HESKA CORP
Form 4
November 25, 2014

FORM 4

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

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL

OMB Number:	3235-0287
Expires:	January 31, 2005
Estimated average burden hours per response...	0.5

(Print or Type Responses)

1. Name and Address of Reporting Person *
McGinley Michael J
(Last) (First) (Middle)
3760 ROCKY MOUNTAIN AVENUE
(Street)
LOVELAND, CO 80538
(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
HESKA CORP [HSKA]

3. Date of Earliest Transaction (Month/Day/Year)
11/21/2014

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer
(Check all applicable)
_____ Director _____ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
Presi, Biologic. & Pharm.

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock	11/21/2014		M		235	A	$ 8.8	16,010	D	
Common Stock	11/21/2014		S		235	D	$ 15.453	15,775	D	
Common Stock	11/21/2014		M		9,264	A	$ 8.8	25,039	D	
Common Stock	11/21/2014		S		9,264	D	$ 15.453	15,775	D	

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amour Underlying Securit (Instr. 3 and 4)	
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amo or Num of Share
Incentive Stock Option (right to buy)	$ 8.8	11/21/2014		M			9,264	03/30/2005	03/30/2015	Common Stock	9,2
Non-Qualified Stock Option (right to buy)	$ 8.8	11/21/2014		M			235	03/30/2005	03/30/2015	Common Stock	23

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
McGinley Michael J 3760 ROCKY MOUNTAIN AVENUE LOVELAND, CO 80538			Presi, Biologic. & Pharm.	

Signatures

By: Jason A. Napolitano For: Michael McGinley	11/25/2014
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.

 ; MARGIN-LEFT: 18pt; TEXT-INDENT: 0pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left">Bank Loans & Notes

12

28,132,664

13,545,059

Accounts Payable

4,747,298

8,531,852

Contract Payable

14

-

1,137,623

Taxes Payable

1,043,383

1,723,544

Other Payable

3,137,575

4,594,639

Dividend Payable

898,875

-

Accrued Liabilities

2,003,800

354,169

Customer Deposits

5,034,464

1,587,306

Total Current Liabilities

	44,998,059
	31,474,192
Total Liabilities	
	44,998,059
	31,474,192

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

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

	Note		2007		2006
Stockholders' Equity					
Preferred Stock - $0.0001 Par Value, 50,000,000 Shares Authorized; 10,287,554 & 0 Shares of Series A Convertible Preferred Stock Issued & Outstanding at December 31, 2007, and 2006 respectively.	15, 19		1,029		-
Additional Paid-in Capital - Preferred Stock			13,466,990		-
Additional Paid-in Capital - Warrants	15		6,572,334		-
Additional Paid-in Capital - Beneficial Conversion Feature			10,501,982		-
Common Stock - $0.0001 Par Value 100,000,000 Shares Authorized; 19,712,446 Shares Issued & Outstanding at December 31, 2007, and 2006.	15		1,971		1,971
Additional Paid-in Capital			12,349,602		12,349,602
Statutory Reserve	*2(t),*16		633,771		622,151
Retained Earnings			8,483,648		5,200,285
Accumulated Other Comprehensive Income	*2(r),2(u)*		3,350,706		770,120
Total Stockholders' Equity			**55,362,033**		**18,944,129**
Total Liabilities & Stockholders' Equity		**$**	**100,360,092**	**$**	**50,418,321**

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

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

	Note		2007		2006
Sales	2(*l*),21,24		82,503,510		16,702,043
Cost of Sales	2(*m*)		57,429,085		8,886,274
Gross Profit			25,074,425		7,815,769
Operating Expenses					
Selling Expenses	2(*n*)		2,333,707		1,193,971
General & Administrative Expenses	2(*o*),23		5,615,320		2,651,953
Warranty Expense	2(*v*),13		725,626		244,101
Total Operating Expense			8,674,653		4,090,026
Operating Income			16,399,773		3,725,743
Other Income (Expenses)					
Other Income	17		42,097		26,977
Interest Income			303,898		348
Other Expenses			(554,484)		(1,830)
Interest Expense			(1,321,414)		(548,970)
Total Other Income (Loss) & Expense			(1,529,903)		(523,475)
Earnings before Tax			14,869,869		3,202,268
Income Tax	2(*s*),18		-		-
Net Income			**14,869,869**		**3,202,268**
Preferred Dividends Declared			1,072,904		-
Constructive Preferred Stock Dividend	25		10,501,982		-
Income Available to Common Stockholders			3,294,983		-
Earnings Per Share	2(*w*),20				
Basic		$	0.17	$	0.16
Diluted		$	0.10	$	0.16
Weighted Average Shares Outstanding					
Basic			19,712,446		19,712,446
Diluted			33,633,831		19,712,446
Earnings Per Share excluding effect of Constructive Preferred Dividend					
Basic		**$**	**0.70**	**$**	**0.16**
Diluted		**$**	**0.35**	**$**	**0.16**
Weighted Average Shares Outstanding					
Basic			19,712,446		19,712,446
Diluted			42,864,053		19,712,446

