

REPORT OF INDEPENDENT AUDITORS

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 30, 2006 and December 31, 2005, 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 30, 2006 and December 31, 2005, 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 11, 2007

GENERAL BEARING CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In Thousands, except for shares)

	December 30, 2006	December 31, 2005
	<u>2006</u>	<u>2005</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 8,031	\$ 9,751
Due from bank	5,356	-
Due from government	5,864	-
Accounts receivable, net of allowance for doubtful accounts of \$679 in 2006 and \$547 in 2005	23,196	19,207
Inventories	37,951	33,927
Prepaid taxes and taxes recoverable	1,760	1,922
Prepaid expenses and other current assets	2,457	3,205
Advances to affiliates	44	53
Deferred tax assets	865	877
Total current assets	85,524	68,942
PROPERTY, PLANT AND EQUIPMENT	28,413	29,298
INVESTMENT IN, ADVANCES TO AND ACCOUNTS RECEIVABLE FROM JOINT VENTURES AND AFFILIATES	1,734	628
OTHER ASSETS	3,704	1,031
Total Assets	\$ 119,375	\$ 99,899
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Notes payable - banks	\$ 34,116	\$ 20,319
Accounts payable	16,628	13,936
Accrued expenses and other current liabilities	7,220	7,245
Current portion of long-term debt	-	2,505
Total current liabilities	57,964	44,005
LONG-TERM DEBT	6,637	7,676
OTHER LIABILITIES	197	-
DEFERRED TAXES	78	96
Total liabilities	64,876	51,777
MINORITY INTERESTS	15,340	15,751
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY		
Common shares - par value \$.01 per share; authorized 5,000,000 and 19,000,000 shares; 4,174,450 issued and outstanding in 2006 and 2005	42	42
Paid-in capital	39,595	40,232
Accumulated other comprehensive income	805	270
Treasury stock, at cost; 438,728 and 354,728 shares	(2,718)	(1,272)
Retained Earnings / Accumulated deficit	1,435	(6,901)
Total stockholders' equity	39,159	32,371
Total Liabilities and Stockholders' Equity	\$ 119,375	\$ 99,899

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

	<u>Years Ended</u>	
	<u>December 30, 2006</u>	<u>December 31, 2005</u>
SALES	\$ 119,462	\$ 109,873
COST OF SALES	<u>84,019</u>	<u>77,057</u>
GROSS PROFIT	35,443	32,816
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	<u>18,796</u>	18,005
OPERATING INCOME	16,647	14,811
OTHER EXPENSES, NET	<u>2,374</u>	<u>2,167</u>
INCOME FROM OPERATIONS BEFORE INCOME TAXES	14,273	12,644
INCOME TAXES	<u>3,652</u>	<u>3,496</u>
INCOME FROM OPERATIONS BEFORE MINORITY INTERESTS	10,621	9,148
MINORITY INTERESTS	<u>(2,285)</u>	<u>(1,930)</u>
NET INCOME	<u>\$ 8,336</u>	<u>\$ 7,218</u>
Other Comprehensive Income		
Foreign exchange translation	418	452
Mark to market-interest rate swap	<u>117</u>	<u>276</u>
Total comprehensive income	<u>\$ 8,871</u>	<u>\$ 7,946</u>
Net income per common share:		
Basic	\$ 2.19	\$ 1.90
Diluted	\$ 2.12	\$ 1.84
Weighted average number of common shares		
Basic	3,808,293	3,805,450
Diluted	3,934,770	3,927,466

GENERAL BEARING CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
Years Ended December 30, 2006 and December 31, 2005
(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.		
Balance, January 1, 2005	4,174,450	\$ 42	\$ 40,232	\$ (458)	384,228	\$ (1,395)	\$ (14,119)	\$ 24,302
Shares issued - board comp	-	-	-	-	(29,500)	123	-	123
Foreign exchange translation	-	-	-	452	-	-	-	452
Mark to market - interest swap	-	-	-	276	-	-	-	276
Net income	-	-	-	-	-	-	7,218	7,218
Balance, December 31, 2005	4,174,450	42	40,232	270	354,728	(1,272)	(6,901)	32,371
Shares issued - board comp	-	-	83	-	(17,500)	63	-	146
Shares issued to officer	-	-	87	-	(28,000)	100	-	187
Purchase of stock options	-	-	(826)	-	-	-	-	(826)
Options exercised	-	-	-	-	(1,000)	3	-	3
Options granted	-	-	19	-	-	-	-	19
Treasury shares, at cost	-	-	-	-	130,500	(1,612)	-	(1,612)
Foreign exchange translation	-	-	-	418	-	-	-	418
Mark to market - interest swap	-	-	-	117	-	-	-	117
Net income	-	-	-	-	-	-	8,336	8,336
Balance, December 30, 2006	4,174,450	\$ 42	\$ 39,595	\$ 805	438,728	\$ (2,718)	\$ 1,435	\$ 39,159

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

	Years Ended	
	December 30, 2006	December 31, 2005
OPERATING ACTIVITIES		
Net income	\$ 8,336	\$ 7,218
Adjustments to reconcile net income to net cash provided by operating activities:		
Minority interests	2,285	1,930
Depreciation and amortization	3,422	3,417
Deferred income taxes	(5)	441
Equity earnings in joint ventures and affiliates	(34)	(36)
Loss / (Gain) on disposal of property, plant and equipment	27	(85)
Other non - cash charges and credits, net	(10)	52
Changes in:		
Accounts receivable	(3,989)	(2,395)
Inventories	(4,025)	(6,814)
Due from bank	(5,356)	-
Prepaid expenses and other assets	(2,174)	(1,951)
Advances to affiliates	2	(59)
Accounts payable and accrued expenses	3,124	2,368
Net cash provided by operating activities	<u>1,603</u>	<u>4,086</u>
INVESTING ACTIVITIES		
Investment in affiliates	(813)	-
Cash paid for additional equity, net	-	(921)
Return of capital paid to minority interests	(2,051)	-
Fixed asset purchases	(7,461)	(7,505)
Dividends paid to minority stockholders	(589)	(538)
Proceeds from sale of fixed assets	20	151
Net cash used in investing activities	<u>(10,894)</u>	<u>(8,813)</u>
FINANCING ACTIVITIES		
Repayment of capital lease	-	(65)
Increase in note payable - banks	10,273	12,412
Decrease in note payable - other	(2,505)	(200)
Net repayment / (proceeds from) of revolving credit facility	2,485	(4,545)
Proceeds from partner contributions in a joint venture	-	2,125
Proceeds from the exercise of common stock options	4	-
Purchase of treasury stock	(1,612)	-
Purchase of employee stock options	(826)	-
Net cash provided by financing activities	<u>7,819</u>	<u>9,727</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,472)	5,000
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(248)	(127)
CASH AND CASH EQUIVALENTS, Beginning of Year	9,751	4,878
CASH AND CASH EQUIVALENTS, End of Year	\$ 8,031	\$ 9,751