

## **INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors and Stockholders  
General Bearing Corporation

We have audited the consolidated balance sheets of General Bearing Corporation and Subsidiaries (the "Company") as of January 1, 2011 and January 2, 2010, and the related consolidated statements of income and comprehensive income, changes in stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of General Bearing Corporation and Subsidiaries as of January 1, 2011 and January 2, 2010, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

*UHY* LLP

New York, New York  
April 21, 2011

**GENERAL BEARING CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
(In Thousands, except for shares)

	<u>January 1, 2011</u>	<u>January 2, 2010</u>
<b>ASSETS</b>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 7,062	\$ 7,894
Accounts receivable, net of allowance for doubtful accounts of \$668 in 2010 and \$1,010 in 2009	21,005	27,171
Inventories	38,946	32,645
Prepaid taxes and taxes recoverable	3,354	2,738
Prepaid expenses and other current assets	3,329	3,133
Advances to affiliates	397	-
Deferred income taxes	1,389	1,299
<b>Total current assets</b>	<b>75,482</b>	<b>74,880</b>
PROPERTY, PLANT AND EQUIPMENT	20,764	38,173
EQUITY INVESTMENTS IN JOINT VENTURES AND AFFILIATES	13,498	3,514
LOAN RECEIVABLE - OFFICER	1,280	1,320
DEFERRED INCOME TAXES	624	677
OTHER ASSETS	119	740
<b>Total Assets</b>	<b>\$ 111,767</b>	<b>\$ 119,304</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
CURRENT LIABILITIES		
Notes payable - banks	\$ 11,998	\$ 19,034
Notes payable - related party	-	3,294
Accounts payable - trade	17,057	13,552
Accounts payable - affiliate	3,526	1,308
Accrued expenses and other current liabilities	5,532	4,737
Current portion of long-term debt	15	-
<b>Total current liabilities</b>	<b>38,128</b>	<b>41,925</b>
LONG-TERM DEBT	55	4,392
OTHER LIABILITIES	1,519	166
DEFERRED INCOME TAXES	264	48
<b>Total liabilities</b>	<b>39,966</b>	<b>46,531</b>
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY		
Common shares - par value \$.01 per share; 5,000,000 shares authorized; 4,174,450 issued and outstanding in 2010 and 2009	42	42
Paid-in capital	38,294	38,411
Accumulated other comprehensive income	4,430	3,163
Treasury stock, at cost; 546,747 and 542,817 shares, in 2010 and 2009, respectively	(5,075)	(4,981)
Retained Earnings	18,179	14,257
<b>Total General Bearing Corporation stockholders' equity</b>	<b>55,870</b>	<b>50,892</b>
NONCONTROLLING INTERESTS	15,931	21,881
<b>Total stockholders' equity</b>	<b>71,801</b>	<b>72,773</b>
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$ 111,767</b>	<b>\$ 119,304</b>

**GENERAL BEARING CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME**  
(In Thousands, except for shares and per share data)

	<b>Years Ended</b>	
	<u>January 1, 2011</u>	<u>January 2, 2010</u>
<b>SALES</b>	<b>\$ 157,724</b>	<b>\$ 102,354</b>
COST OF SALES	<u>122,963</u>	<u>84,108</u>
GROSS PROFIT	<b>34,761</b>	18,246
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	<u>22,782</u>	15,245
OPERATING INCOME	<b>11,979</b>	3,001
OTHER EXPENSES, NET	<u>2,221</u>	814
INCOME FROM OPERATIONS BEFORE INCOME TAXES	<b>9,758</b>	2,187
INCOME TAXES	<u>3,923</u>	104
NET INCOME	<b>5,835</b>	2,083
Less: Net income attributable to the noncontrolling interests	<u>1,913</u>	654
<b>NET INCOME ATTRIBUTABLE TO GENERAL BEARING CORPORATION</b>	<b><u>\$ 3,922</u></b>	<b><u>\$ 1,429</u></b>
<b>Other Comprehensive Income</b>		
Net Income	<b>\$ 5,835</b>	<b>\$ 2,083</b>
Foreign exchange translation	<u>1,834</u>	-
<b>Total comprehensive income</b>	<b>7,669</b>	2,083
Comprehensive income attributable to the noncontrolling interests	<u>2,480</u>	654
<b>Comprehensive income attributable to General Bearing Corporation</b>	<b><u>\$ 5,189</u></b>	<b><u>\$ 1,429</u></b>
Net income per common share:		
Basic	<b>\$ 1.08</b>	<b>\$ 0.39</b>
Diluted	<b>\$ 1.06</b>	<b>\$ 0.39</b>
Weighted average number of common shares		
Basic	<b>3,641,047</b>	3,630,985
Diluted	<b>3,704,737</b>	3,694,030