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

Wuhan General Group (China), Inc.
Statements of Stockholders' Equity
For December 31, 2007 and 2006
(Stated in US Dollars)

	Preferred Stock Shares Outstanding	Preferred Stock Amount	Preferred Stock Additional Paid-in Capital	Warrants Additional Paid-in Capital	Beneficial Conversion Feature Additional Paid-in Capital	Common Stock Shares Outstanding	Common Stock Amount	Common Stock Additional Paid-in Capital	Statutory Reserve
Balance, January 1, 2006	-	-	-	-	-	19,712,446	1,971	6,033,911	-
Increases to Additional Paid-In Capital from Contribution of Capital Equipment								6,315,691	
Net Income									
Appropriations of Retained Earnings									622,151
Foreign Currency Translation Adjustment									
Balance, December 31, 2006	-	-	-	-	-	19,712,446	1,971	12,349,602	622,151
Balance, January 1, 2007	-	-	-	-	-	19,712,446	1,971	12,349,602	622,151
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									11,620
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	633,771

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

F-5

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

	2007	2006	Total
Comprehensive Income			
Net Income	14,869,869	3,202,269	18,072,138
Other Comprehensive Income			
Foreign Currency Translation Adjustment	2,580,586	487,384	3,067,970
Total Comprehensive Income	**$ 17,450,455**	**$ 3,689,653**	**$ 21,140,108**

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

F-6

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

	2007	2006
Cash Flow from Operating Activities		
Cash Received from Customers	73,532,077	3,395,609
Cash Paid to Suppliers & Employees	(83,510,411)	(4,710,988)
Interest Received	157,072	348
Interest Paid	(1,321,415)	(548,970)
Income Tax Paid	-	-
Miscellaneous Receipts	42,096	26,977
Cash Sourced/(Used) in Operating Activities	(11,100,581)	(1,837,024)
Cash Flows from Investing Activities		
Cash Invested in Restricted Time Deposits	(8,726,336)	(1,006,024)
Repayment/(Investment) in Notes	(1,312,344)	(148,213)
Payments for Purchases of Plant & Equipment	(5,100,642)	(2,843,702)
Payments for Construction of Plant & Equipment	(9,862,180)	(33,743)
Payments for Purchases of Land Use Rights	(127,793)	(58,853)
Payments for Purchases of Intangible Assets	(59,920)	(15,316)
Cash Used/(Sourced) in Investing Activities	(25,189,215)	(2,093,803)
Cash Flows from Financing Activities		
Increases to Preferred Stock & Additional Paid-in Capital	20,040,353	-
Proceeds from Bank Borrowings	4,681,749	4,844,345
Repayment of Bank Loans	-	-
Proceeds from Issuance of Notes	9,905,857	-
Repayment of Notes	-	(1,319,147)
Dividends Paid	(174,029)	-
Cash Sourced/(Used) in Financing Activities	34,453,930	3,525,198
Net Increase/(Decrease) in Cash & Cash Equivalents for the Period	(1,835,866)	(405,629)
Effect of Currency Translation	2,580,588	487,384
Cash & Cash Equivalents at Beginning of Period	248,243	166,488
Cash & Cash Equivalents at End of Period	**992,965**	**248,243**
Non-Cash Investing Activity:		
Contribution of equipment to capital	-	6,315,691
Value of property surrendered by Hubei Dilong Industrial Group Co., Ltd.	993,861	**-**
Constructive Preferred Stock Divided	10,501,982	**-**

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

Wuhan General Group (China), Inc.
Reconciliation of Net Income to Cash Flow Sourced/(Used) in Operating Activities
For the years ended December 31, 2007 and 2006
(Stated in US Dollars)

