



PROSPECTUS DATED 12 OCTOBER 2006

(registered with the Monetary Authority of Singapore on 12 October 2006)

This document is important. If you are in any doubt as to the action you should take, you should consult your legal, financial, tax or other professional adviser.

We have made an application to the Singapore Exchange Securities Trading Limited ("SGX-ST") for permission to deal in, and for quotation of, all the ordinary shares (the "Shares") in the capital of **China Bearing (Singapore) Ltd.** (the "Company") already issued (including the Vendor Shares as defined in this Prospectus), and the new shares which are the subject of this Invitation (the "New Shares"). Such permission will be granted when we have been admitted to the Official List of the SGX-ST. The dealing in, and quotation of, the Shares will be in Singapore Dollars.

Acceptance of applications will be conditional upon, inter alia, the issue of the New Shares and permission being granted to deal in, and for quotation of, all the existing issued Shares (including the Vendor Shares) and the New Shares. If the completion of the Invitation does not occur because such permission is not granted or for any other reasons, monies paid in respect of any application accepted will be returned to you, subject to applicable laws, at your own risk, without interest or any share of revenue or other benefit arising therefrom and you will not have any claims against us, the Vendor or the Manager, Underwriter and Placement Agent.

The SGX-ST assumes no responsibility for the correctness of any of the statements made, reports contained or opinions expressed in this Prospectus. Admission to the Official List of the SGX-ST is not to be taken as an indication of the merits of the Invitation, our Company, our subsidiary, our Shares (including the Vendor Shares) or the New Shares.

A copy of this Prospectus has been lodged with and registered by the Monetary Authority of Singapore (the "Authority") on 28 August 2006 and 12 October 2006 respectively. The Authority assumes no responsibility for the contents of this Prospectus. Registration of the Prospectus by the Authority does not imply that the Securities and Futures Act (Chapter 289) of Singapore, or any other legal or regulatory requirements, have been complied with. The Authority has not, in any way, considered the merits of our existing issued Shares (including the Vendor Shares) or the New Shares, as the case may be, being offered for investment. We have not lodged or registered this Prospectus in any other jurisdiction.

Investing in our Shares involves risks which are described in the section "RISK FACTORS" of this Prospectus. No Shares will be allotted or allocated on the basis of this Prospectus later than six months after the date of registration of this Prospectus by the Authority.



China Bearing (Singapore) Ltd. **中国轴承(新加坡)有限公司**

(Incorporated in Singapore on 31 August 2005)
(Registration Number: 200512048E)

Invitation in respect of 61,000,000 Invitation Shares comprising 60,000,000 New Shares and 1,000,000 Vendor Shares as follows:-

- (a) 2,000,000 Offer Shares at S\$0.32 each by way of public offer; and
- (b) 59,000,000 Placement Shares at S\$0.32 each by way of placement,

payable in full on application.

MANAGER, UNDERWRITER AND PLACEMENT AGENT



PHILLIP SECURITIES PTE LTD

About Us

We are a manufacturer of bearings in the PRC. With a strong emphasis on research and development and a drive to continually enhance our products, we are able to design, develop, manufacture and sell our bearings to be installed in automobiles, equipment and machineries for industrial and agricultural uses, under our "Yimeng" ("沂蒙") brand.

Our operations and production facilities are located in Yinan County, Shandong Province and occupy about 41,745 square metres in gross floor area.

Our current annual production capacity is approximately 16,800,000 sets of bearings.



Our Products

We have a range of more than 200 different types of bearings, broadly divided into four main international classifications: –



1) Class "3" standard tapered roller bearings



2) Class "5" thrust ball bearings



3) Class "N" cylindrical roller bearings



4) British system annular tapered roller bearings

In addition to internationally standardised products, we also manufacture customised bearings to cater to customers' needs.

Our bearings are classified into three main categories according to their uses: –

- (a) Micro-size bearings for use in light commercial vehicles of below 3 tonnes, such as vans and mini buses
- (b) Light bearings for use in vehicles of between 3 to 10 tonnes, such as light trucks, pick-ups, forklifts and agricultural vehicles
- (c) Heavy bearings for use in vehicles of over 10 tonnes, such as buses, coaches, container trucks and cranes



Our Major Customers

We have built long-term working relationships with many of our major customers, resulting in a stable customer base.

SOME OF OUR MAJOR CUSTOMERS INCLUDE:

- Shandong Shifeng (Group) Co., Ltd.
- Liaoning SG Axle Joint Stock Co., Ltd.
- Yantai Timken Co., Ltd.
- Shaanxi Hande Axle Co., Ltd.
- Zhucheng Yihe Axle Co., Ltd.

Awards and Certifications

We have a long-standing and credible track record since commencement of business in 1988, with numerous awards received which attest to our product quality, brand reputation and good track record.

SOME NOTABLE AWARDS INCLUDE:

- Automobile Industry Leading Accessories and Parts Manufacturing Enterprise in Shandong Province in 2004
- Shandong Well-known Brand in 2004 and 2005
- Shandong Famous Trademark in 2005
- National Bearing Industry Enterprise with Advanced Management in 2005
- National Bearing Industry Tenth Five-Year Plan Advanced Enterprise in 2006

Our quality products have also received international accreditation and are compliant with the standards set in the ISO/TS16949:2002 quality certification. Developed by the International Automotive Task Force, the ISO/TS16949:2002 certification is a worldwide professional technical standard required by European and American vehicle manufacturers. This accreditation is integral in the vehicle manufacturers' selection of vehicle components suppliers.

Competitive Strengths

ESTABLISHED TRACK RECORD AND BRAND REPUTATION

- Long operating history
- Our "Yimeng" brand is well-known and established in Shandong Province
- Received numerous awards and certifications which attest to our product quality, brand reputation and good track record

QUALITY PRODUCTS AT COMPETITIVE PRICES

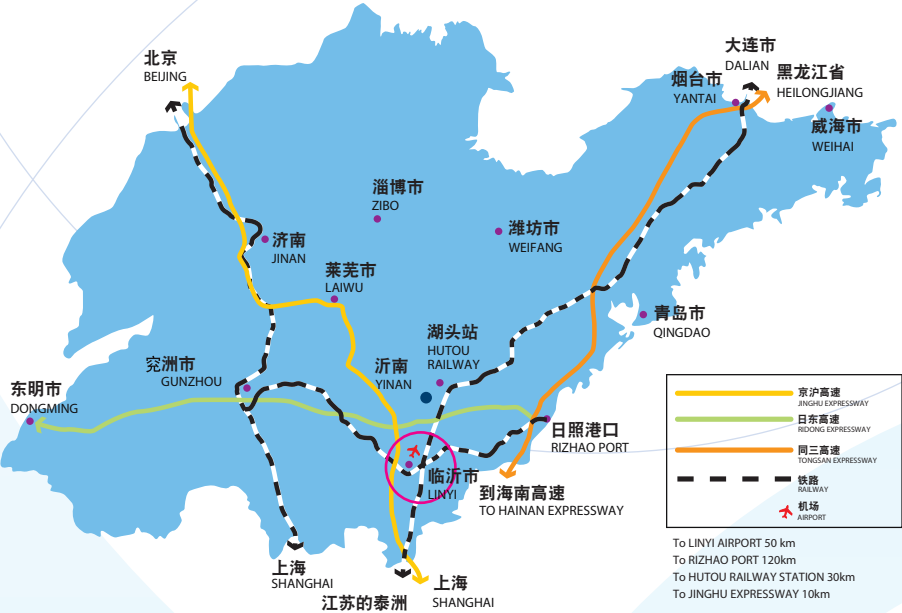
- Stringent and effective quality control system in place to ensure the consistent reliability and good quality of our products
- Effective cost control measures such as just-in-time policy for stocking of raw materials, and our efficient production process enable us to offer competitive pricing for our products

STRONG R&D CAPABILITY

- Continual development of new and improved products, as well as improved manufacturing technology, is key to maintaining our competitive advantage
- Close collaboration with Luoyang Research Institute, a reputable research facility in the PRC focusing on bearings, for the development and design of bearings since 1992

STRATEGIC LOCATION IN THE PRC

- Production facility is in close proximity to major national expressways and railways
- Easy access to major manufacturing regions in the PRC
- Our location allows us to lower transportation costs and improve delivery efficiency



STRONG CUSTOMER RELATIONSHIPS AND A STABLE CUSTOMER BASE

- Established stable and good long-term working relationships with many major customers
- Dedicated sales and marketing team as well as efficient after-sales service team enable us to maintain good relations with our customers
- Our good service quality has earned us repeated sales orders from many of our customers

EXPERIENCED MANAGEMENT TEAM AND STRONG TECHNICAL EXPERTISE

- Founder and Non-executive Chairman, Zhang Yuankai, has more than 50 years of experience in the bearing industry
- Managing Director and CEO, Zhang Anxi, has vast experience in the bearing industry and is supported by an experienced and dedicated management and technical team



Prospects

CONTINUING GROWTH IN DEMAND FOR BEARINGS IN THE PRC

- Continued economic and infrastructural development in the PRC is expected to continue to drive the demand for automobiles, mechanical and engineering equipment and machineries, which in turn will contribute to the demand for bearings
- Domestic sales of bearings is expected to grow from RMB 40.4 billion in 2005 to RMB 84.0 billion by 2010 while export sales is expected to grow from RMB 1.4 billion in 2005 to RMB 40.5 billion by 2010.*

*According to the Eleventh Five-Year Plan of the Bearing Industry of the PRC

FAVOURABLE GOVERNMENT POLICIES TOWARDS THE BEARING INDUSTRY

- PRC government identified the bearing industry as one having the potential for growth
- Under the Eleventh Five-Year Plan of the Bearing Industry of the PRC, the government has put in place plans and strategies to achieve its objective of being one of the leading bearing producing nations in the world by 2020
- The China Automobile Industry Policies are also initiatives which the PRC government has embarked on to develop the automobile and automobile parts industry

TAPPING INTO THE GLOBAL DEMAND FOR BEARINGS

- Worldwide demand for bearings expected to grow steadily over the next few years due to growth in global economy
- To capitalise on opportunities in overseas emerging markets such as Southeast Asian, European and USA markets and tap global demand for bearings for automobiles

Strategy & Future Plans

INCREASE PRODUCTION CAPACITY

- Build a new factory on a 55,000 square metres site in Yinan County, Shandong Province to focus on the manufacturing of bearings for heavy vehicles and passenger cars
- Purchase new machineries and equipment for the proposed new manufacturing plant

EXPAND PRODUCT RANGE AND ENHANCE PRODUCT QUALITY

- Further develop and improve existing products
- Expand our product development team and augment knowledge and capabilities of staff
- Procure new research equipment to enhance product development efforts

EXPAND MARKET SHARE IN EXISTING MARKET SEGMENTS

- Expand our customer base by
 - Conducting R&D for new products
 - Producing bearings for which there are high demand
 - Expanding our sales and marketing and after-sales departments to increase our sales and marketing efforts, both local and overseas
 - Participating actively in trade exhibitions to raise our profile and market our products

EXPAND TO OVERSEAS MARKETS

- Set up a representative office in Asia (outside the PRC) to develop the Southeast Asian market
- Strategic partnerships with local distributors as well as intensify sales, marketing and business development activities to penetrate new overseas markets

DIVERSIFY INTO NEW MARKET SEGMENTS

- Develop, manufacture and market our bearings for use in passenger cars to ride on the growing demand for automobiles in the PRC
- Eleventh Five-Year Plan of the Bearing Industry of the PRC estimates that the demand for motor vehicles in the PRC would grow from approximately 6.4 million units in 2006 to approximately 9.1 million units in 2010

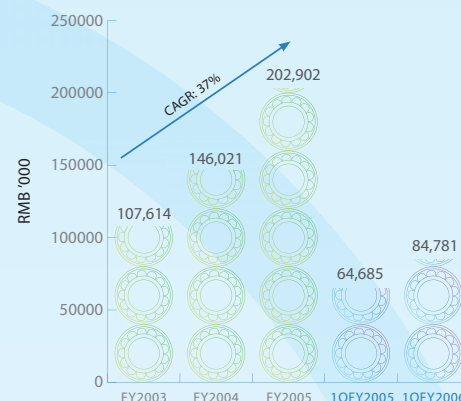
Order Books

As at the Latest Practicable Date (30 September 2006), orders secured amounted to approximately RMB188.0 million, of which about RMB174.9 million has already been fulfilled.

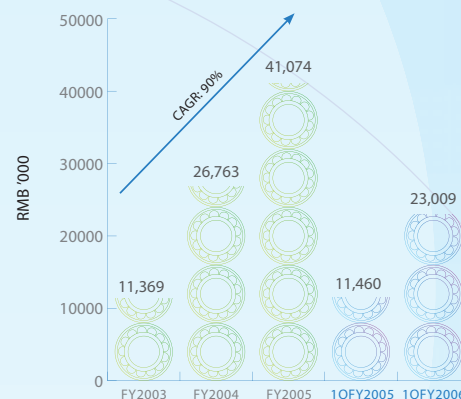
Financial Highlights

(based on combined financial statements)

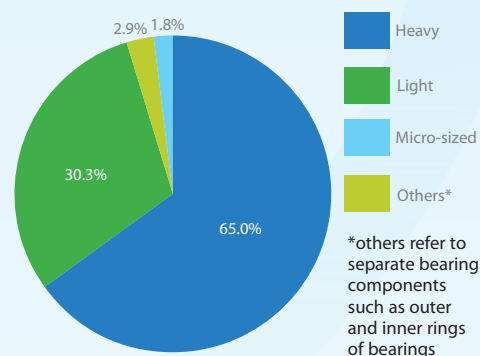
REVENUE



PROFIT AFTER TAX



REVENUE BY PRODUCT SEGMENT (1Q2006)



MARGINS

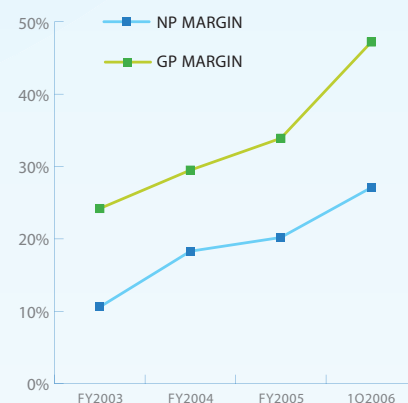


TABLE OF CONTENTS

	Pages
CORPORATE INFORMATION	4
DEFINITIONS	5
GLOSSARY OF TECHNICAL TERMS	12
EXCHANGE RATES	13
SELLING RESTRICTIONS	14
CAUTIONARY NOTE ON FORWARD-LOOKING STATEMENTS	15
PLAN OF DISTRIBUTION	17
DETAILS OF THE INVITATION	
– Listing on the SGX-ST	19
– Indicative Timetable for Listing	22
PROSPECTUS SUMMARY	23
THE INVITATION	27
USE OF PROCEEDS FROM THE INVITATION AND EXPENSES INCURRED	28
RISK FACTORS	
– Risks relating to our Business	30
– Risks relating to an Investment in a Company with significant PRC Operations	35
– Risks relating to the Invitation and Investing in our Shares	38
INVITATION STATISTICS	40
DIVIDEND POLICY	42
CAPITALISATION AND INDEBTEDNESS	43
DILUTION	45
RESTRUCTURING EXERCISE	46
GROUP STRUCTURE	50
GENERAL INFORMATION ON OUR GROUP	
– Share Capital	52
– Shareholders and Shareholding Structure	55
– Vendor	56
– Moratorium	57

