

## 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 December 31, 2011 and January 1, 2011, 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 December 31, 2011 and January 1, 2011, 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.

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New York, New York  
April 6, 2012

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

	<u>December 31,</u> 2011	<u>January 1,</u> 2011
<b>ASSETS</b>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 12,589	\$ 7,062
Accounts receivable, net of allowance for doubtful accounts of \$692 in 2011 and \$668 in 2010	28,481	21,005
Inventories	53,723	38,946
Prepaid taxes and taxes recoverable	3,735	3,354
Prepaid expenses and other current assets	2,249	3,329
Note receivable	9,627	-
Loan receivable - officer	1,286	-
Advances to affiliates	-	397
Deferred income taxes	1,740	1,389
<b>Total current assets</b>	<b>113,430</b>	<b>75,482</b>
PROPERTY, PLANT AND EQUIPMENT	23,719	20,764
EQUITY INVESTMENTS IN JOINT VENTURES AND AFFILIATES	5,509	13,498
LOAN RECEIVABLE - OFFICER	-	1,280
DEFERRED INCOME TAXES	529	624
OTHER ASSETS	201	119
<b>Total Assets</b>	<b>\$ 143,388</b>	<b>\$ 111,767</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
CURRENT LIABILITIES		
Notes payable - banks	\$ 6,339	\$ 11,998
Accounts payable - trade	18,930	17,057
Accounts payable - affiliate	2,194	3,526
Accrued expenses and other current liabilities	7,765	5,532
Current portion of long-term debt	20	15
<b>Total current liabilities</b>	<b>35,248</b>	<b>38,128</b>
LONG-TERM DEBT	9,376	55
OTHER LIABILITIES	1,138	1,519
DEFERRED INCOME TAXES	250	264
<b>Total liabilities</b>	<b>46,012</b>	<b>39,966</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 2011 and 2010	42	42
Paid-in capital	37,736	38,294
Accumulated other comprehensive income	3,698	4,430
Treasury stock, at cost; 807,848 and 546,747 shares, in 2011 and 2010, respectively	(9,651)	(5,075)
Retained Earnings	40,338	18,179
<b>Total General Bearing Corporation stockholders' equity</b>	<b>72,163</b>	<b>55,870</b>
NONCONTROLLING INTERESTS	25,213	15,931
<b>Total stockholders' equity</b>	<b>97,376</b>	<b>71,801</b>
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$ 143,388</b>	<b>\$ 111,767</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>	
	<b>December 31, 2011</b>	<b>January 1, 2011</b>
<b>SALES</b>	<b>\$ 156,150</b>	<b>\$ 157,724</b>
COST OF SALES	<b>112,851</b>	<b>122,963</b>
GROSS PROFIT	<b>43,299</b>	<b>34,761</b>
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	<b>19,840</b>	<b>22,782</b>
OPERATING INCOME	<b>23,459</b>	<b>11,979</b>
OTHER (INCOME) / EXPENSES, NET	<b>(613)</b>	<b>2,221</b>
INCOME FROM OPERATIONS BEFORE GAIN ON SALE AND INCOME TAXES	<b>24,072</b>	<b>9,758</b>
INCOME TAXES	<b>5,493</b>	<b>3,923</b>
INCOME FROM OPERATIONS BEFORE GAIN ON SALE	<b>18,579</b>	<b>5,835</b>
GAIN ON SALE OF JOINT VENTURE, NET OF TAX OF \$3,185	<b>7,937</b>	<b>-</b>
NET INCOME	<b>26,516</b>	<b>5,835</b>
Less: Net income attributable to the noncontrolling interests	<b>4,357</b>	<b>1,913</b>
<b>NET INCOME ATTRIBUTABLE TO GENERAL BEARING CORPORATION</b>	<b>\$ 22,159</b>	<b>\$ 3,922</b>
<b>Other Comprehensive Income</b>		
Net Income	<b>\$ 26,516</b>	<b>\$ 5,835</b>
Foreign exchange translation	<b>193</b>	<b>1,834</b>
<b>Total comprehensive income</b>	<b>26,709</b>	<b>7,669</b>
Comprehensive income attributable to the noncontrolling interests	<b>5,282</b>	<b>2,480</b>
<b>Comprehensive income attributable to General Bearing Corporation</b>	<b>\$ 21,427</b>	<b>\$ 5,189</b>
Net income per common share:		
Basic	<b>\$ 6.59</b>	<b>\$ 1.08</b>
Diluted	<b>\$ 6.49</b>	<b>\$ 1.06</b>
Weighted average number of common shares		
Basic	<b>3,362,314</b>	<b>3,641,047</b>
Diluted	<b>3,414,964</b>	<b>3,704,737</b>

# GENERAL BEARING CORPORATION AND SUBSIDIARIES

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

Years Ended December 31, 2011 and January 1, 2011

(In Thousands, except for shares)