		2007		**2006**
Net Income	$	14,869,869	$	3,202,269
Adjustments to Reconcile Net Income to				
Net Cash Provided by Cash Activities:				
Amortization		90,260		76,174
Depreciation		814,050		1,052,442
Provision for Bad Debt on Note Receivable		(11,141)		36,776
Decrease/(Increase) in Accounts Receivable		(19,387,329)		(8,789,339)
Decrease/(Increase) in Other Receivable		6,833,053		(4,447,869)
Decrease/(Increase) in Inventory		(3,351,299)		(1,146,497)
Decrease/(Increase) in Advances to Suppliers		(9,996,805)		(1,858,767)
Decrease/(Increase) in Advances to Employees		117,416		265,969
Decrease/(Increase) in Prepaid Taxes		(253,665)		(3,889)
Increase/(Decrease) in Accounts Payable		(3,784,553)		6,061,453
Increase/(Decrease) in Taxes Payable		(680,161)		1,030,071
Increase/(Decrease) in Other Payable		(1,457,064)		2,670,305
Increase/(Decrease) in Accrued Liabilities		1,649,631		119,878
Increase/(Decrease) in Customer Deposits		3,447,158		(106,001)
		(25,970,449)		(5,039,293)
Total of all adjustments				
Net Cash Provided by Operating Activities	$	(11,100,580)	$	(1,837,024)

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

F-8

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 15 - 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. (*Refer also to 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 December 31, 2007, and 2006, there were no significant impairments of its long-lived assets.

(l) Revenue Recognition

Revenue from the sale of blower products and generating equipment is recognized 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.

F-11

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	December 31, 2007	December 31, 2006
Year-end RMB : US$ exchange rate	7.3141	7.8175
Average 12 months RMB : US$ exchange rate	7.6172	7.98189

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

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

(s) Income Taxes

The Company 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. (*Refer also to 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. (*Refer also to Note 20. Earnings Per Share*)

F-13

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

(x) Recent Accounting Pronouncements

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

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

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

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

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.

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

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.

4. NOTES RECEIVABLE

	December 31, 2007	December 31, 2006
Notes Receivable	$ 1,891,126	$ 1,572,644
Less: Allowance for Bad Debts	25,635	36,776
	$ 1,865,491	$ 1,535,868

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 $1,025,417 (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.

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

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 December 31, 2007, the total outstanding balance for Notes Receivables from Hubei was $824,983 (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 company has accrued a provision for bad debt on its notes receivables of $25,635 (RMB 187,500).

The remaining balance 17,784 (RMB 130,000) carried in the Notes Receivable account is due from Han Dan Steel Group Co., Ltd ("Han Dan"). This balance is a bank draft drawn by Han Dan against its margin deposits with its bank. Bank drafts are liquid instruments that can be either (a) endorsed to the Company's vendors, or (b) discounted to the Company's own bank. The Company chooses to carry these instruments as notes receivable instead of cash primarily because of the associated time element of these notes, as they are normally due at a later point in time; therefore, these bank drafts represent different risk and reward characteristics.

F-16

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

5. ACCOUNTS RECEIVABLE

		December 31, 2007		December 31, 2006
Total Accounts Receivable-Trade	$	33,121,294	$	12,807,824
Less: Allowance for Bad Debt		1,245,883		319,741
	$	31,875,411	$	12,488,083
Allowance for Bad Debts				
Beginning Balance		319,741		13,528
Allowance Provided		1,485,634		306,213
Charged Against Allowance		559,492		-
Ending Balance		1,245,883		319,741

The Company periodically reviews outstanding receivables and determines the likelihood of those balances being paid in full by their customers. The company considers receivables within one year of aging to be current and collectible. When outstanding balances become over 1 year they are assessed for their collectability, if receivables are deemed unrecoverable, they are written off against the Company’s allowance.

The Company during 2007 established a department to coordinate the collection efforts between the finance and sales department of the Company.