TABLE OF CONTENTS

	Pages
BUSINESS	
– History	59
– Industry.....	60
– Business	61
– Our Products	62
– Our Production Process	63
– Production Facilities	64
– Utilisation Rate	64
– Quality Assurance	65
– Awards and Certificates	66
– Sales, Marketing, Distribution and After-sales Services	67
– Major Customers	68
– Credit Policy	70
– Major Suppliers	71
– Inventory Management.....	72
– Intellectual Property	72
– Research and Product Development	73
– Properties	73
– Employees	74
– Insurance	74
– Competition	75
– Competitive Strengths	75
– Prospects	76
– Trend Information	77
– Strategy and Future Plans	78
SUMMARY OF OUR GROUP'S FINANCIAL INFORMATION	80
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	
– Results by Product Segments	84
– Results by Geographical Regions	84
– Basis of Preparation	85
– Overview.....	85
– Review of Past Performance	88
– Review of Financial Position.....	92
– Liquidity and Capital Resources.....	96
– Capital Expenditure, Divestments and Commitments	98
– Foreign Exchange Exposure	99
DIRECTORS, MANAGEMENT AND STAFF	
– Management Reporting Structure	100
– Directors and Executive Officers	100
– Compensation	103
– Service Agreement.....	104
– Corporate Governance.....	105

TABLE OF CONTENTS

	Pages
INTERESTED PERSON TRANSACTIONS AND CONFLICTS OF INTERESTS	
– Past Interested Person Transactions	108
– Ongoing and Continuing Interested Person Transactions	109
– Potential Conflict of Interests	111
EXCHANGE CONTROLS	113
TAXATION	
– Singapore Taxation	116
CLEARANCE AND SETTLEMENT	119
OTHER GENERAL INFORMATION	120
APPENDIX I:	
Description of Ordinary Shares	I-1
APPENDIX II:	
Summary of Relevant PRC Laws and Regulations	II-1
APPENDIX III:	
Summary of Memorandum and Selected Articles of Association	III-1
APPENDIX IV:	
Report of the Independent Auditors on the Combined Financial Statements of China Bearing (Singapore) Ltd. for the Financial Years ended 31 December 2003, 2004 and 2005	IV-1
APPENDIX V:	
Review Letter by the Independent Auditors on the Combined Financial Statements of China Bearing (Singapore) Ltd. for the Three-Month Financial Period ended 31 March 2006	V-1
APPENDIX VI:	
Combined Unaudited Financial Statements of China Bearing (Singapore) Ltd. for the Three-Month Financial Period ended 31 March 2006	VI-1
APPENDIX VII:	
Unaudited Pro Forma Group Financial Statements of China Bearing (Singapore) Ltd. for the Year ended 31 December 2005 and Three Months ended 31 March 2006	VII-1
APPENDIX VIII:	
Audited Financial Statements of Shandong Yimeng Bearing Joint Stock Co., Ltd. for the Years ended 31 December 2003, 2004 and 2005	VIII-1
APPENDIX IX:	
Terms, Conditions and Procedures for Application and Acceptance	IX-1

CORPORATE INFORMATION

BOARD OF DIRECTORS	:	Zhang Yuankai (张元开) Zhang Anxi (张安喜) Xu Yihe (徐以合) Du Ruicheng (杜瑞成) Chin Yew Choong David Yap Kian Peng	Non-executive Chairman Managing Director and CEO Executive Director Non-executive Director Independent Director Independent Director
COMPANY SECRETARY	:	Kung Seah Lim, CPA	
REGISTERED OFFICE	:	336 Smith Street #05-310 New Bridge Centre Singapore 050336	
SHARE REGISTRAR AND SHARE TRANSFER OFFICE	:	Tricor Barbinder Share Registration Services (A division of Tricor Singapore Pte Ltd) 8 Cross Street #11-00 PWC Building Singapore 048424	
MANAGER, UNDERWRITER AND PLACEMENT AGENT	:	Phillip Securities Pte Ltd 250 North Bridge Road #06-00 Raffles City Tower Singapore 179101	
INDEPENDENT AUDITORS	:	Foo Kon Tan Grant Thornton 47 Hill Street #05-01 Singapore Chinese Chamber of Commerce & Industry Building Singapore 179365	
SOLICITORS TO THE INVITATION	:	Venture Law LLC 50 Raffles Place #31-01 Singapore Land Tower Singapore 048623	
LEGAL ADVISERS TO THE COMPANY ON PRC LAW	:	Jun He Law Offices 32 nd Floor 1515 Nanjing Road West Kerry Centre Shanghai 200040	
PRINCIPAL BANKER	:	China Construction Bank Linyi Xicheng Sub-branch 161 Mengshan Road Linyi Shandong 276000	
RECEIVING BANK	:	The Bank of East Asia Limited 137 Market Street Bank of East Asia Building Singapore 048943	
VENDOR	:	Power Works Pte Ltd 27 Pandan Crescent Singapore 128476	

DEFINITIONS

In this Prospectus and the accompanying Application Forms, and, in relation to Electronic Applications, the instructions appearing on the screens of ATMs of Participating Banks, the IB websites of the relevant Participating Banks, unless the context otherwise requires, the following terms or expressions shall have the following meanings:-

Companies in our Group

<i>“Company” or “China Bearing”</i>	:	China Bearing (Singapore) Ltd.
<i>“Group”</i>	:	China Bearing (Singapore) Ltd. and its subsidiary, Linyi Kaiyuan Bearing
<i>“Linyi Kaiyuan Bearing”</i>	:	Linyi Kaiyuan Bearing Co., Ltd. (临沂开元轴承有限公司)

Other Corporations, Organisations or Agencies

<i>“Authority” or “MAS”</i>	:	The Monetary Authority of Singapore
<i>“CBIA”</i>	:	China Bearing Industry Association
<i>“CDP” or “Depository”</i>	:	The Central Depository (Pte) Limited
<i>“CPF”</i>	:	The Central Provident Fund
<i>“China Bearing (Bermuda)”</i>	:	China Bearing (Bermuda) Co., Ltd.
<i>“Gundong Bearing”</i>	:	Yimeng Gundong Bearing Factory (沂南县沂蒙滚动轴承厂)
<i>“Luoyang Research Institute”</i>	:	Luoyang Bearing Research Institute (洛阳轴承研究所)
<i>“IATF”</i>	:	International Automotive Task Force, an “ad hoc” group of automotive manufacturers and their respective trade associations
<i>“SGX-ST”</i>	:	Singapore Exchange Securities Trading Limited
<i>“Vendor”</i>	:	Power Works Pte Ltd. Further details are set out in the section “Vendor” of this Prospectus
<i>“Yimeng Bearing”</i>	:	Shandong Yimeng Bearing Joint Stock Co., Ltd. (山东沂蒙轴承股份有限公司)

General

<i>“1Q”</i>	:	Three months ended 31 March
<i>“Application Forms”</i>	:	The printed application forms to be used for the purpose of the Invitation and which form part of this Prospectus
<i>“Application List”</i>	:	The list of applications for subscription for and/or purchase of the Invitation Shares
<i>“Asset Purchase Agreement”</i>	:	The agreement dated 8 June 2006 between Yimeng Bearing and Linyi Kaiyuan Bearing for the purchase of certain assets, liabilities and business of Yimeng Bearing

DEFINITIONS

“Associate”

: (a) In relation to an entity, means:-

- (i) in a case where the entity is a substantial shareholder, controlling shareholder, substantial interest-holder or controlling interest-holder, its related corporation, related entity, associated company or associated entity; or
- (ii) in any other case:-
 - (A) a director or an equivalent person;
 - (B) where the entity is a corporation, a controlling shareholder of the entity;
 - (C) where the entity is not a corporation, a controlling interest-holder of the entity;
 - (D) a subsidiary, a subsidiary entity, an associated company, or an associated entity; or
 - (E) a subsidiary, a subsidiary entity, an associated company, or an associated entity, of the controlling shareholder or controlling interest-holder, as the case may be;

of the entity; and

(b) In relation to an individual, means:-

- (i) his immediate family;
- (ii) a trustee, acting in his capacity as such trustee, of any trust of which the individual or any member of the individual's immediate family is a beneficiary or, where the trust is a discretionary trust, a discretionary object; or
- (iii) any corporation in which he and his immediate family (whether directly or indirectly) have an interest in voting shares of an aggregate of not less than 30% of the total votes attached to all voting shares

“Associated company”

: In relation to an entity, means:-

- (a) any corporation, other than a subsidiary of the entity, in which:-
 - (i) the entity or one or more of its subsidiaries or subsidiary entities has;
 - (ii) the entity, one or more of its subsidiaries and one or more of its subsidiary entities together have;
 - (iii) the entity and one or more of its subsidiaries together have;

DEFINITIONS

(iv) the entity and one or more of its subsidiary entities together have; or

(v) one or more of the subsidiaries of the entity and one or more of the subsidiary entities of the entity together have,

a direct interest in voting shares of not less than 20% but not more than 50% of the total votes attached to all voting shares in the corporation; or

(b) any corporation, other than a subsidiary of the entity or a corporation which is an associated company of the entity by virtue of paragraph (a) above, the policies of which:-

(i) the entity or one or more of its subsidiaries or subsidiary entities;

(ii) the entity together with one or more of its subsidiaries and one or more of its subsidiary entities;

(iii) the entity together with one or more of its subsidiaries;

(iv) the entity together with one or more of its subsidiary entities; or

(v) one or more of the subsidiaries of the entity together with one or more of the subsidiary entities of the entity,

is able to control or influence materially

“ATM” : Automated teller machines of a Participating Bank

“Audit Committee” : The audit committee of our Company

“Board” or “Board of Directors” : The Board of Directors of our Company as at the date of this Prospectus, unless otherwise stated

“CEO” : Chief Executive Officer

“Companies Act” or “Act” : The Companies Act, Chapter 50 of Singapore as may be amended, modified or supplemented from time to time

“Controlling Shareholder” : A person who holds directly or indirectly 15% or more of the nominal amount of all the voting shares in the corporation, or in fact exercises control over the corporation

“Convertible Loans” : The convertible loans in the aggregate amount of S\$2.1 million and the convertible loan in the amount of S\$3.88 million granted to our Company pursuant to the Convertible Loan Agreements and the Loan Agreement respectively

DEFINITIONS

<i>“Convertible Loan Agreements”</i>	:	The convertible loan agreements amongst our Company, Yimeng Bearing, Zhang Yuankai, Zhang Anxi and each of Tan Kim Seng, Teo Kok Woon and Power Works Pte Ltd, dated 18 November 2005 or 21 November 2005, as the case may be, under which Tan Kim Seng, Teo Kok Woon and Power Works Pte Ltd extended convertible loans in the aggregate amount of S\$2.1 million which are convertible into Shares in accordance with the formula stipulated in their respective convertible loan agreements, as amended by the supplemental convertible loan agreements amongst our Company, Yimeng Bearing, Zhang Yuankai, Zhang Anxi and each of Tan Kim Seng, Teo Kok Woon and Power Works Pte Ltd, dated 31 March 2006, 24 March 2006 and 3 August 2006 respectively, and the 2 nd supplemental convertible loan agreements amongst our Company, Yimeng Bearing, Zhang Yuankai, Zhang Anxi and each of Tan Kim Seng and Teo Kok Woon, dated 3 August 2006
<i>“Directors”</i>	:	The directors of our Company as at the date of this Prospectus, unless otherwise stated
<i>“Electronic Applications”</i>	:	Applications for the Offer Shares made through an ATM of one of the Participating Banks or the IB website of one of the relevant Participating Banks, in accordance with the terms and conditions of this Prospectus
<i>“EPS”</i>	:	Earnings per Share
<i>“Executive Directors”</i>	:	The executive directors of our Company as at the date of this Prospectus, unless otherwise stated
<i>“Executive Officers”</i>	:	The executive officers of our Group as at the date of this Prospectus, unless otherwise stated
<i>“FY”</i>	:	Financial year ended or, as the case may be, ending 31 December
<i>“Phillip Securities”, “Manager”, “Underwriter” or “Placement Agent”</i>	:	Phillip Securities Pte Ltd
<i>“IB”</i>	:	Internet Banking
<i>“Independent Directors”</i>	:	The independent directors of our Company as at the date of this Prospectus, unless otherwise stated
<i>“Invitation”</i>	:	The invitation by our Company and the Vendor to the public in Singapore to subscribe for and/or purchase the Invitation Shares, subject to and on the terms and conditions of this Prospectus
<i>“Invitation Shares”</i>	:	61,000,000 Shares which are the subject of this Invitation, comprising 60,000,000 New Shares and 1,000,000 Vendor Shares
<i>“Issue Price”</i>	:	S\$0.32 for each Invitation Share
<i>“Latest Practicable Date”</i>	:	30 September 2006, being the latest practicable date prior to the registration of this Prospectus with the Authority

DEFINITIONS

<i>“Listing Manual”</i>	:	The Listing Manual of the SGX-ST, as amended, modified or supplemented from time to time
<i>“Loan Agreement”</i>	:	The loan agreement amongst our Company, Yimeng Bearing, Zhang Yuankai, Zhang Anxi and Legacy Venture Capital Limited dated 30 March 2006 under which Legacy Venture Capital Limited extended a non-convertible loan of S\$0.97 million and a convertible loan of S\$3.88 million which is convertible into Shares in accordance with the formula stipulated in the loan agreement, as amended by a supplemental loan agreement dated 3 August 2006 amongst our Company, Yimeng Bearing, Zhang Yuankai, Zhang Anxi and the assignees of Legacy Venture Capital Limited namely, Re Shan Investments Limited, Winage Limited, Wang Yu Huei and Legacy Partners Limited, to whom Legacy Venture Capital Limited assigned all its rights, title, interest and benefits under the Loan Agreement pursuant to an assignment agreement dated 5 April 2006
<i>“Market Day”</i>	:	A day on which the SGX-ST is open for trading in securities
<i>“NBV”</i>	:	Net book value
<i>“New Shares”</i>	:	The 60,000,000 new Shares for which our Company invites applications to subscribe for pursuant to the Invitation, subject to and on the terms and conditions of this Prospectus
<i>“Nominating Committee”</i>	:	The nominating committee of our Company
<i>“Non-convertible Loan”</i>	:	The non-convertible loan of S\$0.97 million granted to our Company under the Loan Agreement
<i>“Non-executive Directors”</i>	:	Non-executive directors of our Company as at the date of this Prospectus, unless otherwise stated
<i>“NTA”</i>	:	Net tangible assets
<i>“Offer”</i>	:	The offer by our Company and the Vendor of the Offer Shares to the public in Singapore for subscription and/or purchase at the Issue Price, subject to and on the terms and conditions of this Prospectus
<i>“Offer Shares”</i>	:	The 2,000,000 Invitation Shares which are the subject of the Offer
<i>“OEM”</i>	:	Original equipment manufacturer
<i>“Participating Banks”</i>	:	United Overseas Bank Limited (“UOB”) and its subsidiary, Far Eastern Bank Limited (the “UOB Group”); DBS Bank Ltd (including POSB) (“DBS”) and Oversea-Chinese Banking Corporation Limited (“OCBC”)
<i>“period under review”</i>	:	The period which comprises FY2003, FY2004, FY2005 and 1Q2006
<i>“PER”</i>	:	Price earnings ratio

DEFINITIONS

<i>“Placement”</i>	:	The placement of the Placement Shares by the Placement Agent on behalf of our Company and the Vendor for subscription and/or purchase at the Issue Price, subject to and on the terms and conditions of this Prospectus
<i>“Placement Shares”</i>	:	The 59,000,000 Invitation Shares which are the subject of the Placement
<i>“Pre-IPO Investors”</i>	:	Tan Kim Seng, Legacy Partners Limited, Wang Yu Huei, Teo Kok Woon, Re Shan Investments Limited, Winage Limited and Power Works Pte Ltd
<i>“PRC” or “China”</i>	:	People’s Republic of China, excluding Hong Kong and Macau for the purposes of this Prospectus
<i>“Prospectus”</i>	:	This prospectus dated 12 October 2006
<i>“R&D”</i>	:	Research and development
<i>“Relevant Assets, Liabilities and Business”</i>	:	The assets, liabilities and business of Yimeng Bearing which were acquired by Linyi Kaiyuan Bearing under the Asset Purchase Agreement
<i>“Remuneration Committee”</i>	:	The remuneration committee of our Company
<i>“Restructuring Exercise”</i>	:	The restructuring exercise of our Group undertaken in connection with the Invitation, as described in the section “Restructuring Exercise” of this Prospectus
<i>“SCCS”</i>	:	Securities Clearing & Computer Services (Pte) Ltd
<i>“Securities Account”</i>	:	The securities account maintained by a Depositor with CDP but does not include a securities sub-account
<i>“Securities and Futures Act” or “SFA”</i>	:	Securities and Futures Act (Chapter 289) of Singapore, as amended, modified or supplemented from time to time
<i>“Service Agreement”</i>	:	The service agreement entered into between our Company and Zhang Anxi, as described in the section “Service Agreement” of this Prospectus
<i>“Shares”</i>	:	Ordinary shares in the capital of our Company
<i>“Shareholders” or “Members”</i>	:	The registered shareholders of our Company, except where the registered shareholder is CDP, the term “Shareholders” shall, in relation to such Shares, mean the Depositors whose Securities Accounts are credited with Shares
<i>“Sub-division”</i>	:	The sub-division of 2 Shares into 131,172,000 Shares, as described in the section “Share Capital” of this Prospectus
<i>“Substantial Shareholder”</i>	:	A person who has an interest in shares the nominal amount of which is not less than 5% of the nominal amount of all the voting shares of a company
<i>“UAE”</i>	:	United Arab Emirates
<i>“US” or the “United States”</i>	:	The United States of America

DEFINITIONS

“VAT”	:	Value added tax
“Vendor Shares”	:	The 1,000,000 Shares for which the Vendor invites applications to purchase pursuant to the Invitation, subject to and on the terms and conditions of this Prospectus

Currencies, Units and Others

“RMB” or “Renminbi”	:	The lawful currency of the PRC
“S\$” and “cents”, “Singapore Dollars” or “SGD”	:	The lawful currency of the Republic of Singapore
“US\$” and “US cents” or “US Dollars”	:	The lawful currency of the United States
“°C”	:	Degree Celsius
“sq m”	:	Square metres
“kW”	:	Kilo-watts
“kWh”	:	Kilo-watt hour

Any reference to “we”, “us” and “our” or other grammatical variations thereof in this Prospectus is a reference to our Company, our Group or any member of our Group as the context requires.