	Common Shares		Paid-In Capital	Accumulated Other Comprehensive Income		Treasury Stock		Retained Earnings	GBC		Total
	Shares	Amt.		Shares	Amt.	Shares	Amt.		Sub Total	Minority Interest	
<b>Balance, January 2, 2010</b>	4,174,450	\$ 42	\$ 38,411	\$ 3,163	542,817	\$ (4,981)	\$ 14,257	\$ 50,892	\$ 21,881	\$ 72,773	
Shares issued as compensation	-	-	(49)	-	(21,000)	193	-	144	-	144	
Options issued as compensation	-	-	42	-	-	-	-	42	-	42	
Purchase of stock options	-	-	(110)	-	-	-	-	(110)	-	(110)	
Foreign exchange translation	-	-	-	1,267	-	-	-	1,267	899	2,166	
Deconsolidation of JGBR & Nantong	-	-	-	-	-	-	-	-	(8,762)	(8,762)	
Treasury shares, at cost	-	-	-	-	24,930	(287)	-	(287)	-	(287)	
Net income	-	-	-	-	-	-	3,922	3,922	1,913	5,835	
<b>Balance, January 1, 2011</b>	4,174,450	\$ 42	\$ 38,294	\$ 4,430	546,747	\$ (5,075)	\$ 18,179	\$ 55,870	\$ 15,931	\$ 71,801	
Shares issued as cash compensation	-	-	(20)	-	(15,000)	179	-	159	-	159	
Options issued as compensation	-	-	13	-	-	-	-	13	-	13	
Options exercised	-	-	(184)	-	(22,500)	268	-	84	-	84	
Purchase of stock options	-	-	(367)	-	-	-	-	(367)	-	(367)	
Partner investment in joint venture	-	-	-	-	-	-	-	-	4,000	4,000	
Foreign exchange translation	-	-	-	(732)	-	-	-	(732)	925	193	
Treasury shares, at cost	-	-	-	-	298,601	(5,023)	-	(5,023)	-	(5,023)	
Net income	-	-	-	-	-	-	22,159	22,159	4,357	26,516	
<b>Balance, December 31, 2011</b>	<u>4,174,450</u>	<u>\$ 42</u>	<u>\$ 37,736</u>	<u>\$ 3,698</u>	<u>807,848</u>	<u>\$ (9,651)</u>	<u>\$ 40,338</u>	<u>\$ 72,163</u>	<u>\$ 25,213</u>	<u>\$ 97,376</u>	

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

	Years Ended	
	December 31, 2011	January 1, 2011
<b>OPERATING ACTIVITIES</b>		
Net income	\$ 22,159	\$ 3,922
Adjustments to reconcile net income to net cash provided by operating activities:		
Noncontrolling interests	4,357	1,913
Depreciation and amortization	3,256	5,458
Deferred income taxes	(270)	(343)
Equity earnings in joint ventures and affiliates	(2,365)	(566)
Gain on sale of unconsolidated subsidiary	(7,937)	(73)
Loss / (Gain) on disposal of property, plant and equipment	(14)	522
Stock based compensation	171	186
Other non - cash charges and credits, net	171	-
Changes in:		
Accounts receivable	(7,476)	(6,198)
Inventories	(14,777)	(12,400)
Prepaid expenses and other assets	455	(2,808)
Advances to affiliates	(937)	1,278
Accounts payable and accrued expenses	540	10,464
Net cash provided by / (used in) operating activities	<u>(2,667)</u>	<u>1,355</u>
<b>INVESTING ACTIVITIES</b>		
Investment in affiliates	(2,125)	(1,030)
Fixed asset purchases	(5,404)	(4,471)
Proceeds from the sale of unconsolidated subsidiary	12,625	601
Cash of deconsolidated subsidiary	-	(690)
Repayment of loan - officer	40	40
Proceeds from sale of fixed assets	150	755
Net cash provided by / (used in) investing activities	<u>5,286</u>	<u>(4,795)</u>
<b>FINANCING ACTIVITIES</b>		
Increase / (decrease) in note payable - banks	(1,237)	5,966
Increase in note payable - other	8	70
Decrease in notes payable - related party	-	(7,687)
Proceeds from partner contributions in a joint venture	4,000	-
Increase in revolving credit facility	4,895	4,422
Proceeds from the exercise of common stock options	84	-
Purchase of treasury stock	(5,023)	(287)
Purchase of employee stock options	(367)	(110)
Net cash provided by financing activities	<u>2,360</u>	<u>2,374</u>
<b>NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>4,979</b>	<b>(1,066)</b>
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH</b>	<b>548</b>	<b>234</b>
<b>CASH AND CASH EQUIVALENTS, Beginning of Year</b>	<b>7,062</b>	<b>7,894</b>
<b>CASH AND CASH EQUIVALENTS, End of Year</b>	<b>\$ 12,589</b>	<b>\$ 7,062</b>
<b>NON-CASH INVESTING</b>		
Notes receivable in connection with sale of a joint venture	\$ 9,627	\$ -