6. INVENTORY

		December 31, 2007		December 31, 2006
Raw Materials	$	1,523,444	$	1,116,066
Work in Progress		4,779,339		2,058,889
Finished Goods		1,593,177		1,369,707
	$	7,895,960	$	4,544,662

7. ADVANCES TO EMPLOYEES

Advances to Employees of $138,420, and $255,836 as of December 31, 2007 and 2006, 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
(Stated in US Dollars)

8. PROPERTY, PLANT AND EQUIPMENT

Property, plant, and equipment, which are stated at cost less depreciation, were composed of the following as of December 31:

		2007		2006
Category of Asset				
Buildings	$	10,318,689	$	9,597,812
Machinery & Equipment		11,278,647		8,353,453
Furniture & Fixtures		307,480		259,092
Auto		912,333		652,156
Other		8,384		-
		22,825,532		**18,862,513**
Less: Accumulated Depreciation				
Buildings		1,168,101		555,407
Machinery & Equipment		742,062		754,136
Furniture & Fixtures		148,777		90,202
Auto		361,210		210,192
Other		3,836		-
		2,423,986		**1,609,936**
Net	$	20,401,546	$	17,252,577

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 that will house the business operations of Wuhan Generating will provide an additional 134,656 square feet (12,510 square meters) of floor space.

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

9. CONSTRUCTION IN PROGRESS

The Company is in the process of developing a new 1,170,000 square feet turbine manufacturing facility within its factory campus.

Construction in progress represents the direct costs of design, acquisition, construction of buildings, 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 December 31, 2007 and 2006:

Category	2007	2006
Capitalized Interest	190,098	-
Construction - Design Fee	20,180	-
Construction - Inspection Fee	2,734	-
Construction - Labor Cost	558,690	-
Generating Office Equipment	9,297	-
Generating Workshop	4,101,667	31,901
Generating Workshop-Materials	1,777,389	-
Land Improvement	24,202	3,403
Landscaping	4,624	-
Miscellaneous	60,670	-
Office Building	3,093,750	-
Pavement	547	-
Showroom	46,622	-
Wall	7,013	-
	$ 9,897,484	**$ 35,304**

10. LAND USE RIGHTS

	December 31, 2007	December 31, 2006
Category of Asset		
Land Use Rights	$ 1,984,550	$ 1,856,757
Less: Accumulated Amortization	154,074	107,017
	$ 1,830,476	$ 1,749,740

The Company acquired through Wuhan Hi-Tech Blower Manufacturing Co. Ltd. (WBM) the Land Use Rights for three parcels of land totaling 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.

F-19

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

11. INTANGIBLE ASSETS

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

	December 31, 2007	December 31, 2006
Category of Asset		
Trademarks	$ 136,722	$ 127,918
Mitsubishi License	314,855	280,571
Tianyu CAD License	4,170	3,901
Sunway CAD License	15,723	-
Microsoft License	13,057	12,217
	484,527	**424,607**
Less: Accumulated Amortization		
Trademarks	23,926	15,990
Mitsubishi License	74,970	42,086
Tianyu CAD License	887	440
Sunway CAD License	524	-
Microsoft License	2,938	1,527
	103,246	**60,042**
Net	$ 381,281	$ 364,565

The weighted average amortization period for the Company's intangible assets at December 31, 2007 and 2006 was 12.82 years and 12.93 years, respectively.

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

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

F-20

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

12. BANK LOANS AND NOTES

The following table provides the name of the lender, due date, interest rate, and amounts outstanding at December 31, 2007 and 2006, for the Company's bank loans and notes payable.

Name of Bank and Note Holders	Due Date	Interest Rate Per Annum	12/31/2007	12/31/2006
Bank of Communication	On Demand	6.62%	$ -	$ 4,732,971
Bank of Communication	On Demand	6.62%	-	1,343,140
Shanghai Pudong Development Bank	10/19/2007	6.03%	-	2,046,690
Shanghai Pudong Development Bank	8/27/2008	7.02%	1,093,778	-
Shanghai Pudong Development Bank	8/22/2008	7.02%	1,093,778	-
Shanghai Pudong Development Bank	6/3/2008	6.57%	2,734,444	-
Shanghai Pudong Development Bank	6/24/2008	6.57%	546,889	-
Shanghai Pudong Development Bank	5/21/2008	6.57%	1,367,222	-
Shanghai Pudong Development Bank	10/23/2008	7.290%	2,734,444	-
Shanghai Pudong Development Bank	12/9/2008	7.290%	1,367,222	-
Shanghai Pudong Development Bank	1/7/2008	-	1,367,222	-
Citic Industrial Bank	10/12/2007	6.73%	-	2,430,445
Citic Industrial Bank	9/19/2008	7.29%	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	49,697
Citic Industrial Bank	2/17/2008	6.732%	2,734,444	
Jiang Xia	On Demand	6.00%	410,167	-
Bank of China	3/14/2008	6.83%	717,792	-
Agricultural Bank of China	10/31/2007	6.73%	-	1,279,181
Agricultural Bank of China	10/30/2007	6.73%	-	1,279,181
Hubei Gong Chuang	4/30/2008	-	5,143,490	-
Wuhan East Lake Development District Zheng Bridge Committee	On Demand	6.00%	-	383,754
Wuhan City Jinnuo Economic Development Co., Ltd.	4/17/2008	-	300,789	-
Wuhan Power Generating Equipment Manufacturing Co., Ltd.	4/12/2008	-	257,380	-
Wuhan City Jianghan District Zhongnan Material Supply Co., Ltd.	*1/11/2008*	-	*29,174*	-
	2/9/2008	-	*104,757*	-
	3/10/2008	-	*27,344*	-
	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	