The expressions “Depositor”, “Depository Agent” and “Depository Register” shall have the meanings ascribed to them respectively in the Companies Act.

Words importing the singular shall, where applicable, include the plural and *vice versa* and words importing the masculine gender shall, where applicable, include the feminine and neuter genders and *vice versa*. References to persons shall include corporations.

Any reference in this Prospectus, the Application Forms and the Electronic Applications to any enactment is a reference to that enactment as for the time being amended or re-enacted. Any word defined under the Companies Act, the Securities and Futures Act or any statutory modification thereof and used in this Prospectus, the Application Forms or the Electronic Applications shall, where applicable, have the meaning assigned to it under the Companies Act, the Securities and Futures Act or such statutory modification, as the case may be.

Any reference in this Prospectus, the Application Forms or the Electronic Applications to Shares being allotted to an applicant includes allotment to CDP for the account of that applicant.

Certain names with Chinese characters have been translated into English names. Such translations, which are provided solely for the convenience of Singapore-based investors, may not have been registered with the relevant PRC authorities and should not be construed as representations that the English names actually represent the Chinese characters.

Any reference to a time of day in this Prospectus, the Application Forms and the Electronic Applications shall be a reference to Singapore time, unless otherwise stated.

Any discrepancies in the tables included herein between the listed amounts and the totals thereof are due to rounding. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that precede them.

GLOSSARY OF TECHNICAL TERMS

To facilitate a better understanding of the business of our Group, the following glossary provides a description of some of the technical terms and abbreviations used in this Prospectus. The terms and their assigned meanings should not be treated as being definitive of their meanings, and may not correspond to the standard industry or common meanings or usage, as the case may be, of these terms.

“CAD”	:	Computer aided design.
“CNC”	:	The computer numerical control technology for precision machining of threads on the inner ring and the outer ring.
“GCr15 Steel”	:	High carbon chromium steel usually used in the production of bearings; it has uniform chemical specifications worldwide.
“ISO/TS16949:2002”	:	An ISO technical specification formulated by IATF. It covers quality system requirements for the design/development, production, installation and servicing of automotive related parts. It also sets out customer specific requirements that are required by individual subscribing automobile manufacturers. The requirements are intended to be applied throughout the supply chain. This ISO technical specification will eventually replace QS9000.
“ISO492:2002”	:	ISO492 specifies tolerances for boundary dimensions (except chamfer dimensions) and the running accuracy of radial roller bearings specified in ISO15, ISO355 and ISO8443. This international standard does not apply to certain radial bearings of particular types (e.g. drawn cup needle roller bearings) or for particular fields of application (e.g. airframe bearings and instrument precision bearings).
“ISO9001”	:	ISO9001 is a quality assurance model made up of 20 sets of quality system requirements. This model applies to organisations that design, develop, produce, install and service products. ISO expects organisations to apply this model, and to meet these requirements, by developing a quality system.
“QS9000”	:	QS9000 was developed by a joint effort of the “Big Three” auto makers, General Motors, Chrysler Corporation and Ford Motor Company. It was introduced to the industry in 1994. It has been adopted by several heavy truck manufacturers in the USA as well. Essentially all suppliers to the automotive manufacturers need to implement a QS9000 system. The standard is divided into three sections with the first section being ISO9001 plus some automotive requirements. The second section is “Additional Requirements” and contains system requirements that have been adopted by all three automakers - General Motors, Chrysler Corporation and Ford Motor Company. The third section is the “Customer Specific Section” which contains system requirements that are unique to each automotive or truck manufacturer.

EXCHANGE RATES

We publish our financial statements in RMB and in accordance with Singapore Financial Reporting Standards. The following table sets out the exchange rates that have been used to translate the financial statements into S\$ for FY2003, FY2004, FY2005, 1Q2005 and 1Q2006. These exchange rates should not be construed as a representation that our Singapore Dollars financial statements could have been, or could be, converted into RMB, as the case may be, at any particular rate, the rates stated below, or at all.

The highest and lowest exchange rates between RMB and S\$ for each of the past six months prior to the Latest Practicable Date were as follows:-

Period	RMB to S\$	
	Highest	Lowest
April 2006	5.069	4.959
May 2006	5.119	5.050
June 2006	5.097	4.999
July 2006	5.072	5.018
August 2006	5.076	5.040
September 2006	5.072	4.975

The average and closing exchange rates between RMB and S\$ for FY2003, FY2004, FY2005, 1Q2005 and 1Q2006 were as follows:-

	RMB to S\$	
	Average	Closing
FY2003	4.752	4.874
FY2004	4.899	5.068
FY2005	4.923	4.854
1Q2005	5.060	5.014
1Q2006	4.947	4.961

As at the Latest Practicable Date, the exchange rate between RMB and S\$ was RMB1.00 to S\$4.983.

SELLING RESTRICTIONS

This Prospectus does not constitute an offer, solicitation or invitation to subscribe for and/or purchase our Shares in any jurisdiction in which such offer, solicitation or invitation is unlawful or is not authorised or to any person to whom it is unlawful to make such offer, solicitation or invitation. No action has been or will be taken under the requirements of the legislation or regulations of, or of the legal regulatory requirements of any jurisdiction, except for the filing, lodgement and/or registration of this Prospectus in Singapore in order to permit a public offering of the Invitation Shares and the public distribution of this Prospectus in Singapore. The distribution of this Prospectus and the offering of the Invitation Shares in certain jurisdictions may be restricted by the relevant laws in such jurisdictions. Persons who may come into possession of this Prospectus are required by our Company, the Vendor, the Manager, the Underwriter and the Placement Agent to inform themselves about, and to observe and comply with, any such restrictions at their own expense and without liability to our Company, the Vendor, the Manager, the Underwriter and the Placement Agent.

Persons to whom a copy of this Prospectus has been issued shall not circulate to any other person, reproduce or otherwise distribute this Prospectus or any information herein for any purpose whatsoever nor permit or cause the same to occur.

CAUTIONARY NOTE ON FORWARD-LOOKING STATEMENTS

All statements contained in this Prospectus, statements made in press releases and oral statements that may be made by us or our Directors, Executive Officers or employees acting on our behalf, that are not statements of historical fact, constitute “forward-looking statements.” You can identify some of these statements by forward-looking terms such as “expect,” “believe,” “plan,” “intend,” “estimate,” “anticipate,” “may,” “will,” “would” and “could” or similar words. However, you should note that these words are not the exclusive means of identifying forward-looking statements. All statements regarding our expected financial position, business strategy, plans and prospects, and the prospects of our industry are forward-looking statements. These forward-looking statements are only predictions and include, but are not limited to, statements as to the following:-

- our revenue and profitability;
- our planned expansion;
- expected growth in our industry;
- expected industry trends;
- anticipated completion and start-up dates for expansion projects; and
- other matters discussed in this Prospectus regarding matters that are not historical facts.

These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expected, expressed or implied by such forward-looking statements. These risks, uncertainties and other factors include, amongst others, the following:-

- changes in social, political and economic conditions and the regulatory environment in the PRC, Singapore and other countries in which we operate and/or where our customers and suppliers are located;
- changes in currency exchange rates;
- the risk that we may be unable to realise our anticipated growth strategies and expected internal growth;
- changes in the availability and prices of raw materials we need to operate our business;
- changes in competitive conditions in our industry and our ability to compete under these conditions;
- changes in short-term and long-term interest rates;
- changes in customer preferences and needs;
- changes in demand conditions;
- changes in our future capital needs and the availability of financing and capital to fund these needs; and
- other factors beyond our control.

Some of these factors are discussed in more detail in the Prospectus, in particular, but not limited to, the discussions under the sections “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” All forward-looking statements made by us or attributable to us or our Directors, our Executive Officers or our employees acting on our behalf, or persons acting on our behalf, contained in this Prospectus are expressly qualified in their entirety by such factors. These forward-looking statements are applicable only as of the date of this Prospectus.

CAUTIONARY NOTE ON FORWARD-LOOKING STATEMENTS

Given the risks and uncertainties that may cause our actual future results, performance or achievements to be materially and/or adversely different from that expected, expressed or implied by the forward-looking statements in this Prospectus, we advise you not to place undue reliance on those statements. None of our Company, the Manager, the Underwriter, the Placement Agent or any other person represents or warrants to you that our actual future results, performance or achievements will be as discussed in those statements. Further, our Company, the Manager, the Underwriter and the Placement Agent disclaim any responsibility to update any of those forward-looking statements or publicly announce any revisions to those forward-looking statements to reflect future developments, events or circumstances for any reason, even if new information becomes available or other events occur in the future. We are, however, subject to the provisions of the Securities and Futures Act and the Listing Manual regarding corporate disclosure. In particular, pursuant to Section 241 of the Securities and Futures Act, if after the Prospectus is registered but before the close of the Invitation, our Company becomes aware of (a) a false or misleading statement or matter in the Prospectus, (b) an omission from the Prospectus of any information that should have been included in it under Section 243 of the Securities and Futures Act or (c) a new circumstance that has arisen since the Prospectus was lodged with the Authority and would have been required by Section 243 of the Securities and Futures Act to be included in the Prospectus, if it had arisen before the Prospectus was lodged and that is materially adverse from the point of view of an investor, our Company may lodge a supplementary or replacement prospectus with the Authority.

PLAN OF DISTRIBUTION

The Issue Price of S\$0.32 is determined by us and the Vendor in consultation with Phillip Securities, based on, *inter alia*, prevailing market conditions and the estimated market demand for our Shares determined through a book-building process. The Issue Price is the same for all Invitation Shares and is payable in full on application.

Offer Shares

The Offer Shares are made available in Singapore for subscription and/or purchase at the Issue Price. The terms and conditions and procedures for application and acceptance are described in Appendix IX of this Prospectus. Pursuant to the terms and conditions contained in the Management and Underwriting Agreement signed between our Company, the Vendor and Phillip Securities dated 12 October 2006, Phillip Securities has agreed to manage the Invitation and to underwrite the Offer Shares.

In the event of an under-subscription for the Offer Shares as at the close of the Application List, that number of Offer Shares not subscribed for and/or purchased shall be made available to satisfy excess application for the Placement Shares to the extent there is an over-subscription for the Placement Shares as at the close of the Application List.

In the event of an over-subscription for the Offer Shares as at the close of the Application List and/or the Placement Shares are fully subscribed for and/or purchased, or over-subscribed for as at the close of the Application List, the successful applications for the Offer Shares will be determined by ballot or otherwise as determined by our Directors and approved by the SGX-ST.

Placement Shares

Application for the Placement Shares may only be made by way of Application Forms. The terms and conditions and procedures for application and acceptance are described in Appendix IX of this Prospectus.

Pursuant to the terms and conditions of the Placement Agreement between our Company, the Vendor and Phillip Securities dated 12 October 2006, Phillip Securities has agreed to subscribe for and/or purchase and/or procure subscribers and/or purchasers for the Placement Shares at the Issue Price. Phillip Securities may, at its discretion, appoint one or more sub-placement agents for the Placement Shares.

In the event of an under-subscription for the Placement Shares as at the close of the Application List, that number of Placement Shares not subscribed for and/or purchased shall be made available to satisfy excess applications for the Offer Shares to the extent that there is an over-subscription for the Offer Shares as at the close of the Application List.

Subscribers and/or purchasers of the Placement Shares may be required to pay a brokerage fee (and if so required, such brokerage fee will be up to 1.0 per cent of the Issue Price), stamp duties and other similar charges in accordance with the laws and practices of the country of purchase.

Our Independent Directors, Chin Yew Choong David and Yap Kian Peng, intend to subscribe for and/or purchase 200,000 Invitation Shares each. Our Pre-IPO Investors, Tan Kim Seng, Legacy Partners Limited Wang Yu Huei, Teo Kok Woon, Re Shan Investments Limited and Winage Limited, intend to subscribe for and/or purchase 900,000, 868,000, 840,000, 500,000, 546,000 and 546,000 Invitation Shares respectively.

Other than as disclosed above, none of our Directors, Substantial Shareholders or other Shareholders prior to the Invitation intends to subscribe for and/or purchase the Invitation Shares. To the best of our knowledge, we are unaware of any person who intends to subscribe for and/or purchase more than 5% of the Invitation Shares.

PLAN OF DISTRIBUTION

However, through a book-building process to assess the market demand for our Shares, there may be person(s) who may indicate his interest to subscribe for and/or purchase more than 5% of the Invitation Shares. If such person(s) were to make an application for more than 5% of the Invitation Shares pursuant to the Invitation and subsequently be allotted such number of Shares, we will make the necessary announcements at an appropriate time.

Further, no Shares shall be allotted on the basis of this Prospectus later than six months after the date of registration of this Prospectus by the Authority.

DETAILS OF THE INVITATION

LISTING ON THE SGX-ST

Application has been made to the SGX-ST for permission to deal in, and for quotation of, all our existing issued Shares (including the Vendor Shares) and the New Shares. Such permission will be granted when our Company has been admitted to the Official List of the SGX-ST. Acceptance of applications will be conditional upon, *inter alia*, the SGX-ST granting permission to deal in, and for quotation of, all our existing issued Shares (including the Vendor Shares) and the New Shares. Monies paid in respect of any application accepted will be returned to you, subject to applicable laws, without interest or any share of revenue or other benefit arising therefrom and at your own risk, if the said permission is not granted or for any other reason and you will not have any claims whatsoever against us, the Vendor, the Manager, the Underwriter or the Placement Agent.

The SGX-ST assumes no responsibility for the correctness of any statements or opinions made or reports contained in this Prospectus. Admission to the Official List of the SGX-ST is not to be taken as an indication of the merits of the Invitation, our Company, our subsidiary, our existing issued Shares (including the Vendor Shares) or the New Shares.