# GENERAL BEARING CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CHANGES IN GENERAL BEARING CORPORATION STOCKHOLDERS' EQUITY

Years Ended January 1, 2011 and January 2, 2010

(In Thousands, except for shares)

	<u>Common Shares</u>		Paid-In Capital	Accumulated Other Comprehensive Income	<u>Treasury Stock</u>		Retained Earnings	Total
	Shares	Amt.			Shares	Amt.		
<b>Balance, January 3, 2009</b>	4,174,450	\$ 42	\$ 38,423	\$ 3,163	561,817	\$ (5,159)	\$ 12,828	\$ 49,297
Shares issued as compensation	-	-	(36)	-	(21,000)	193	-	157
Options issued as compensation	-	-	24	-	-	-	-	24
Treasury shares, at cost	-	-	-	-	2,000	(15)	-	(15)
Net income	-	-	-	-	-	-	1,429	1,429
<b>Balance, January 2, 2010</b>	4,174,450	\$ 42	\$ 38,411	\$ 3,163	542,817	\$ (4,981)	\$ 14,257	\$ 50,892
Shares issued as cash compensation	-	-	(49)	-	(21,000)	193	-	144
Options issued as compensation	-	-	42	-	-	-	-	42
Purchase of stock options	-	-	(110)	-	-	-	-	(110)
Foreign exchange translation	-	-	-	1,267	-	-	-	1,267
Treasury shares, at cost	-	-	-	-	24,930	(287)	-	(287)
Net income	-	-	-	-	-	-	3,922	3,922
<b>Balance, January 1, 2011</b>	<u>4,174,450</u>	<u>\$ 42</u>	<u>\$ 38,294</u>	<u>\$ 4,430</u>	<u>546,747</u>	<u>\$ (5,075)</u>	<u>\$ 18,179</u>	<u>\$ 55,870</u>

**GENERAL BEARING CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(In Thousands)

	Years Ended	
	January 1, 2011	January 2, 2010
<b>OPERATING ACTIVITIES</b>		
Net income	\$ 3,922	\$ 1,429
Adjustments to reconcile net income to net cash provided by operating activities:		
Noncontrolling interests	1,913	654
Depreciation and amortization	5,458	4,855
Deferred income taxes	(343)	(320)
Equity earnings in joint ventures and affiliates	(566)	(76)
Gain on sale of investment	(73)	-
Loss on disposal of property, plant and equipment	522	197
Stock based compensation	186	24
Other non - cash charges and credits, net	-	(24)
Changes in:		
Accounts receivable	(6,198)	(4,046)
Inventories	(12,400)	11,482
Due from bank	-	4,338
Prepaid expenses and other assets	(2,808)	(2,310)
Advances to affiliates	1,278	(13)
Accounts payable and accrued expenses	10,464	(2,020)
Net cash provided by operating activities	<u>1,355</u>	<u>14,170</u>
<b>INVESTING ACTIVITIES</b>		
Investment in affiliates	(1,030)	(1,600)
Fixed asset purchases	(4,471)	(2,612)
Proceeds from dispositions	601	-
Cash of deconsolidated subsidiary	(690)	-
Repayment of loan - officer	40	30
Proceeds from sale of fixed assets	755	14
Net cash used in investing activities	<u>(4,795)</u>	<u>(4,168)</u>
<b>FINANCING ACTIVITIES</b>		
Increase / (decrease) in note payable - banks	5,966	(9,602)
Increase / (decrease) in note payable - other	70	(36)
Decrease in notes payable - related party	(7,687)	(1,098)
Increase in revolving credit facility	4,422	-
Purchase of treasury stock	(287)	(15)
Purchase of employee stock options	(110)	-
Net cash provided by / (used in) financing activities	<u>2,374</u>	<u>(10,751)</u>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(1,066)</b>	<b>(749)</b>
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS, Beginning of Year</b>	<b>7,894</b>	<b>8,643</b>
<b>CASH AND CASH EQUIVALENTS, End of Year</b>	<b>\$ 7,062</b>	<b>\$ 7,894</b>