time in nearly a decade and indicated in a statement that the measure was prompted by inflationary concerns in the Chinese economy. The People's Bank of China raised interest rates twice in 2006 and five times in 2007. Repeated rises in interest rates and the freeze on commercial lending by the central bank may slow economic activity in China, which could, in turn, materially increase our costs and also reduce demand for our products and services. In addition, these recent government actions will increase our debt costs and could impede our ability to secure additional debt financing or refinance our current debt.

**Recent PRC regulations relating to acquisitions of PRC companies by foreign entities may create regulatory uncertainties that could restrict or limit our ability to operate.**

In October 2005, the PRC State Administration of Foreign Exchange, or SAFE, issued a Notice on Relevant Issues concerning Foreign Exchange Administration for Domestic Residents to Engage in Financing and in Return Investment via Overseas Special Purpose Companies.

In accordance with the notice, if an acquisition of a PRC company by an offshore company controlled by PRC residents has been confirmed by a Foreign Investment Enterprise Certificate prior to the promulgation of the notice, the PRC residents must each submit a registration form to the local provincial SAFE branch with respect to their establishment of an offshore company and also must file an amendment to such registration if the offshore company experiences material events, such as changes in the share capital, share transfer, mergers and acquisitions, spin-off transaction or use of assets in China to guarantee offshore obligations. The notice also provides that failure to comply with the registration procedures set forth therein may result in restrictions on our PRC resident stockholders and subsidiaries. Pending the promulgation of detailed implementation rules, the relevant government authorities are reluctant to commence processing any registration or application for approval required under the SAFE notices.

In addition, on August 8, 2006, the Ministry of Commerce (“MOFCOM”), joined by the State-Owned Assets Supervision and Administration Commission of the State Council, State Administration of Taxation, State Administration for Industry and Commerce, China Securities Regulatory Commission and SAFE, amended and released the Provisions for Foreign Investors to Merge and Acquire Domestic Enterprises, new foreign-investment rules which took effect September 8, 2006, superseding much, but not all, of the guidance in the prior SAFE circulars. These new rules significantly revised China’s regulatory framework governing onshore-offshore restructurings and how foreign investors can acquire domestic enterprises. These new rules signify greater PRC government attention to cross-border merger, acquisition and other investment activities, by confirming MOFCOM as a key regulator for issues related to mergers and acquisitions in China and requiring MOFCOM approval of a broad range of merger, acquisition and investment transactions. Further, the new rules establish reporting requirements for acquisition of control by foreigners of companies in key industries, and reinforce the ability of the Chinese government to monitor and prohibit foreign control transactions in key industries.

These new rules may significantly affect the means by which onshore-offshore restructurings are undertaken in China in connection with offshore private equity and venture capital financings, mergers and acquisitions. It is expected that such transactional activity in China in the near future will require significant case-by-case guidance from MOFCOM and other government authorities as appropriate. It is anticipated that application of the new rules will be subject to significant administrative interpretation, and we will need to closely monitor how MOFCOM and other ministries apply the rules to ensure that our PRC and offshore activities continue to comply with PRC law. Given the uncertainties regarding interpretation and application of the new rules, we may need to expend significant time and resources to maintain compliance.

It is uncertain how our business operations or future strategy will be affected by the interpretations and implementation of the SAFE notices and new rules. Our business operations or future strategy could be adversely affected by the SAFE notices and the new rules.

**Failure to comply with the United States Foreign Corrupt Practices Act could subject us to penalties and other adverse consequences.**

We are subject to the United States Foreign Corrupt Practices Act, which generally prohibits United States companies from engaging in bribery or other prohibited payments to foreign officials for the purpose of obtaining or retaining business. In addition, we are required to maintain records that accurately and fairly represent our transactions and have an adequate system of internal accounting controls. Chinese companies and some other foreign companies, including some that may compete with us, are not subject to these prohibitions, and therefore may have a competitive advantage over us. Corruption, extortion, bribery, pay-offs, theft and other fraudulent practices occur from time to time in the PRC, and our executive officers and employees have not been subject to the United States Foreign Corrupt Practices Act prior to the completion of the share exchange in February 2007. We can make no assurance that our employees or other agents will not engage in such conduct for which we might be held responsible. If our employees or other agents are found to have engaged in such practices, we could suffer severe penalties and other consequences that may have a material adverse effect on our business, financial condition and results of operations.

**We may have difficulty establishing adequate management, legal and financial controls in the PRC.**

PRC companies historically have not adopted a Western style of management and financial reporting concepts and practices, which includes strong corporate governance, internal controls and computer, financial and other control systems. As a result, we may experience difficulty in establishing management, legal and financial controls, collecting financial data and preparing financial statements, books of account and corporate records and instituting business practices that meet standards required of U.S. public companies. Therefore, we may, in turn, experience difficulties in implementing and maintaining adequate internal controls as required under Section 404 of the Sarbanes-Oxley Act. This may result in significant deficiencies or material weaknesses in our internal controls which could impact the reliability of our financial statements and prevent us from complying with SEC rules and regulations and the requirements of the Sarbanes-Oxley Act. Any such deficiencies, weaknesses or lack of compliance could have a material adverse effect on our business.

**Our business may be adversely affected as a result of China’s entry into the World Trade Organization (“WTO”) because the preferential tax treatments available to us may be discontinued and foreign manufacturers may compete with us in the PRC.**

The PRC became a member of the WTO on December 11, 2001. The current tax benefits that we enjoy may be discontinued as a result of the PRC’s membership in the WTO. If this happened, our profitability would be adversely affected. In addition, we may face additional competition from foreign manufacturers if they set up their production facilities in the PRC or form Sino-foreign joint ventures with our competitors in the PRC. In the event that we fail to maintain our competitiveness against these competitors, our profitability may be adversely affected.

**You may experience difficulties in effecting service of legal process, enforcing foreign judgments or bringing original legal actions in China based upon U.S. laws, including the federal securities laws or other foreign laws, against us or our management.**

Almost all of our current operations are conducted in China. Moreover, all of our officers and most of our directors are currently nationals and residents of China. All or substantially all of the assets of these persons are located outside the United States and in the PRC. As a result, it may not be possible to effect service of process upon these persons within the United States or elsewhere outside China. In addition, uncertainty exists as to whether the courts of China would recognize or enforce judgments of U.S. courts obtained against us or our officers and/or directors predicated upon the civil liability provisions of the securities laws of the United States or any state thereof, or be competent to hear original legal actions brought in China against us or such persons predicated upon the securities laws of the United States or any state thereof.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.**

None.

**Item 3. Defaults Upon Senior Securities.**

None.



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**Item 4. Submission of Matters to a Vote of Security Holders.**

None.

**Item 5. Other Information.**

None.

**Item 6. Exhibits.**

| Exhibit Number | Description of Exhibit |
|---|---|
| 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 Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: May 16, 2008

WUHAN GENERAL GROUP (CHINA), INC.

| | | |
|---|---|---|
| By: | /s/ Xu Jie | |
| | Name: | Xu Jie |
| | Title: | President and Chief Executive Officer<br>(principal executive officer and duly authorized officer) |
| By: | /s/ Haiming Liu | |
| | Name: | Haiming Liu |
| | Title: | Chief Financial Officer and Treasurer<br>(principal financial officer) |

**Exhibit Index**

| Exhibit Number | Description of Exhibit |
| --- | --- |
| 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