A copy of this Prospectus has been lodged with and registered by the Authority on 28 August 2006 and 12 October 2006 respectively. The Authority assumes no responsibility for the contents of this Prospectus. Registration of this Prospectus by the Authority does not imply that the Securities and Futures Act, or any other legal or regulatory requirements, have been complied with. The Authority has not, in any way, considered the merits of the Shares (including the Vendor Shares) or the New Shares, as the case may be, being offered or in respect of which an invitation is made, for investment.

This Prospectus has been seen and approved by our Directors and the Vendor and they individually and collectively accept full responsibility for the accuracy of the information given in this Prospectus and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, the facts stated and the opinions expressed in this Prospectus are fair and accurate in all material respects as at the date of this Prospectus and that there are no other material facts the omission of which would make any statement in this Prospectus misleading and that this Prospectus constitutes full and true disclosure of all material facts about the Invitation, our Company, our subsidiary and our Shares (including the Vendor Shares and the New Shares).

No person has been or is authorised to give any information or to make any representation not contained in this Prospectus in connection with the Invitation and, if given or made, such information or representation must not be relied upon as having been authorised by us, the Vendor, the Manager, the Underwriter or the Placement Agent. Neither the delivery of this Prospectus and the Application Forms nor any document relating to the Invitation shall, under any circumstances, constitute a continuing representation or create any suggestion or implication that there has been no change or development reasonably likely to invoke a change in our affairs, conditions or prospects, or our Shares (including the Vendor Shares and the New Shares), or in the statements of fact or information contained in this Prospectus since the date of this Prospectus. Where such changes occur and are material or are required to be disclosed by law, we will promptly make an announcement of the same to the SGX-ST and the public and, if required under Section 241 of the Securities and Futures Act, lodge a supplementary or replacement document or prospectus with the Authority and make the same available to the public after lodgement. We will also comply with all other applicable requirements of the Securities and Futures Act and/or any other requirements of the Authority and/or SGX-ST. All applicants should take note of any such announcements, supplementary or replacement document or prospectus and, upon the release of the same, shall be deemed to have notice of such changes. Save as expressly stated in this Prospectus, nothing herein is, or may be relied upon as, a promise or representation as to our future performance or policies. Neither our Company, the Vendor, the Manager, the Underwriter nor the Placement Agent is making any representation to any person regarding the legality of an investment in our Shares by such person under any investment or any other laws or regulations. No information in this Prospectus should be considered to be business, legal or tax advice. Each prospective investor should consult his own professional or other advisers for business, legal or tax advice regarding an investment in our Shares.

This Prospectus has been prepared solely for the purpose of the Invitation and may not be relied upon by any other persons other than the applicants in connection with their application for the Invitation Shares or for any other purpose.

DETAILS OF THE INVITATION

In the event that a supplementary or replacement prospectus is lodged with the Authority, our Invitation shall be kept open for at least 14 days after the lodgement of such supplementary or replacement prospectus.

Where prior to the lodgement of the supplementary or replacement prospectus, applications have been made under this Prospectus to subscribe for and/or purchase the Invitation Shares, then:-

- (a) where the Invitation Shares have not been issued and/or sold to the applicants, our Company shall (on behalf of itself and the Vendor) either:-
 - (i) within two days (excluding any Saturday, Sunday or public holiday) from the date of lodgement of the supplementary prospectus or replacement prospectus, give the applicants notice in writing of how to obtain, or arrange to receive, a copy of the supplementary prospectus or replacement prospectus, as the case may be, and provide the applicants with an option to withdraw their applications and take all reasonable steps to make available within a reasonable period the supplementary prospectus or replacement prospectus, as the case may be, to the applicants who have indicated that they wish to obtain, or who have arranged to receive, a copy of the supplementary prospectus or replacement prospectus; or
 - (ii) within seven days from the date of lodgement of the supplementary prospectus or replacement prospectus, give the applicants the supplementary prospectus or replacement prospectus, as the case may be, and provide the applicants with an option to withdraw their applications; or
 - (iii) treat the applications as withdrawn and cancelled, in which case the applications shall be deemed to have been withdrawn and cancelled, and our Company shall (on behalf of itself and the Vendor), within seven days from the date of lodgement of the supplementary prospectus or replacement prospectus, return to the applicants all monies the applicants have paid on account of their applications for the Invitation Shares; or
- (b) where the Invitation Shares have been issued and/or sold to the applicants, our Company shall (on behalf of itself and the Vendor) either:-
 - (i) within two days (excluding any Saturday, Sunday or public holiday) from the date of lodgement of the supplementary prospectus or replacement prospectus, give the applicants notice in writing of how to obtain, or arrange to receive, a copy of the supplementary prospectus or replacement prospectus, as the case may be, and provide the applicants with an option to return, to our Company, the Invitation Shares which they do not wish to retain title in; and take all reasonable steps to make available within a reasonable period the supplementary prospectus or replacement prospectus, as the case may be, to the applicants who have indicated that they wish to obtain, or who have arranged to receive, a copy of the supplementary prospectus or replacement prospectus; or
 - (ii) within seven days from the date of lodgement of the supplementary prospectus or replacement prospectus, give the applicants the supplementary prospectus or replacement prospectus, as the case may be, and provide the applicants with an option to return, to our Company, the Invitation Shares which they do not wish to retain title in; or
 - (iii) treat the issue and/or sale of the Invitation Shares as void, in which case the issue and/or sale shall be deemed void, and within seven days from the date of lodgement of the supplementary prospectus or replacement prospectus, return to the applicants all monies paid by them for the Invitation Shares.

An applicant who wishes to exercise his option under paragraph (a)(ii) or (a)(iii) to withdraw his application shall, within 14 days from the date of lodgement of the supplementary or replacement prospectus, notify our Company of this, whereupon our Company shall (on behalf of itself and the Vendor), within seven days from receipt of such notification, return to the applicant all monies paid by the applicant on account of his application for the Invitation Shares.

DETAILS OF THE INVITATION

An applicant who wishes to exercise his option under paragraph (b)(ii) or (b)(iii) to return the Invitation Shares issued to him shall, within 14 days from the date of lodgement of the supplementary or replacement prospectus, notify our Company of this and return all documents, if any, purporting to be evidence of title to those Shares, to our Company, whereupon our Company shall (on behalf of itself and the Vendor), within seven days from the receipt of such notification and documents, if any, return to the applicant all monies paid by the applicant for the Invitation Shares, and the issue of the Invitation Shares shall be deemed to be void.

Under the Securities and Futures Act, the Authority may, in certain circumstances issue a stop order (the "Stop Order") to our Company, directing that no or no further Shares to which this Prospectus relates, be allotted and/or allocated, issued and/or sold. Such circumstances will include a situation where this Prospectus (i) contains a statement or matter, which in the opinion of the Authority is false or misleading, (ii) omits any information that should be included in accordance with the Securities and Futures Act, (iii) does not, in the opinion of the Authority, comply with the requirements of the Securities and Futures Act or (iv) the Authority is of the opinion that it is in the public interest to do so.

Where applications to subscribe for and/or purchase the Invitation Shares to which this Prospectus relates have been made prior to the Stop Order, and:-

- (a) where the Invitation Shares have not been issued and/or sold to the applicants, the applications shall be deemed to have been withdrawn and cancelled and our Company (on behalf of itself and the Vendor) shall, within 14 days from the date of the Stop Order, return to the applicants all monies the applicants have paid on account of their applications for the Invitation Shares, without interest or share of revenue or other benefit arising therefrom; or
- (b) where the Invitation Shares have been issued and/or sold to the applicants, the issue of the Invitation Shares shall be deemed to be void and our Company (on behalf of itself and the Vendor) shall, within 14 days from the date of the Stop Order, return to the applicants all monies paid by them for the Invitation Shares without interest or share of revenue or other benefit arising therefrom.

Copies of this Prospectus and the Application Forms and envelopes may be obtained on request, subject to availability, during office hours from:-

Phillip Securities Pte Ltd
250 North Bridge Road #06-00
Raffles City Tower
Singapore 179101

and, where applicable, from members of the Association of Banks in Singapore, members of the SGX-ST and merchant banks in Singapore.

A copy of this Prospectus is also available on:-

- (a) the SGX-ST website at <http://www.sgx.com>; and
- (b) the Authority's website at <http://masnet.mas.gov.sg/opera/sdrprosp.nsf>

The Application List will open at 10.00 a.m. on 18 October 2006 and will remain open until 12.00 noon on the same day or for such further period or periods as our Directors and the Vendor, in consultation with the Manager, may in their absolute discretion decide, subject to any limitation under all applicable laws. Where a supplementary or replacement prospectus has been lodged with the Authority, the Application List shall be kept open for at least 14 days after the lodgement of the supplementary or replacement prospectus.

Details of the procedure for application of the Invitation Shares are set out in Appendix IX of this Prospectus.

DETAILS OF THE INVITATION

INDICATIVE TIMETABLE FOR LISTING

In accordance with the SGX-ST's News Release of 28 May 1993 on the trading of initial public offering shares on a "when issued" basis, an indicative timetable is set out below for the reference of applicants:-

Indicative time/date	Event
12.00 noon on 18 October 2006	Close of Application List
19 October 2006	Balloting of applications, if necessary (in the event of over-subscription for the Offer Shares)
9.00 a.m. on 20 October 2006	Commence trading on a "when issued" basis
1 November 2006	Last day of trading on a "when issued" basis
9.00 a.m. on 2 November 2006	Commence trading on a "ready" basis
7 November 2006	Settlement date for all trades done on a "when issued" basis and for trades done on a "ready" basis on 2 November 2006

The above timetable is only indicative as it assumes that the date of closing of the Application List is 18 October 2006, the date of admission of our Company to the Official List of the SGX-ST will be 20 October 2006, the shareholding spread requirement will be complied with and the New Shares will be issued and fully paid-up prior to 20 October 2006. The actual date on which our Shares will commence trading on a "when issued" basis will be announced when it is confirmed by the SGX-ST.

The above timetable and procedures may be subject to such modification as the SGX-ST may, in its absolute discretion, decide, including the decision to permit trading on a "when issued" basis and the commencement date of such trading. **All persons trading in our Shares on a "when issued" basis do so at their own risk. In particular, persons trading in our Shares before their Securities Accounts with CDP are credited with the relevant number of Shares do so at the risk of selling Shares which neither they nor their nominees, as the case may be, have been allotted and/or allocated with or are otherwise beneficially entitled to. Such persons are also exposed to the risk of having to cover their net sell positions earlier if "when issued" trading ends sooner than the indicative date shown above. Persons who have a net sell position traded on a "when issued" basis should close their position on or before the first day of "ready" basis trading.**

The Invitation will open from 13 October 2006 to 18 October 2006.

Investors should consult the SGX-ST's announcement on the "ready" trading date on the Internet (at the SGX-ST website <http://www.sgx.com>), INTV or the newspapers, or check with their brokers on the date on which trading on a "ready" basis will commence.

In the event of any changes in the closure of the Application List or the time period during which the Invitation is open, we will publicly announce the same:-

- (i) through a SGXNET announcement to be posted on the internet at the SGX-ST website <http://www.sgx.com>; and
- (ii) in a local English newspaper.

We will publicly announce the level of subscription for the Invitation Shares, the basis of allotment and/or allocation of the Invitation Shares and the balloting (in the event of an over-subscription for the Offer Shares) pursuant to the Invitation, as soon as it is practicable after the closure of the Application List through the channels in (i) and (ii) above.

PROSPECTUS SUMMARY

The following summary highlights certain information found in greater detail elsewhere in this Prospectus. Since this summary does not contain all the information that you should consider before investing in our Shares, it is advised that you read the entire Prospectus carefully before making an investment decision, in particular, the matters set out under the section “Risk Factors”.

OUR GROUP

Our Company was incorporated under the laws of Singapore on 31 August 2005 as a limited exempt private company under the name of China Bearing (Singapore) Pte. Ltd.. On 4 September 2006, we converted to a public company and assumed our present name China Bearing (Singapore) Ltd.. Pursuant to the Restructuring Exercise, our sole subsidiary, Linyi Kaiyuan Bearing acquired the Relevant Assets, Liabilities and Business from Yimeng Bearing. Please refer to the section “Restructuring Exercise” of this Prospectus for further details.

Our operations and production facilities are based in Yinan County, Shandong Province, the PRC. Our production facilities occupy approximately 41,745 sq m in gross floor area. As at the Latest Practicable Date, we have a total of 946 employees (of which 218 are temporary workers) and an annual production capacity of approximately 16,800,000 sets of bearings.

OUR BUSINESS

We are engaged in the design, development, manufacture and sale of bearings for use in automobiles, equipment and machineries for industrial and agricultural uses. Our bearings are classified into three main categories according to their uses as follows:-

- (1) Micro-size bearings for use in light commercial vehicles of below 3 tonnes such as vans and mini-buses. Sales derived from this segment accounted for 11.1%, 6.9%, 5.5%, 6.5% and 1.8% of our total sales in FY2003, FY2004, FY2005, 1Q2005 and 1Q2006 respectively.
- (2) Light bearings for use in vehicles of between about 3 to 10 tonnes such as light trucks, pick-ups, forklifts and agricultural vehicles. Sales derived from this segment accounted for 63.3%, 44.1%, 46.9%, 42.1% and 30.3% of our total sales in FY2003, FY2004, FY2005, 1Q2005 and 1Q2006 respectively.
- (3) Heavy bearings for use in vehicles of over 10 tonnes such as buses, coaches, container trucks and cranes. Sales derived from this segment accounted for 16.7%, 44.1%, 42.8%, 47.9% and 65.0% of our total sales in FY2003, FY2004, FY2005, 1Q2005 and 1Q2006 respectively.

The different categories of bearings differ mainly in their load-bearing capacities and speed capabilities.

We market our products primarily in the PRC. In 2005, we commenced export to countries such as Ukraine and the UAE. Our customers are mainly manufacturers of automobiles, equipment and machineries (including components thereof) for industrial and agricultural uses, as well as distributors of bearings.

Please refer to the section “Business” of this Prospectus for further details.

PROSPECTUS SUMMARY

OUR COMPETITIVE STRENGTHS

We believe that our key competitive strengths are as follows:-

1. Established track record and brand reputation
2. Experienced management team and technical expertise
3. Quality products at competitive prices
4. Strong customer relationships and a stable customer base
5. Strong research and development capability
6. Strategic location in the PRC

Please refer to the section “Competitive Strengths” of this Prospectus for further details.

OUR STRATEGY AND FUTURE PLANS

Increase our production capacity

In order to meet the anticipated increase in market demand for our products in the PRC and overseas markets, we intend to expand our production capacity. We plan to increase our production capacity by building another factory in Yinan County, Shandong Province, to focus on the manufacturing of bearings for heavy vehicles and passenger cars.

We have identified a suitable site of 55,000 sq m for this purpose. Please refer to the section “Properties” of this Prospectus for more details of the land. We intend to utilise approximately S\$5.0 million (equivalent to RMB24.9 million) of the net Invitation proceeds for the purchase of this land and the construction of an additional manufacturing plant thereon. In addition, we intend to utilise approximately S\$10.5 million (equivalent to RMB52.3 million) of the net Invitation proceeds for the purchase of machineries and equipment for the proposed new manufacturing plant. The construction of the new manufacturing plant is expected to be completed in the first quarter of 2007. Upon completion, we expect our production capacity for the new manufacturing plant to be approximately 3.2 million sets of heavy bearings and 0.3 million sets of passenger car bearings per annum.

Expand our product range and enhance product quality

We place strong emphasis on product development to improve the performance and reliability of our products and also seek to expand our product range.

We plan to hire more experienced staff with the relevant skills and experience to augment the knowledge and capabilities of our existing product development team. We will also procure new research equipment to enhance our product development efforts. We intend to utilise approximately S\$0.5 million (equivalent to RMB2.5 million) of the net Invitation proceeds to strengthen our R&D capabilities.