F-21

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

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	
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	-	*20,508*	-
		Subtotal	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	
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	-	79,982	-
Changsha Electric Machine Works Hunan China	*1/11/2008*	-	*22,132*	-
	4/15/2008	-	*57,711*	-
		Subtotal	79,843	
Jiamusi Electric Machine Co., Ltd.	4/15/2008	-	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	-	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	

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

Baoding City Air-Blower Technology Co., Ltd.	2/9/2008	-	63,261	-
Wuhan City Futaiyin Trade Co., Ltd.	4/24/2008	-	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	-	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	-	42,711	-
Wuhan Hanyi Machinery Co., Ltd.	4/15/2008	-	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	
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	-	22,685	-
Wuhan City Xinzhou Boli Blower Co., Ltd.	4/17/2008	-	21,247	-
41 Various Other Notes	Various Dates	Various Rates	402,743	-
			$ 28,132,664	$ 13,545,059

Banking facilities extended by the Bank of Communication, CITIC Industrial Bank, Shanghai Pudong Development Bank and Agricultural Bank of China were secured by the Company's mortgage of real property. Motor vehicle loans extended by CITIC Industrial Bank were secured by the motor vehicles.

F-23

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

Note payable extended by Wuhan East Lake Development District Zheng Bridge Committee is 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
(Stated in US Dollars)

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 years ended December 31, 2007 and 2006.

	2007	2006
Balance at beginning of period	249,234	-
Add: Accruals for current & pre-existing warranties issued during year	725,626	249,234
Less: Settlements made during year	(25,257)	-
Balance at end of period	949,603	$ 249,234

14. CONTRACT PAYABLE

Contract Payable represents accounts payable to contractors and suppliers in connection with the construction of the Company's new turbine manufacturing facilities.

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

15. 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 at $2.33 per share for gross proceeds of $23,970,000. The Preferred Stock is convertible into shares of the Company's common stock on a one-for-one basis. 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 December 31, 2007, none of the Preferred Stock had been converted into common stock.

The net proceeds of $20,040,353 from the sale of Preferred Stock were accounted for as follows: -

i.	Preferred Stock at $0.0001 par value 10,287,554 shares issued and outstanding	$ 1,029
ii.	Additional Paid-in Capital attributable to Preferred Stock	13,466,990
iii.	Additional Paid-in Capital attributable to Series A Warrants, Series J Warrants, and Series B Warrants	6,572,334
iv.	Additional Paid-in Capital attributable to Beneficial Conversion Feature	10,501,982
v.	Constructive Preferred Stock Dividend Charged Against Retained Earnings	(10,501,982)
		$ 20,040,353

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

- Series A Warrants to each of the preferred stock investors to purchase shares of common stock 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.

F-26

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

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 December 31, 2007, 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.

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 share 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 December 31, 2007: -

	Number of Shares
Common Stock Outstanding	19,712,446
Common Stock Issuable upon: -	
· Conversion of Preferred Stock	10,287,554
· Exercise of Warrants	24,289,269
· Stock Options	60,000
Total Amount of Fully Diluted Common Stock	54,349,269

F-27

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

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 achieves certain price and volume requirements.

The Company under its financing agreement, as described in Note 19, 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 earnings per share of $0.465 based on 30,000,000 shares outstanding for the year ended December 31, 2007, and net income of $22,000,000 for the year ended December 30, 2008. The Company is also required under its financing agreement to gain listing on the NASDAQ Capital or NASDAQ Global stock market by December 31, 2007. A more detailed description of the threshold that the Company must achieve can be found in Exhibit 10.4 “Securities Escrow Agreement” dated February 7, 2007 at the SEC’s website. 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, they 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”) must pay liquidated damages if it fails to meet the following five requirements: (A) file a registration statement within 30 days of the closing of the financing, (B) registration statement is not declared effective within 150 days after closing, (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. The Company has calculated the maximum amount of liquidated damages to be $309,944.