Expand market share for existing market segments

We intend to further strengthen and consolidate our position in the PRC by doing the following to expand our customer base:-

- (a) conduct R&D for new products;
- (b) produce bearings to be used in heavy vehicles and passenger cars, for which there is high demand;
- (c) increase our sales and marketing efforts by increasing the size of our sales and marketing and after-sales departments, for both the overseas and local divisions; and

PROSPECTUS SUMMARY

- (d) participate actively in automobile accessories and other industry-related exhibitions to market our products and raise our corporate profile.

Expand to overseas markets

Although we believe that the PRC has strong potential for growing our business, we also believe that there are significant opportunities in overseas markets. Our Directors are of the view that penetration into overseas markets will be an important factor in our growth. To this end, we intend to set up a representative office in Asia (outside the PRC) by end of 2007 to develop the Southeast Asian market. We also intend to gain a foothold in the European and US markets through strategic partnerships with local distributors. We will seek to intensify our sales, marketing and business development activities to penetrate into these new markets.

To establish a broader geographic presence within the PRC so as to have better access to both potential and existing customers, we plan to set up representative offices in locations where we currently do not have any presence and which are not conveniently accessible from our base in Shandong Province, the PRC. These will be established with a view to enhancing efficiency in terms of delivery and marketing.

Diversify into new market segments

There is a growing demand for automobiles in the PRC on the back of its economic growth and the resultant improvement in the standard of living of its consumers. Furthermore, there has been a significant number of international manufacturers who have set up automobile manufacturing operations in the PRC. Our Directors believe that the growing passenger car market holds strong potential for our tapered roller bearings. We intend to develop, manufacture and market our bearings for use in passenger cars.

Please refer to the section “Strategy and Future Plans” of this Prospectus for more details.

OUR FINANCIAL PERFORMANCE

The following tables present a summary of the combined and the unaudited pro forma financial information of our Group. The pro forma financial information has been prepared to show the effects of (i) acquisition of the Relevant Assets, Liabilities and Business, and (ii) the loans under the Convertible Loan Agreements and the Loan Agreement, under the Restructuring Exercise.

The following tables should be read in conjunction with the sections “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the financial information in:-

- (a) “Report of the Independent Auditors on the Combined Financial Statements of China Bearing (Singapore) Ltd. for the Financial Years ended 31 December 2003, 2004 and 2005” as set out in Appendix IV of this Prospectus;
- (b) “Combined Unaudited Financial Statements of China Bearing (Singapore) Ltd. for the Three-Month Financial Period ended 31 March 2006” as set out in Appendix VI of this Prospectus; and
- (c) “Unaudited Pro Forma Group Financial Statements of China Bearing (Singapore) Ltd. for the Year ended 31 December 2005 and Three Months ended 31 March 2006” as set out in Appendix VII of this Prospectus.

PROSPECTUS SUMMARY

Selected results of operations

(RMB '000)	← Combined Audited →			Combined Unaudited		← Pro Forma →	
	FY2003	FY2004	FY2005	1Q2005	1Q2006	FY2005	1Q2006
Revenue	107,614	146,021	202,902	64,685	84,781	202,902	84,781
Gross profit	26,038	43,050	68,795	18,739	40,005	69,108	40,069
Profit before taxation	21,142	39,945	61,435	17,105	34,559	61,053 ⁽¹⁾	34,467
Net profit attributable to Shareholders	11,369	26,763	41,074	11,460	23,009	40,818 ⁽¹⁾	22,947
EPS (RMB cents) ⁽²⁾	6.7	15.7	24.2	6.7	13.5	24.0 ⁽¹⁾	13.5
Adjusted EPS (RMB cents) ⁽³⁾	4.9	11.6	17.9	5.0	10.0	17.7 ⁽¹⁾	10.0

Notes:-

- (1) Had the Service Agreement, as described in the section “Directors, Management and Staff – Service Agreement” of this Prospectus, been in place since 1 January 2005, the unaudited pro forma profit before taxation and net profit attributable to Shareholders for FY2005 would have been approximately RMB60.4 million and RMB40.4 million respectively. The EPS and Adjusted EPS would have been 23.8 cents and 17.6 cents respectively.
- (2) For comparative purposes, EPS for the period under review has been computed based on the net profit attributable to Shareholders and the pre-Invitation share capital of 170,000,000 Shares.
- (3) For comparative purposes, Adjusted EPS for the period under review has been computed based on the net profit attributable to Shareholders, adjusted for the post-Invitation share capital of 230,000,000 Shares.

Selected financial position

(RMB '000)	← Combined Audited →			Combined Unaudited as at 31 March 2006	← Pro Forma →	
	2003	2004	2005		as at 31 December 2005	as at 31 March 2006
Non-current assets	59,906	54,963	51,619	47,511	39,824	35,861
Current assets	115,721	116,993	107,706	128,205	43,654	55,353
Shareholders' equity	92,805	88,096	105,967	129,077	15,769	28,398
Non-current liabilities	—	—	—	—	25,106	25,106
Current liabilities	82,822	83,860	53,358	46,639	42,603	37,710
NTA per Share (RMB cents) ⁽¹⁾	52.2	49.7	60.6	74.3	7.5	15.1

Note:-

- (1) NTA per Share for the period under review has been computed based on the NTA and pre-Invitation share capital of 170,000,000 Shares.

OUR CONTACT DETAILS

Our registered office is located at 336 Smith Street #05-310 New Bridge Centre, Singapore 050336 and our principal place of business is located at No.2 Yiqing Road, Yinan County, Shandong Province, 276309, the PRC. Our telephone number is (86-539) 3641036 and our facsimile number is (86-539) 3641111.

THE INVITATION

Issue Size	:	61,000,000 Invitation Shares comprising:-
		(a) 60,000,000 New Shares, which upon allotment and issue, will rank <i>pari passu</i> in all respects with our existing issued Shares; and
		(b) 1,000,000 Vendor Shares.
Issue Price	:	S\$0.32 for each Invitation Share.
The Offer	:	The Offer comprises an offering of 2,000,000 Offer Shares at S\$0.32 each, to members of the public in Singapore.
The Placement	:	The Placement comprises an offering of 59,000,000 Placement Shares at S\$0.32 each by way of placement.
Purpose of the Invitation	:	Our Directors consider that the listing of our Company and the quotation of our Shares on the SGX-ST will enhance our public image in Singapore and internationally and enable us to tap the capital markets for the expansion of our operations. The Invitation will also provide members of the public with an opportunity to participate in the equity of our Company.
Listing status	:	Our Shares will be quoted in Singapore Dollars on the SGX-ST, subject to admission of our Company to the Official List of the SGX-ST and permission for dealing in and for quotation of our Shares being granted by the SGX-ST and the Authority not issuing a Stop Order.

USE OF PROCEEDS FROM THE INVITATION AND EXPENSES INCURRED

NET PROCEEDS FROM THE ISSUE OF NEW SHARES

The net proceeds attributable to our Company from the issue of the New Shares, after deducting our Company's share of the estimated expenses in relation to the Invitation of approximately S\$2.5 million, are estimated to be approximately S\$16.7 million (equivalent to approximately RMB83.2 million).

We intend to use the net proceeds from the Invitation for the following purposes:-

- (a) approximately S\$10.5 million (equivalent to approximately RMB52.3 million) to purchase machineries and equipment for the proposed new manufacturing plant described in (b) below via contribution of approximately S\$2.0 million (equivalent to approximately US\$1.2 million) to the registered capital of Linyi Kaiyuan Bearing and via a shareholder's loan of approximately S\$8.5 million to Linyi Kaiyuan Bearing;
- (b) approximately S\$5.0 million (equivalent to approximately RMB24.9 million) to purchase a piece of land and to construct an additional manufacturing plant thereon;
- (c) approximately S\$0.5 million (equivalent to approximately RMB2.5 million) to strengthen our R&D capabilities; and
- (d) the balance to be used as general working capital.

The piece of land referred to in paragraph (b) above is located in Yinan Country, Shandong Province, PRC and is approximately 55,000 sq m. The aggregate purchase consideration of the land is approximately RMB5.4 million, of which RMB0.6 million has already been paid. The balance will be paid using net proceeds from the Invitation. Please refer to the section "Properties" of this Prospectus for more details.

Please refer to the section "Strategy and Future Plans" of this Prospectus for further details on the use of proceeds from the Invitation.

Pending the deployment of the net proceeds from the Invitation for the purposes mentioned above, the funds will be placed in short-term deposits with financial institutions, used to invest in short-term money market instruments and/or used for working capital requirements as our Directors may in their absolute discretion deem fit.

NET PROCEEDS FROM THE SALE OF THE VENDOR SHARES

The net proceeds attributable to the Vendor from the sale of the Vendor Shares, after deducting the Vendor's share of the estimated expenses in relation to the Invitation of approximately S\$11,000, are estimated to be approximately S\$0.3 million.

EXPENSES INCURRED IN CONNECTION WITH THE INVITATION

The estimated amount of the expenses payable by our Company in connection with the Invitation is approximately S\$2.5 million, including the underwriting commission, placement commission, brokerage, management, audit and legal fees, advertising and printing expenses, as well as fees payable to the SGX-ST and the Authority.

USE OF PROCEEDS FROM THE INVITATION AND EXPENSES INCURRED

The following table sets out the breakdown of the use of proceeds and the estimated expenses incurred:-

	(S\$'000)	Estimated amount for each dollar raised from the Invitation (cents)
Use of Proceeds		
To purchase machineries and equipment for the proposed new manufacturing plant	10,500	0.55
To purchase a piece of land and to construct an additional manufacturing plant thereon	5,000	0.26
To strengthen our R&D capabilities	500	0.03
To be used for general working capital purposes	700	0.04
	16,700	0.88
	(S\$'000)	Estimated amount for each dollar raised from the Invitation (cents)
Expenses		
Listing fees	53	–
Professional fees	1,330	0.07
Underwriting commission, placement commission and brokerage	672	0.03
Miscellaneous expenses	445	0.02
	2,500	0.12

Please refer to the section “Other General Information – Management, Underwriting and Placement Agreements” of this Prospectus for more details.

Save for the underwriting commission, placement commission and brokerage which will be borne by our Company and the Vendor in the proportion in which the Invitation Shares are offered by our Company and the Vendor, all expenses in relation to the Invitation will be borne by our Company.

RISK FACTORS

Prospective investors should carefully consider and evaluate each of the following considerations and all of the other information set forth in this Prospectus before deciding to invest in our Shares. To the best of our Directors' knowledge and belief, all risk factors that are material to investors in making an informed judgement have been set out below. If any of the following considerations and uncertainties develops into actual events, our business, financial conditions or results of operations and prospects could be materially and adversely affected. In such cases, the trading price of our Shares could decline, and you may lose all or part of your investment in our Shares.

This Prospectus also contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including but not limited to, the risks faced by us described below and elsewhere in this Prospectus.

RISKS RELATING TO OUR BUSINESS

We are reliant on our major customers

Our major customers accounted for an aggregate of 51.1%, 57.4% and 54.1% of our sales in FY2003, FY2004 and FY2005 respectively. Please refer to the section "Major Customers" of this Prospectus for further details.

In general, we have cooperative agreements with our major customers. These agreements do not impose legal obligations on our customers to purchase from us and do not specify sales volume or price. There is no assurance that we will continue to retain these customers or that they will continue to purchase our products at current levels in the future. If there is any material delay or a reduction or cancellation of purchase orders or a termination of relationship with these customers, our sales and profitability will be materially and adversely affected.

We are dependent on the PRC market

Our sales are entirely derived from the PRC market in FY2003 and FY2004. In FY2005, sales from other countries contributed to approximately 0.04% of our sales. While we have plans to expand into overseas markets, our Directors anticipate that the PRC will continue to contribute significantly to our sales in the foreseeable future. We are therefore susceptible to any downturn in our industry in the PRC market and there is no assurance that any such downturn will not adversely affect our future performance and profitability.

Our business is affected by adverse economic conditions

The demand for bearings is dependent on the demand for goods or equipment which require bearings, for example, motor vehicles. The demand for motor vehicles, and hence bearings, is generally observed to decrease sharply in adverse economic conditions. In the event the PRC economy is unable to sustain economic growth or if it goes into recession, demand for bearings will fall, and our sales and profitability will be adversely affected.

We may be affected by a change in our customers' manufacturing strategies

Our customers may change their manufacturing strategies, for example, by relocating their production facilities to countries or locations where we do not have a presence. If these customers choose to source their supply of bearings from locations where we do not have a presence, we may not be able to continue meeting their supply requirements. This will result in us not being able to retain them as our customers and obtain new sales orders or contracts from them. In addition, if our customers cease or reduce their outsourcing activities, the resultant loss of orders from them will have a material and adverse effect on our sales and profitability.

Our business is dependent on the ISO/TS16949:2002 certification

Currently, the ISO/TS16949:2002 certification awarded to us is determined by factors such as our process management system, quality of products and services as well as the quality and standard of our staff. The ISO/TS16949:2002 certification is subject to annual renewal. In the event that the certification is not renewed, we will not be allowed to bid for contracts which require the ISO/TS16949:2002 certification as a pre-requisite for tender. This would be detrimental to our business operations and sales.

RISK FACTORS

We are reliant on our key management personnel

Our continued success is dependent, to a large extent, on our ability to retain the services of our core management team which is headed by our Managing Director and CEO, Zhang Anxi. Our core management team comprises personnel who have a number of years of experience in the bearing industry, as well as in sales and marketing, operational and financial functions. Please refer to the section “Directors, Management and Staff” of this Prospectus for further details.

The loss of any of these key management personnel without timely and suitable replacements, or the inability to attract and retain qualified and experienced personnel, will have an adverse effect on our business, financial condition, results of operation and prospects.

Fluctuations in the price of raw materials will affect our profitability

In FY2003, FY2004 and FY2005 and 1Q2006, our cost of raw materials (which consists mainly GCr15 steel) accounted for 77.8%, 78.4%, 82.5% and 83.4% of our total cost of sales respectively. The price of GCr15 steel may fluctuate due to factors such as global demand and supply conditions for such steel and changes in global economic conditions. Any shortages or interruptions in the supply of steel (including GCr15 steel) will result in an increase in steel prices, resulting in an increase in our cost of sales. If we are not able to pass on such an increase to our customers or we are unable to find alternative sources of steel or an appropriate substitute raw material at comparable prices, our operations and financial performance will be adversely affected.

We do not have long-term supply arrangements with our suppliers

Our suppliers are located in the PRC. Our purchase of raw materials are based on expected production levels, after taking into consideration, amongst other factors, forecast and actual orders from our customers. To ensure that we are able to deliver to our customers quality products at competitive prices, we need to secure sufficient quantities of raw materials at acceptable prices and quality on a timely basis. Typically, in our industry, we do not enter into any long-term supply agreements with our suppliers. As such, there is no assurance that these suppliers will continue to supply to us in the future. In the event our suppliers are unable to fulfil our orders or meet our requirements, we may not be able to find timely replacements at acceptable prices and quality, and this will in turn adversely affect the fulfilment of our customers’ orders. Consequently, our reputation may be negatively affected, leading to a loss of business and affecting our ability to attract new businesses. Our sales and profitability will then be adversely and materially affected.

We are reliant on our sub-contractor Gundong Bearing

We have entered into an agreement with our sub-contractor, Gundong Bearing, under which Gundong Bearing manufactures some of our bearings and roller retainers (a bearing component) for us. We believe that Gundong Bearing has been able to supply us with such products at competitive prices. Purchases from Gundong Bearing accounted for 41.1%, 28.8% and 37.2% of our total purchases in FY2003, FY2004 and FY2005 respectively. In the event Gundong Bearing is unable to continue supplying to us at such competitive prices or if it should cease supplying to us for whatever reasons and we are unable to find suitable alternative sub-contractors that can offer us products of similar quality at comparable prices, our sales and profitability will be adversely affected.

Failure to compete successfully with our competitors and new entrants to the bearing industry in the PRC may adversely affect our business and financial performance

We operate in a competitive industry. Given the growth potential of our industry, there is no assurance that we will not face competition from our existing competitors and new entrants. We compete with a variety of companies, some of which may have longer operating histories, larger clientele base, better products, bigger teams of technical and professional staff and such other relevant resources, or are better entrenched in the markets that we operate in or intend to venture into. Our competitors may be able to respond more quickly to new and emerging technologies and changes in our customers’ requirements or succeed in developing products that are more effective or less costly than our products. Please refer to the section “Competition” of this Prospectus for further details of our competitors. Any increase in competition could have a negative impact on our pricing (thus eroding our profit margins) and reduce our market share. If we are unable to compete effectively with our existing and future competitors and adapt quickly to changing market conditions and trends, our business and financial performance will be adversely affected.

RISK FACTORS

We are exposed to potential product liability

Accidents may arise as a result of defects in our products. If there are any defects in the products designed and/or manufactured by us, we may face claims from our customers or third parties for the damages suffered as a result of such defects. We have not purchased insurance coverage for product liability or third party liability and are thus not covered or compensated by insurance in respect of losses, damages, claims and liabilities arising from or in connection with product liability or third party liability. Manufacturers are obliged under PRC laws to be responsible for the products they produce, and are liable for all losses and damages arising from the defects in their products. Our contracts generally do not contain disclaimers or limitations on liability arising from any malfunction or incidental damages. Should such events occur, our profitability, goodwill and reputation will be adversely affected.

The results of our research and development efforts are uncertain

We may from time to time undertake R&D to develop products which we have identified as having good potential in the market. Our R&D expenses accounted for approximately 9.7%, 9.8% and 7.9% of our operating expenses in FY2003, FY2004 and FY2005 respectively. There is no assurance that we will not experience delays in future product developments. There is also no assurance that the products which we are currently developing or may develop in the future will be successful or that we will be able to market these new products to our customers successfully. If our new products are unable to gain the acceptance of our customers or potential customers, we will not be able to generate future sales from our investment in R&D and this will have an adverse effect on our business, operating results and financial conditions.

We are reliant on the continuation of our license agreement with Luoyang Research Institute for our research and development activities

We have entered into an agreement with Luoyang Research Institute for the license to use its proprietary technologies in the design of our bearings. We have made use of the licensed technologies from Luoyang Research Institute, in one way or another, in the research and development of our products since 1992. Please refer to the section “Research and Product Development” of this Prospectus for further details. This agreement is subject to termination by mutual consent and has no expiry date. Should this agreement with Luoyang Research Institute be terminated and we are unable to find suitable alternative technology for the design of our bearings, our research and development activities and consequently our sales and profitability will be adversely affected.

We rely on our intellectual property

To a certain extent, our success depends on our trade secrets and other intellectual property which we have taken steps to protect. Please refer to the section “Intellectual Property” of this Prospectus for further details. However, it may still be possible for a third party to copy or otherwise obtain and use our trade secrets or other forms of our intellectual property without authorisation. In addition, it is possible that others may independently develop substantially equivalent intellectual property and manufacture bearings similar to those offered by us. This may erode our competitive advantage and our sales may be adversely affected.

Intellectual property infringement by or against us could seriously harm our business

Our trademark and brand name “沂蒙” is recognised by our customers to represent consistently good quality bearings. In order to protect our trademark, we have registered our trademark with the Trademark Bureau of the State Administration and Commerce of the PRC. It is possible that our competitors may adopt product or trade names similar to ours notwithstanding the registration of our trademark with the relevant authority in the PRC, and we may not be able to completely prevent the sale of counterfeit products which infringe our intellectual property rights. As a result, the goodwill generated by our brand may be eroded and our business may be adversely affected. We did not apply for, and hence do not have any intellectual property rights such as patents in respect of our proprietary products. Accordingly, we would not be able to enforce or assert any intellectual property rights against third parties (except our employees who have entered into confidentiality agreements with us) in respect of our proprietary products. Details relating to our intellectual property rights are set out in the section “Intellectual Property” of this Prospectus.

RISK FACTORS

If we cannot effectively protect our intellectual property, our business could be adversely affected. In the future, we may have to resort to litigation to protect our trade secrets or to determine the validity and scope of the proprietary rights of others. Litigation of such nature, regardless of its outcome, could result in substantial costs and diversion of resources. Further, protection and enforcement of intellectual property rights in the PRC is not as certain and effective as in other jurisdiction with a more developed body of law protecting intellectual property rights. Failure to protect our intellectual property adequately may have an adverse effect on our business reputation, goodwill and financial performance.

There can be no assurance that third parties may not initiate litigation against us alleging infringement of their intellectual property rights. Such claims, whether with or without merit, could:-

- be expensive and time consuming to defend;
- cause us to cease using our technology, or manufacturing or selling products that incorporate the challenged intellectual property;
- cause delays in meeting our orders;
- require us to redesign or redevelop our technology or products, if feasible;
- divert management's attention and resources; or
- require us to enter into royalty or licensing agreements in order to obtain the right to use a necessary technology in our production process. Royalty or licensing agreements, if required, may not be available on acceptable terms, if at all.

A successful claim of proprietary infringement against us and our failure or inability to license the infringed or similar technology could prevent us from manufacturing and/or selling our products or cause us to incur great expense and delay in developing non-infringing technology or products.

We may face uncertainties and risks associated with our entry into new overseas markets

We intend to expand our business and operations to new overseas markets through marketing our products internationally. Such initiatives involve numerous risks, including but without limitation to, the costs of setting up presence overseas and unexpected or additional costs which may affect the results of our operations. There can be no assurance that we will be successful in our entry into these new overseas markets. If we fail to achieve a sufficient level of sales, we will not be able to recover our costs and our future financial position and performance will be adversely affected. Please refer to the section "Strategy and Future Plans" of this Prospectus for further details.

The upward trend in our gross profit margin may not continue

Our gross profit margin improved from 24.2% in FY2003 to 29.5% in FY2004 due to greater economies of scale and concerted efforts to improve our product mix by focusing on heavy bearings sales which carried higher gross profit margins. Our gross profit margin further improved to 33.9% in FY2005 due to greater economies of scale, higher productivity and generally higher selling prices associated with our offering of new and improved range of bearings in FY2005. The factors which resulted in the increase in our gross profit margin from FY2003 to FY2005 may not continue and as such, we cannot assure you that the upward trend in our gross profit margin will continue.

We may become subject to foreign exchange risk

We currently do not have any foreign exchange exposure as our sales and purchases are predominantly denominated in RMB. Our export sales in FY2005 is relatively insignificant. In the future, a larger proportion of our sales may be denominated in other currencies as we expand into overseas markets. In such circumstances, we may be subject to foreign currency fluctuations in the future.

RISK FACTORS

We may require additional funding for our future growth

Although we have identified our future growth plans set out in the section “Prospects and Future Plans” of this Prospectus as the avenues to pursue growth in our business, the net proceeds from the Invitation may not be sufficient to fully cover the estimated costs of implementing all these plans. We may also find opportunities to grow through acquisitions which cannot be predicted at this juncture. Under such circumstances, secondary issue(s) of securities after this Invitation may be necessary to raise the required capital to develop these growth opportunities. If new Shares are issued and placed to new and/or existing Shareholders after the Invitation, the equity interests of existing Shareholders will be diluted. If we fail to utilise the new equity to generate a commensurate increase in earnings, our EPS will be diluted, and this could lead to a decline in our share price. Any additional debt financing may, apart from increasing interest expense and gearing, contain restrictive covenants with respect to dividends, future fund-raising exercises and other financial and operational matters.

Outbreak of infectious diseases such as the avian influenza may affect our operations

In early 2004 and late 2005, an outbreak of the A(H5N1) strain of avian influenza occurred in East Asia. It is possible that its outbreak will spread in other countries in Asia and pose a threat to human health. An outbreak of the avian influenza could affect our operations as well as the operations of our customers and suppliers. Further, in the event that any of our employees in our production facilities becomes infected with the avian influenza, we may be required to shut down the production facilities to prevent the spread of such diseases. Our marketing activities will also be affected as promotional events and client visits may be suspended or slowed down considerably. An outbreak of the avian influenza will therefore have an adverse impact on our business and our operations.

We may face disruptions in our operations due to fire

Our sales are dependent on the continued operation of our production facilities in Yinan County, Shandong Province, the PRC. Our production process involves the use of furnaces. Our production facilities are therefore susceptible to fire risks. We have in place fire prevention and contingency procedures, and make periodic checks on the production facilities to prevent the outbreak of fire. Our employees are briefed on safety procedures during their orientation upon joining us. Nevertheless, there is no assurance that such measures would be sufficient to prevent any outbreak of fire in the future. An outbreak of fire at our production facilities would result in disruption to our production process, and have significant adverse effects on our business, financial conditions and operating results. Furthermore, while we maintain fire insurance policies, there is no assurance that our insurance coverage would be sufficient to cover all our potential losses due to an outbreak of fire. In particular, our insurance policies do not cover consequential economic loss due to fire. In the event our insurance policies cannot sufficiently cover our losses due to fire, our profitability and operations will be adversely affected.

We may face disruptions in our operations due to natural calamities

Natural calamities may cause disruptions to the operation of our production facilities as our production facilities are located next to a river and may be at risk of flooding in the event of unusual heavy rainfall. In the event such flooding or other natural calamities results in significant damage to our production facilities, our operations may be interrupted, delayed or curtailed. This will cause a longer production lead time and delayed delivery to our customers. Failure to meet delivery deadlines may result in the loss of business or claims against us and affect our business, profitability and reputation. In particular, we do not maintain any insurance against business interruption.

The downward trend in our trade receivables turnover days may not continue

Our trade receivables turnover days decreased from 90 days in FY2003 to 46 days in FY2005 as a result of the shortening of credit period granted to our customers from a maximum of 90 days in FY2003 to a maximum of 60 days in FY2004, and subsequently to a maximum of 45 days in FY2005. Our trade receivables turnover days further decreased to 22 days in 1Q2006 as a result of tighter collection prior to festive season during this period. The factors which resulted in the decline of trade receivable turnover days from FY2003 to 1Q2006 may not continue and as such, we cannot assure you that the downward trend in our trade receivables turnover days will continue.

RISK FACTORS

RISKS RELATING TO AN INVESTMENT IN A COMPANY WITH SIGNIFICANT PRC OPERATIONS

Our business and financial performance are highly susceptible to changes in the PRC's political, economic and social conditions

Our operations may be adversely affected by changes in the political, economic and social conditions in the PRC. This is because our operations and production facilities are located in the PRC and a substantial portion of our sales and profits are derived from PRC customers. We anticipate that the PRC market will continue to be a major source of revenue for us in the foreseeable future. Accordingly, any significant slowdown in the PRC economy or decline in demand for our products from our customers in the PRC will have an adverse effect on our business and financial performance. Furthermore, any unfavourable changes in the social and political conditions of the PRC may also adversely affect our business and operations.

Since the adoption of the “open door policy” in 1978 and the “socialist market economy” in 1993, the PRC government has undergone various reforms to its economic systems and is expected to continue to reform its economic and political systems. Any changes in the political and economic policy of the PRC government may lead to changes in the laws and regulations or the interpretation of the same, as well as changes in the foreign exchange regulations, taxation and import and export restrictions, which may in turn adversely affect our financial performance. Such reforms have resulted in economic growth for the PRC in the last two decades. However, many of the reforms are unprecedented or experimental, and are expected to be refined and modified from time to time. Other political, economic and social factors may also lead to further readjustments of the reforms. This refinement and readjustment process may consequently have a material and adverse impact on our business and profitability in the PRC.

While the current policy of the PRC government seems to be one of imposing economic reform policies to encourage foreign investments and greater economic decentralization, there is no assurance that such a policy will continue to prevail in the future. There is no assurance that our operations will not be adversely affected should there be any policy changes.

Our business activities are subject to certain PRC laws and regulations

As our production and operations are carried out in the PRC, we are subject to certain PRC laws and regulations. In addition, our subsidiary, Linyi Kaiyuan Bearing, being a wholly foreign-owned enterprise, is required to comply with certain laws and regulations. Please refer to the section “Appendix II: Summary of Relevant PRC Laws and Regulations” of this Prospectus for further details. Pursuant to the PRC laws and regulations, the PRC authorities may suspend, withdraw or terminate our business license, and this will materially and adversely affect our business and profitability.

The corporate affairs of our subsidiary in the PRC are governed by its articles of association and the corporate and foreign investment laws and regulations of the PRC. The principles of the PRC laws relating to matters such as the fiduciary duties of directors and other corporate governance matters and foreign investment laws in the PRC are relatively new. Hence, the enforcement of investors or shareholders’ rights under the articles of association of a PRC company and the interpretation of the relevant laws relating to corporate governance matters remain largely untested in the PRC.

PRC foreign exchange control may limit our ability to utilise our profits effectively and affect our ability to receive dividends and other payments from our PRC subsidiary

Our PRC subsidiary is a foreign investment enterprise (“FIE”) and is subject to the rules and regulations in the PRC on currency conversion. In the PRC, the State Administration of Foreign Exchange (“SAFE”) regulates the conversion of the RMB into foreign currencies. Currently, FIEs are required to apply to SAFE for “Foreign Exchange Registration Certificates for Foreign Investment Enterprise”. With such registration certifications (which need to be renewed annually), FIEs are allowed to open foreign currency accounts including the “current account” and “capital account”. Currently, conversion of currency within the scope of the “current account” (e.g. remittance of foreign currencies for payment of dividends, etc.) can be effected without requiring the approval of SAFE. However, conversion of currency in the “capital account” (e.g. for capital items such as direct investments, loans, securities, etc.) still requires the approval of SAFE. Please refer to the section “Exchange Controls” of this Prospectus for further details.

RISK FACTORS

The ability of our PRC subsidiary to pay dividends or make other distributions to us may be restricted by PRC foreign exchange control restrictions. There is no assurance that the PRC regulatory authorities will not impose any future restrictions on currency exchanges that may limit our ability to utilise revenue generated in the PRC to fund our business activities outside the PRC or to distribute dividends to our Shareholders.

On 21 October 2005, SAFE promulgated the “Notice on Issues concerning Foreign Exchange Management in Financing by PRC Residents by Overseas Special Purpose Vehicle and Return Investments” (the “No. 75 Notice”). The No. 75 Notice came into effect on 1 November 2005 and requires the following matters, amongst others, to be complied with:-

- Every PRC domestic resident who establishes or controls an overseas special purpose vehicle (“SPV”) must apply to the local bureau of SAFE for an “overseas investment foreign exchange registration”;
- Every PRC domestic resident of an SPV who has completed the “overseas investment foreign exchange registration” (the “Registrant”) must make an application to the local bureau of SAFE to amend their registration particulars upon (i) the injection of any PRC domestic assets or the equity interests of any PRC domestic company owned by the PRC domestic resident into an SPV, and (ii) the implementation of any overseas equity fund-raising by an SPV following an injection of PRC domestic assets or the equity interests of a PRC domestic company;
- Every Registrant must apply to the local bureau of SAFE for change of registration particulars or recordation within 30 days after the occurrence of any capital increase or reduction, changes in shareholdings or share swap, merger or demerger, long-term investment in equities or debentures, guarantee of foreign indebtedness and other major capital changes not involving “return investment”, undertaken by an SPV; and
- Every Registrant must repatriate, within 180 days, dividends or profits which he receives from an SPV and/or income derived from changes in the shareholding of an SPV.

The shareholders of China Bearing (Bermuda) are PRC domestic residents who have established or have control over an SPV, in this case, our Company and China Bearing (Bermuda). As such, they would be required, amongst other matters, to comply with the registration and repatriation requirements under No. 75 Notice. The shareholders of China Bearing (Bermuda) have carried out the necessary registration with SAFE in respect of the establishment of China Bearing (Bermuda) and our Company, as well as for the acquisition of the Relevant Assets, Liabilities and Business of Yimeng Bearing by Linyi Kaiyuan Bearing. They will be required to comply with further requirements under the No. 75 Notice in respect of any future changes or declaration of dividends as mentioned above. We cannot assure you that they will comply with all these requirements. Their failure to conduct these registrations and repatriation of distributed dividends or profits in accordance with No. 75 Notice may have an adverse effect on Linyi Kaiyuan Bearing ability to remit profits to our Company.