The Company has accrued a liability for the liquidated damages of $309,944, which reflects the maximum.

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

16. COMMITMENTS OF STATUTORY RESERVE

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

	December 31, 2007	December 31, 2006
Registered Capital in PRC	$ 35,982,303	$ 12,351,573
50% maximum thereof	17,991,152	6,175,786
Less: Amounts Appropriated to Statutory Reserve	633,771	622,151
Unfunded Commitment	$ 17,357,381	$ 5,553,635

17. OTHER INCOME

	Year ended December 31, 2007	Year ended December 31, 2006
Tax Refund	$ 34,864	$ -
Sundry Income	7,233	26,977
	$ 42,097	$ 26,977

F-29

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

18. INCOME TAXES

Prior to January 1, 2008 the Company benefited from a two year tax holiday and a three year preferential tax rate. However, on March 16, 2007, the PRC government passed new tax legislation that repealed preferential tax treatment and enacted new tax regulations. Under such regulations, with certain exceptions, both domestic and foreign enterprises will be taxed at a standard enterprise income tax rate of 25%. 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. The Company is able to benefit from such preference because of its status as a high-technology enterprise. In order to maintain its preferential tax status, the Company must remain located and registered in the high and advanced technology development zone.

The Company's foreign subsidiaries are subject to U.S. income tax liability; however, the tax is deferred until foreign source income is repatriated to the Company.

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

Taxable Income

Rate	*Over*	*But not over*	*Of Amount Over*
15%	0	50,000	0
25%	50,000	75,000	50,000
34%	75,000	100,000	75,000
39%	100,000	335,000	100,000
34%	335,000	10,000,000	335,000
35%	10,000,000	15,000,000	10,000,000
38%	15,000,000	18,333,333	15,000,000
35%	18,333,333	-	0

19. FINANCING - ISSUANCE OF SERIES A CONVERTIBLE PREFERRED STOCK

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

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

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

A portion of the net proceeds from the sale of preferred stock and warrants was used to pay for part of the construction costs of the turbine manufacturing facility in Wuhan, China and the purchase of equipment to be used in that facility. The remaining net proceeds were used for working capital.

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

20. EARNINGS PER SHARE

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

		12 months ended December 31, 2007		12 months ended December 31, 2006
Net Income (A)	$	14,869,869	$	3,202,268
Preferred Dividends (B)		1,072,904		-
Constructive Preferred Dividends (C)		10,501,982		-
Income Available to Common Stockholders (D)	$	3,294,983	$	3,202,268
Basic Weighted Average Shares Outstanding (E)		19,712,446		19,712,446
Dilutive Shares:				
- Addition to Common Stock from Conversion of Preferred Stock (*anti-dilutive)*		-		-
- Addition to Common Stock from Exercise of Warrants		13,921,385		-
Diluted Weighted Average Shares Outstanding: (F)		**33,633,831**		**19,712,446**
Earnings Per Share				
- Basic (D)/(E)	$	0.17	$	0.16
- Diluted (D)/(F)	$	0.10	$	0.16
Weighted Average Shares Outstanding				
- Basic		19,712,446		19,712,446
- Diluted		33,633,831		19,712,446
Supplemental Data:				
Proforma Earnings Per Shares in the Absence of Constructive Preferred Dividend				
- Basic [(A) + (B)] / (E)	$	0.70	$	0.16
- Diluted (A) / [(F) + (G)]	$	0.35	$	0.16
Weighted Average Shares Outstanding				
- Basic		19,712,446		19,712,446
- Diluted		42,864,053		19,712,446
Weighted Average Shares of Common Stock if all Convertible Preferred Stock had been converted (G)		9,230,222		**-**

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

21. 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, and for the year ended December 31, 2007. 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	$ 44,578,702	$ 37,924,809	-	$ 82,503,510
Cost of Sales	28,413,930	29,015,155	-	57,429,085
Gross Profit	16,164,772	8,909,654	-	25,074,426
Operating Expenses	6,611,920	1,037,697	1,025,036	8,674,653
Other Income (Expenses)	(1,053,340)	(199,063)	(277,500)	(1,529,903)
Earnings before Tax	8,499,512	7,672,894	(1,302,537)	14,869,869
Tax	-	-	-	-
Net Income	**$ 8,499,512**	**$ 7,672,894**	**$ (1,302,537)**	**$ 14,869,869**