Introduction of new laws or changes to existing laws by the PRC government may adversely affect our business

The PRC legal system is based on the PRC Constitution and is made up of written laws, regulations, circulars and directives. With the PRC’s entry into the WTO, the PRC government is in the process of developing its legal system so as to encourage foreign investments and to meet the needs of investors. As the PRC economy is developing at a generally faster rate than its legal system, some degree of uncertainty invariably exists in connection with whether and how existing laws and regulations will apply to certain events or circumstances.

Some of the laws and regulations, and the interpretation, implementation and enforcement thereof, are still at the experimental stage and therefore subject to policy changes. This in turn, may have an adverse impact on our sales and profitability. There is no assurance that the introduction of new laws or regulations, changes to existing laws and regulations and the interpretation or application thereof or the delays in obtaining approvals from the relevant PRC authorities will not have an adverse impact on our business or prospects.

RISK FACTORS

In particular, on 8 August 2006, Ministry of Commerce (“MOC”), China Security and Regulatory Commission (“CSRC”) and four other PRC authorities at state level promulgated the “Rules on the Mergers and Acquisitions of Domestic Enterprises by Foreign Investors” (“M&A Rules”), which came into effect on 8 September 2006. Pursuant to Articles 39 and 40 of the M&A Rules, the listing of offshore special purpose vehicles, which are directly or indirectly established or controlled by PRC entities or individuals, are subject to the prior approval from CSRC (“CSRC Approval”).

On 21 September 2006, the CSRC promulgated Guidelines on Domestic Enterprises Indirectly Issuing or Listing and Trading Their Stocks on Overseas Stock Exchanges (the “CSRC Guidelines”). The CSRC Guidelines provide that SPVs referred to in Articles 39 and 40 of the M&A Rules are subject to the CSRC Approval. However, the CSRC Guidelines do not elaborate whether SPVs, which have completed their restructuring and the listing procedures for the listing and trading of their stocks on overseas stock exchanges prior to 8 September 2006, must retroactively obtain the CSRC Approval for such listing and trading. As of the Latest Practicable Date, CSRC has been silent on this regard, notwithstanding repeated inquiries by Jun He Law Offices, our Legal Advisers on PRC Law, with officials of the CSRC.

Jun He Law Offices is of the opinion that our Company and subsidiary have obtained all the necessary governmental approvals from PRC authorities for their restructuring prior to 8 September 2006, and that our Company should not be required to obtain the CSRC Approval or any other approvals from PRC authorities or governmental departments for our proposed listing on the SGX-ST. However, there is no assurance that PRC authorities will not issue further directives, regulations, clarifications or implementation rules, which may require us to obtain further approvals with respect to our Restructuring Exercise or proposed listing on the SGX-ST. Please see the sections “Restructuring Exercise” and “Appendix II: Summary of Relevant PRC Laws and Regulations” of this Prospectus for further details.

As the majority of our customers are from the PRC, we may, in future, be involved in dispute with some of these PRC entities. We may have to resolve our disputes under the PRC legal system and in accordance with PRC laws. Precedents on the interpretation, implementation and enforcement of the PRC laws and regulations are limited and court decisions in the PRC are not binding on lower or lateral courts. Accordingly, the outcome of dispute resolutions may not be as consistent or predictable as in other more developed jurisdictions and it may be difficult to obtain swift and equitable enforcement of the laws in the PRC, or to obtain enforcement of judgments made by a court of another jurisdiction.

Cessation of income tax exemptions or incentives for our PRC subsidiary will have an adverse impact on our profitability

FIEs including wholly foreign-owned enterprises, are subject to PRC state and local income tax rates pursuant to the income tax laws of the PRC for foreign investment enterprises and foreign enterprises (the “Tax Laws”). Under the Tax Laws, Linyi Kaiyuan Bearing, being a wholly foreign-owned enterprise engaged in production and scheduled to operate for a term of over ten years, is entitled to full exemption from Enterprise Income Tax (“EIT”) for the first two years and a 50% reduction in EIT for the next three years, commencing from the first profitable year (after offsetting all tax losses carried forward from previous years, up to the five preceding years).

There have been indications that the PRC government is considering to abolish the preferential tax treatment accorded to wholly foreign-owned enterprises and bringing these enterprises under the same taxation regime currently applied to domestic enterprises. The details of such plans are not currently known. We are uncertain whether the new measures, if and when introduced, will seek to cancel all or any unexpired tax incentives, or whether the PRC government will only cease granting tax incentives to newly established FIEs. Our net profit after tax and cash flow will be adversely affected in the event of total or partial removal of such tax incentives or adverse changes to the prevailing tax regulations.

Failure or inability to pay the outstanding registered capital of our subsidiary may result in the revocation of its business licence

Linyi Kaiyuan Bearing is a wholly foreign-owned enterprise with a paid-up registered capital of approximately US\$3.29 million as at the Latest Practicable Date. Approximately US\$1.21 million of its registered capital remained outstanding as at the Latest Practicable Date, due and payable by 25 December 2006. We intend to utilise part of the net proceeds from the Invitation for contribution to the outstanding registered capital before it falls due and payable.

RISK FACTORS

Under the Implementation Rules for PRC Foreign investment Company Law (中华人民共和国外资企业法实施细则) promulgated by State Council on 12 April 2001, if the respective parties fail to subscribe their outstanding capital, the original examining and approving organ, namely the Linyi Foreign Trade & Economic Cooperation Bureau, shall have the right to revoke the approval certificates of our subsidiary. The Administration for Industry and Commerce shall also have the right to revoke its business license and issue a public announcement to this effect.

If we fail to pay up the balance of unpaid registered capital of approximately US\$1.21 million, our subsidiary's business license may be revoked and our operations and financial performance will be adversely affected.

Our subsidiary, operations and significant assets are located outside Singapore. Shareholders may not be accorded the same rights and protection that would be accorded under the Companies Act. In addition, it could be difficult to enforce a Singapore judgment against our Directors and officers

Our subsidiary, operations and assets are located in the PRC. Our subsidiary is therefore subject to the relevant laws in the PRC. The Companies Act may provide Shareholders with certain rights and protection which may not have corresponding or similar provisions under the laws of the PRC. As such, investors in our Shares may or may not be accorded the same level of shareholder rights and protection that would be accorded under the Companies Act. In addition, all our Executive Directors, as at the Latest Practicable Date, are non-residents of Singapore and the assets of these persons are mainly located outside Singapore. As such, there may be difficulties for Shareholders to effect service of process in Singapore, or to enforce a judgment obtained in Singapore against any of these persons.

Environmental, health and safety laws could impose material liabilities on us and could require us to incur material capital and operational costs

We are subject to environmental, health and safety laws and regulations in the PRC that impose controls on our air, water and waste discharges, on our storage, handling, use, discharge and disposal of chemicals, and on exposure of our employees to hazardous substances. These laws and regulations could require us to incur costs to maintain compliance and could impose liability to remedy the effects of hazardous substance contamination. Although we believe we have not violated any of such laws and regulations and therefore have not incurred any significant liabilities under these laws and regulations in the past, the trend in legislation is clear that the environmental laws and regulations are constantly evolving and becoming stricter in the PRC. The adoption of new laws or regulations or our failure to comply with these laws or regulations in the future could cause us to incur material liabilities and require us to incur additional expenses, curtail our operations and restrict our ability to expand.

RISKS RELATING TO THE INVITATION AND INVESTING IN OUR SHARES

Future sales of Shares could adversely affect our Company's Share price

Any future sale or availability of our Shares in the public market can have a downward pressure on our Share price. The sale of a significant number of Shares in the public market after this Invitation, or the perception that such sales may occur, could materially and adversely affect the market price of our Shares. These factors also affect our ability to sell additional securities. Except as otherwise described under the section "Moratorium" of this Prospectus, there will be no restriction on the ability of our Substantial Shareholders to sell their Shares either on the SGX-ST or otherwise.

There has been no prior market for our Shares and this Invitation may not result in an active or liquid market for our Shares

Prior to this Invitation, there has been no public market for our Shares. Therefore, we are unable to predict the extent to which a trading market will develop or how liquid that market might become. No assurance can be given that an active trading market for our Shares will develop or, if developed, will be sustained. If an active trading market is not developed or sustained, the liquidity and trading price of our Shares could be materially and adversely affected. You should not take the listing as an indication of the merits of this Invitation, our Company, our subsidiary, our Shares (including the Vendor Shares) or the New Shares.

RISK FACTORS

Control of the major shareholder who owns approximately 55.0% of the post-Invitation issued share capital may limit your ability to influence the outcome of decisions requiring the approval of Shareholders

Upon the completion of the Invitation, we anticipate that China Bearing (Bermuda) will own approximately 55.0% of our post-Invitation issued share capital. As a result, it will be able to exercise significant influence over all matters requiring Shareholders' approval, including the election of directors and the approval of significant corporate transactions. It will also have veto power with respect to any Shareholders' action or approval requiring a majority vote, except where they are required by the rules of the Listing Manual to abstain from voting. Such concentration of ownership may also have the effect of delaying, preventing or deterring a change in control of our Group, that could conflict with the interests of our public Shareholders.

Investors in our Shares will face immediate and substantial dilution in the NTA per Share and may experience future dilution

Our Issue Price is substantially higher than our Group's unaudited pro forma NTA per Share of 9.5 cents (adjusted for the net proceeds from this Invitation) as at 31 March 2006. Thus, there is an immediate and substantial dilution in the NTA per Share to new investors. Please refer to the section "Dilution" of this Prospectus for more details.

Our Share price may be volatile, which could result in substantial losses for investors acquiring our Shares in this Invitation

The market price of our Shares may fluctuate significantly and rapidly as a result of, *inter alia*, the following factors, some of which are beyond our control:-

- announcements by us of significant contracts, acquisitions, strategic alliances or capital commitments;
- the liquidity of the market for our Shares;
- changes in general market conditions and broad market fluctuations;
- changes in our operating results;
- changes in securities analysts' estimates of our financial performance and recommendations;
- differences between our actual financial operating results and those expected by investors and securities analysts;
- our involvement in litigation;
- additions or departure of key personnel; and
- loss of our major customers/key suppliers or failure to complete significant orders or contracts.

In addition, our Share price will be subject to a downward pressure if our existing Shareholders sell their Shares immediately after the expiry of the moratorium.

INVITATION STATISTICS

Issue Price	32.0 cents
--------------------	------------

Net Tangible Assets ⁽¹⁾

NTA per Share based on the unaudited pro forma financial position of our Group as at 31 March 2006:-

- | | |
|---|-----------|
| (a) before adjusting for the estimated net proceeds from the Invitation and based on the pre-Invitation share capital of 170,000,000 Shares | 3.0 cents |
| (b) after adjusting for the estimated net proceeds from the Invitation and based on the post-Invitation share capital of 230,000,000 Shares | 9.5 cents |

Premium of Issue Price over the NTA per Share (based on the unaudited pro forma financial position of our Group as at 31 March 2006):-

- | | |
|---|-----------------|
| (a) before adjusting for the estimated net proceeds from the Invitation and based on the pre-Invitation share capital of 170,000,000 Shares | 966.7 per cent. |
| (b) after adjusting for the estimated net proceeds from the Invitation and based on the post-Invitation share capital of 230,000,000 Shares | 236.8 per cent. |

Earnings ⁽²⁾

Historical net EPS based on the unaudited pro forma earnings of our Group for FY2005 and the pre-Invitation share capital of 170,000,000 Shares	4.9 cents
---	-----------

Historical net EPS based on the unaudited pro forma earnings of our Group for FY2005 (assuming the Service Agreement had been in effect) and the pre-Invitation share capital of 170,000,000 Shares	4.8 cents
---	-----------

Price Earnings Ratio

Historical PER based on the historical net EPS for FY2005	6.5 times
---	-----------

Historical PER based on the historical net EPS for FY2005, assuming the Service Agreement been in effect	6.7 times
--	-----------

Net Operating Cash Flow ⁽³⁾

Historical net operating cash flow per Share based on the unaudited pro forma cash flow statement of our Group for FY2005 and the pre-Invitation share capital of 170,000,000 Shares	5.6 cents
--	-----------

Historical net operating cash flow per Share based on the unaudited pro forma cash flow statement of our Group for FY2005 (assuming the Service Agreement had been in effect) and the pre-Invitation share capital of 170,000,000 Shares	5.6 cents
--	-----------

Price to Net Operating Cash Flow Ratio

Issue Price to historical net operating cash flow per Share for FY2005	5.7 times
--	-----------

Issue Price to historical net operating cash flow per Share for FY2005 (assuming the Service Agreement had been in effect)	5.7 times
--	-----------

Market Capitalisation

Our market capitalisation based on the post-Invitation share capital of 230,000,000 Shares and the Issue Price	S\$73.6 million
--	-----------------

INVITATION STATISTICS

Notes:-

- (1) The NTA as at 31 March 2006 is computed based on an exchange rate of S\$1.00 to RMB4.961, being the closing rate as at 31 March 2006.
- (2) The earnings for FY2005 are computed based on an exchange rate of S\$1.00 to RMB4.923, being the average rate for the year ended 31 December 2005.
- (3) Net operating cash flow refers to the net profit attributable to Shareholders, with depreciation and amortisation charges added back, computed based on an exchange rate of S\$1.00 to RMB4.923.

DIVIDEND POLICY

Our Company has not declared or paid any cash dividends since its incorporation on 31 August 2005. As at the Latest Practicable Date, there was no outstanding dividend payable.

Yimeng Bearing, from whom we acquired the Relevant Assets, Liabilities and Business, had declared dividends of RMB2.9 million, RMB31.5 million and RMB75.5⁽¹⁾ million in FY2003, FY2004 and FY2006 respectively.

We currently do not have a fixed dividend policy. The form, frequency and amount of dividends that our Directors may recommend or declare in respect of any particular financial year or period will be subject to the factors outlined below as well as any other factors deemed relevant by our Board of Directors:-

- the level of our cash and retained earnings;
- our actual and projected financial performance;
- our projected levels of capital expenditure and other investment plans;
- the dividend yield of similar-sized companies with similar growth listed on the SGX-ST; and
- restrictions on payment of dividends imposed on us by our financing arrangements or legal and contractual obligations (if any).

Any final dividends paid by us must be approved by an ordinary resolution of our Shareholders at a general meeting and must not exceed the amount recommended by our Board of Directors. Our Board of Directors may, without the approval of our Shareholders, also declare an interim dividend. We must pay all dividends out of profits and in accordance with the Act.

Our Directors intend to recommend and distribute at least 30% of our net profits attributable to Shareholders in FY2006 as dividends, subject to the factors outlined above. However, investors should note that the intention to recommend the aforesaid dividends should not be treated as a legal obligation on our Company nor should it be treated as an indication of our Company's future dividend policy. There can be no assurance that dividends will be paid in the future or of the amount or timing of any dividends that will be paid in the future.

No inference should or can be made from any of the foregoing statements as to our actual future profitability or our ability to pay dividends in any of the periods discussed.

For information relating to taxes payable on dividends, please refer to the section "Taxation" of this Prospectus.

Note:-

- (1) Part of the liabilities assumed by our subsidiary, Linyi Kaiyuan Bearing, was an amount of approximately RMB25.1 million owing to the then shareholders of Yimeng Bearing, being unpaid dividend declared by Yimeng Bearing for FY2006. On 8 June 2006, the shareholders of Yimeng Bearing, namely Shandong Yimeng Bearing Factory Co., Ltd., Zhang Yuankai, Zhang Anxi, Xu Yihe and Zhang Anling entered into an agreement under which they agreed that the unpaid dividend be converted into an unsecured and interest-free loan to Linyi Kaiyuan Bearing. Please see the section "Interested Person Transactions and Conflicts of Interests – Ongoing and Continuing Interested Transactions" of this Prospectus for further details.