	Wuhan Blower	Wuhan Generating Equipment	Company, UFG, Adjustments	Total
Current Assets	60,908,312	15,333,295	(8,392,302)	67,849,304
Non Current Assets	21,937,985	10,572,803	-	32,510,788
Total Assets	**82,846,297**	**25,906,097**	**(8,392,302)**	**100,360,092**
Current Liabilities	33,017,486	11,155,452	825,120	44,998,059
Total Liabilities	33,017,486	11,155,452	825,120	44,998,059
Net Assets	49,828,811	14,750,645	(9,217,423)	55,362,033
Total Liabilities & Net Assets	**82,846,297**	**25,906,097**	**(8,392,302)**	**100,360,092**

F-33

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

22. CONTINGENCIES

(a) Disputes

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.

(b) NASDAQ Listing Requirement

At December 31, 2007, the Company's stock was not listed on the NASDAQ Capital Markets. Accordingly, the Company is potentially liable for the issuance of shares to the investors in the February 2007 private placement which is described in Note 19. The penalty calls for the company to potentially issue 1,500,000 shares to those investors for its delinquency. Additionally, if the Company does not achieve a NASDAQ listing by March 31, 2008, it can potentially be required to issue an additional 3,000,000 shares. For each month after March 31, 2008, measured on the last day of each month, that the Company's stock is not listed on NASDAQ, it will be responsible to issue an additional 1,500,000 shares. The Company believes that it currently has enough authorized capital of 100,000,000 shares to meet this potential liability. At the investors discretion, in lieu of the company issuing shares, Fame Good, the majority stockholder of the Company, may be required to transfer shares from an escrow account to the investors to fulfill this obligation.

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

23. STOCK COMPENSATION EXPENSE

On November 30, 2007, the Company established a stock option plan for employees, directors, and other service providers. On that date, the Company reserved 3,000,000 shares of authorized common stock for issuance under the plan.

For the year ended December 31, 2007, the Company recorded $14,480 stock compensation expense for stock options granted in 2007. There were no grants that vested in 2007. The entire stock option compensation expense was recorded as a general and administrative expense, given the nature of the work contributions by the grantees. The stock options that were granted in 2007 are expected to vest in their entirety in2008.

The range of the exercise prices of the stock options granted are shown in the following table: -

Price Range	Number of Shares
$0 - $9.99	60,000 shares
$10.00 - $19.99	0 shares
$20.00 - $29.99	0 shares

No tax benefit has yet to be accrued or realized. In 2007, 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:	$2.896
Risk-free interest rate:	3.97%
Expected volatility:	20.00%
Expected life in months:	120 months

F-35

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

24. MAJOR DEVELOPMENT IN SALES

In July 2007, the Company entered into a contract with Jiangsu Huangli Paper Industry Co., Ltd. to build a thermal electric power plant with four boiler furnaces and two turbine generator groups in Jiangyin, Jiangsu. The Company expects to receive approximately $26.37 million to construct this power plant, and this total amount will be paid to the Company in monthly payments over a period of one year. If Jiangsu Huangli fails to make timely payments to the Company, the Company is contractually bound to assume the cost to continue with the construction of the power plant. Although the Company does not currently anticipate this happening, if the Company was required to assume construction costs, the power plant project would become a joint venture between the Company and Jiangsu Huangli. The Company plans to complete the power plant around June 30, 2008.

The Company records revenue for the contract with Huangli under the percentage of completion method. The Company obtains independent certification of completion in order to determine the progress of the contract.

The Company does not plan to use the power plant as part of its own operations. Huangli is located in the Jiangsu Province, and the Company is located in the Hubei Province. The two companies are too far apart in physical distance for the power plant to be able to provide electricity for the manufacture of Wuhan General’s products; however, in the event that the power plant becomes a joint venture between Huangli and the Company, the joint venture will sell electricity to Huangli.

Jiangsu Huangli Paper Industry Co., Ltd. is not a related party.

For the year ended December 31, 2007, the Company has recorded revenue of $9,914,522, cost of sales of $7,627,884, and related gross profit of $2,286,638 for the contract with Huangli. At December 31, 2007, receivables from Huangli have been in good standing.

25. 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 as detailed in Note 19. 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.