CAPITALISATION AND INDEBTEDNESS

The following table shows our cash and cash equivalents as well as capitalisation and indebtedness as at 30 June 2006:-

- (i) based on our actual management accounts as at 30 June 2006; and
- (ii) as adjusted to reflect the effects of the issue of the 60,000,000 New Shares pursuant to the Invitation and the application of the net proceeds from the Invitation.

You should read this table in conjunction with the “Unaudited Pro forma Group Financial Statements of China Bearing (Singapore) Ltd for the Year ended 31 December 2005 and Three Months ended 31 March 2006” as set out in Appendix VII and the related notes and the section “Management’s Discussion and Analysis of Financial Condition and Results of Operations” of this Prospectus.

	Actual as at 30 June 2006 (RMB'000)	As adjusted for the Invitation (RMB'000)
CASH AND CASH EQUIVALENTS	35,066	118,282
INDEBTEDNESS		
Current		
Non-convertible Loan	4,899	4,899
Non-current		
Loans from related parties	36,369	36,369
Total indebtedness	41,268	41,268
SHAREHOLDERS’ EQUITY		
- Share capital	—	113,418
- Convertible Loans ⁽¹⁾	30,202	—
- Reserves	10,856	10,856
Total capitalisation	41,058	124,274
TOTAL CAPITALISATION AND INDEBTEDNESS	82,326	165,542

Note:-

- (1) Convertible Loans amounting to RMB30.2 million (equivalent to approximately S\$6.0 million) comprise (a) the convertible loans of RMB10.6 million (equivalent to approximately S\$2.1 million) which were advanced to us by Tan Kim Seng, Teo Kok Woon and Power Works Pte Ltd pursuant to the Convertible Loan Agreements; and (b) the convertible loan of RMB19.6 million (equivalent to approximately S\$3.9 million) which was advanced to us by Re Shan Investments Limited, Winage Limited, Wang Yu Huei and Legacy Partners Limited (the “Lenders”) pursuant to the Loan Agreement.

Convertible loans of RMB10.6 million advanced to us pursuant to the Convertible Loan Agreements were secured by a corporate guarantee from Yimeng Bearing and personal guarantee by Zhang Anxi. Convertible loan of RMB19.6 million advanced to us pursuant to the Loan Agreement was secured by a charge of Shares given by China Bearing (Bermuda) and personal guarantees by Zhang Yuankai and Zhang Anxi.

These convertible loans were converted to 38,828,000 Shares on 10 October 2006.

CAPITALISATION AND INDEBTEDNESS

As at 30 June 2006, our indebtedness comprises the following:-

- (i) Non-convertible Loan of RMB4.9 million (equivalent to S\$970,000) which was advanced to us by the Lenders pursuant to the Loan Agreement. The Non-convertible Loan was secured by Shares charged by China Bearing (Bermuda) and personal guarantees by Zhang Yuankai and Zhang Anxi, both in favour of the Lenders. Interest on the Non-convertible Loan is at a rate of 14% per annum, commencing from the date of drawdown, being 11 April 2006, to the date of repayment, provided that a minimum interest of S\$67,900 shall be payable.

Under the Loan Agreement, the Non-convertible Loan shall be repaid on or after the date falling 12 months after 11 April 2006 or the date of our admission to the Official List of the SGX-ST, whichever is earlier.

- (ii) Loans of RMB36.4 million from related parties as follows:-
 - (a) On 8 June 2006, a loan of RMB25.1 million was extended to us by the shareholders of Yimeng Bearing, namely Shandong Yimeng Bearing Factory Co., Ltd, Zhang Yuankai, Zhang Anxi, Xu Yihe and Zhang Anling. This loan relates to certain liabilities assumed by us pursuant to the Asset Purchase Agreement, being dividend declared by Yimeng Bearing for FY2006 which remained unpaid; and
 - (b) A loan of RMB11.3 million was extended to us by Zhang Anxi for the purpose of paying the amount owing to Yimeng Bearing in relation to the purchase of inventories mentioned in the section “Past Interested Person Transactions – Purchase of Inventories from Yimeng Bearing” of this Prospectus pursuant to a loan agreement entered into between Zhang Anxi and Linyi Kaiyuan Bearing dated 8 June 2006.

The aforementioned loans from related parties are on an unsecured and interest-free basis, and are repayable only after 3 years from the date of admission of our Company to the Official List of the SGX-ST. In addition, the repayment of these loans is subject to the approval of the Audit Committee, taking into account, *inter alia*, our Group’s working capital and gearing positions. For further details, please refer to the section “Interested Person Transactions and Conflicts of Interests – Ongoing and Continuing Interested Person Transactions” of this Prospectus.

Save as disclosed above, we do not have other borrowings or indebtedness and liabilities under acceptances (other than normal trading bills) or acceptance credits, charges, obligations under finance leases, guarantees or other material liabilities.

There were no material changes in our total capitalisation and indebtedness, save for the changes in our retained earnings arising from day-to-day operations in the ordinary course of our business since 30 June 2006 to the Latest Practicable Date.

Contingent Liabilities

As at the Latest Practicable Date, we have no contingent liabilities.

DILUTION

Dilution is the amount by which the Issue Price to be paid by the subscribers and/or purchasers of our Invitation Shares in the Invitation ("New Investors") exceeds the NTA per Share immediately after the Invitation. Our unaudited pro forma NTA per Share as at 31 March 2006, before adjusting for the estimated net proceeds from the Invitation and based on the pre-Invitation issued and paid-up share capital of 170,000,000 Shares, is 3.0 cents per Share.

Pursuant to the Invitation in respect of 60,000,000 New Shares at the Issue Price, our unaudited pro forma NTA per Share as at 31 March 2006, after adjusting for the estimated net proceeds from the Invitation and based on the post-Invitation issued and paid-up share capital of 230,000,000 Shares, would have been 9.5 cents. This represents an immediate increase in unaudited pro forma NTA per Share of 6.5 cents to our existing Shareholders and an immediate dilution in unaudited pro forma NTA per Share of 22.5 cents to our New Investors.

The following table illustrates the dilution per Share:-

	Cents
Issue Price	32.0
Unaudited pro forma NTA per Share as at 31 March 2006, based on the pre-Invitation share capital of 170,000,000 Shares	3.0
Increase in unaudited pro forma NTA per Share attributable to existing Shareholders	6.5
Unaudited pro forma NTA per Share after the Invitation ⁽¹⁾	9.5
Dilution in unaudited pro forma NTA per Share to New Investors	22.5

Note:-

- (1) The computed unaudited pro forma NTA does not take into account our actual financial performance from 31 March 2006 up to the Latest Practicable Date. Depending on our actual financial results, our NTA per Share may be higher or lower than the computed NTA per Share.

The following table shows the total number of Shares held by our existing Directors and Substantial Shareholders (adjusted for the Sub-division) during the period of three years prior to the date of this Prospectus, the total consideration paid by them and the effective cash cost per Share to them, and to the New Investors pursuant to the Invitation.

	Number of Shares Acquired	Total Consideration (S\$)	Effective Cash Cost per Share (S\$)
Directors			
Zhang Yuankai ⁽¹⁾	131,172,000	4,045,958 ⁽²⁾	0.03
Substantial Shareholders			
China Bearing (Bermuda) Co., Ltd ⁽³⁾	131,172,000	4,045,958 ⁽²⁾	0.03
Others			
Pre-IPO Investors	38,828,000	5,980,000	0.15
Strategic Advisory Services Pte Ltd	3,400,000 ⁽⁴⁾	104,818	0.03
Legacy Venture Capital Limited	1,360,000 ⁽⁵⁾	41,927	0.03
New Investors	61,000,000	19,520,000	0.32

Notes:-

- (1) Zhang Yuankai is deemed interested in the Shares held by China Bearing (Bermuda) due to his 54.2% shareholding in China Bearing (Bermuda).
- (2) Consideration for Shares held by China Bearing (Bermuda) has been computed based on its 77.2% interest (before the transfer of 3,400,000 Shares to Strategic Advisory Services Pte Ltd and 1,360,000 Shares to Legacy Venture Capital Limited) in the value of the Relevant Assets, Liabilities and Business acquired from Yimeng Bearing of approximately RMB26.0 million as set out in the Asset Purchase Agreement.
- (3) The shareholders of China Bearing (Bermuda) are Zhang Yuankai, Zhang Anxi, Xu Yihe, Zhang Anling and Du Yongren, each holding 54.2%, 19.9%, 11.9%, 9.1% and 4.9% respectively.
- (4) These Shares were transferred by China Bearing (Bermuda) as partial consideration for consultancy services rendered by Strategic Advisory Services Pte Ltd to the Company in connection with the Invitation.
- (5) These Shares were transferred by China Bearing (Bermuda) as consideration for consultancy services rendered by Legacy Venture Capital Limited to China Bearing (Bermuda) in connection with the Invitation.

RESTRUCTURING EXERCISE

PRIOR REORGANISATION

In March 1998, Shandong Yimeng Bearing Factory undertook a reorganisation exercise in order to raise funds for further expansion of its business (particularly in the growing van and mini-bus bearings segments) as well as to provide an opportunity for its employees to participate in its growing business so as to motivate them to greater dedication, loyalty and higher standards of performance. Pursuant to the reorganisation, Shandong Yimeng Bearing Factory established Yimeng Bearing on 16 March 1998, together with Shandong Yimeng Bearing Factory Employee Stock Management Committee (山东沂蒙轴承厂职工持股管理委员会) (the “Employee Union”) and three other shareholders, namely, Shandong Luying Electronics Joint Stock Co., Ltd (山东鲁颖电子股份有限公司), Shandong Yinan Internal-combustion Engine Factory (山东沂南内燃机厂) and Shandong Lunan Bearing Factory (山东鲁南轴承厂).

The reorganisation was carried out with the injection of the net operating assets of Shandong Yimeng Bearing Factory into Yimeng Bearing as the former’s capital contribution for a 23.7% equity interest in Yimeng Bearing. The remaining four shareholders made capital contributions in cash and acquired in aggregate 76.3% equity interest in Yimeng Bearing. The Employee Union became the largest shareholder holding 35.9% of the equity interest in Yimeng Bearing. Zhang Yuankai was the single largest shareholder in the Employee Union, with 100,000 shares (or approximately 0.8%). Zhang Yuankai, Xu Yihe and Du Yongren were then appointed as the governing committee of the Employee Union, with Zhang Yuankai as the chairman of the governing committee and its legal representative.

By January 2001, Zhang Yuankai’s stake in the Employee Union had risen to approximately 29.7%. According to Zhang Yuankai, the members of the Employee Union had unconditionally and irrevocably renounced certain of their shareholders’ rights to him. These rights included, amongst others, the right to appoint and remove directors and management, the right to decide on all policies with regards to its operations, finance and accounts, the use of Yimeng Bearing’s assets and resources as well as the right to decide on share transfers, dividend payments and other distributions to shareholders. The above arrangement effectively allowed Zhang Yuankai, our Group’s founder, to maintain control over the operations and affairs of Yimeng Bearing.

In June 2001, the 5.1% equity interest in Yimeng Bearing held by Shandong Yimeng Bearing Factory was transferred to Yinan Yang Du Capital Management Co., Ltd. (沂南县阳都资产运营公司), following the requisition of such equity interest as state assets by the Yinan County government. Yinan Yang Du Capital Management Co., Ltd. also went on to acquire the 10.8% equity interest in Yimeng Bearing held by Shandong Lunan Bearing Factory in June 2001. Luoyang Research Institute also acquired the 16.2% equity interest in Yimeng Bearing held by Shandong Luying Electronics Joint Stock Co., Ltd..

In December 2004, Shandong Yimeng Bearing Factory was converted from a collective enterprise into a domestic private enterprise named Shandong Yimeng Bearing Factory Co., Ltd. (山东沂蒙轴承厂有限公司) when Zhang Yuankai and Du Yongren acquired 82.1% and 17.9% of the equity interest in that company.

Changes in the capital structure of Yimeng Bearing were also effected in 2005. In August 2005, Shandong Yinan Yu Niao Internal-combustion Engine Co., Ltd. (山东省沂南县玉鸟内燃机有限公司) (formerly known as Shandong Yinan Internal-combustion Engine Factory) sold its entire equity interest in Yimeng Bearing to Zhang Anxi while the Employee Union divested of its equity interests in Yimeng Bearing to Zhang Yuankai, Xu Yihe and Zhang Anling. In addition, Yimeng Bearing bought back and cancelled the equity interest owned by Luoyang Research Institute and Yinan Yang Du Capital Management Co., Ltd.. As a result of these transactions, the shareholding structure of Yimeng Bearing as at 1 August 2005 was as follows:-

Shareholders of Yimeng Bearing	Equity interest (%)
Shandong Yimeng Bearing Factory Co., Ltd.	27.2
Zhang Yuankai	31.9
Zhang Anxi	19.9
Xu Yihe	11.9
Zhang Anling	9.1
Total	100.0

RESTRUCTURING EXERCISE

While Zhang Yuankai had, at various stages of our history, invited other third parties to participate in the equity of Yimeng Bearing, he remained in control of our financial and operating policy at all times.

RESTRUCTURING EXERCISE

To rationalise our corporate structure and streamline our operations, we carried out a restructuring exercise described below (the “Restructuring Exercise”).

The details of the Restructuring Exercise comprise the following:-

(a) **Incorporation of our Company**

In preparation of our listing on the SGX-ST, our Company was incorporated on 31 August 2005 under the name of “China Bearing (Singapore) Pte. Ltd.” in accordance with the Act as a private limited company with an authorised share capital of S\$10,000,000 and initial paid-up capital of S\$2.00 comprising two ordinary shares¹ allotted and issued to our initial subscriber, Khor Kee Lin. The principal activity of our Company is that of an investment holding company. On 4 September 2006, our Company was converted into a public company and changed its name to “China Bearing (Singapore) Ltd”.

(b) **Establishment of Linyi Kaiyuan Bearing**

Linyi Kaiyuan Bearing was established in the PRC as a wholly foreign-owned enterprise on 26 December 2005 under the laws of the PRC with a registered capital of US\$4.5 million. The equity interest in Linyi Kaiyuan Bearing is wholly-owned by our Company.

(c) **Acquisition of shares in our Company by China Bearing (Bermuda)**

On 25 March 2006, China Bearing (Bermuda) acquired 2 Shares being the entire issued and paid-up capital of our Company (being the subscriber shares) from the initial subscriber, Khor Kee Lin, for a cash consideration of S\$1.00 per Share.

Pursuant to the Sub-division, China Bearing (Bermuda) holds 131,172,000 Shares. On 11 October 2006, China Bearing (Bermuda) transferred 3,400,000 Shares to Strategic Advisory Services Pte Ltd as partial consideration for consultancy services rendered to our Company in connection with the Invitation. In addition, China Bearing (Bermuda) also transferred 1,360,000 Shares to Legacy Venture Capital Limited as consideration for consultancy services rendered to China Bearing (Bermuda) in connection with the Invitation.

(d) **Acquisition of the Relevant Assets, Liabilities and Business**

Pursuant to the Asset Purchase Agreement, Linyi Kaiyuan Bearing acquired the Relevant Assets, Liabilities and Business from Yimeng Bearing with effect from 1 April 2006 for a purchase consideration of approximately RMB26.0 million. The Relevant Assets, Liabilities and Business comprise (i) fixed assets (excluding land and buildings where the current operations of our Group is based), current assets such as trade and other receivables, inventories (excluding raw materials, consumables and work-in-progress), cash and intangible assets; and (ii) certain liabilities such as trade payables and other indebtedness. The purchase consideration was based on the unaudited net book value of such assets and liabilities as at 31 March 2006, and was fully satisfied in cash. Yimeng Bearing has no intention to carry out any business that will be in competition with our Group, after the Restructuring Exercise. If any part of the business which is subject of the Relevant Assets, Liabilities and Business has to continue to be performed through Yimeng Bearing after 1 April 2006, Yimeng Bearing shall continue to conduct such business on behalf of Linyi Kaiyuan Bearing, and all rights and obligations in respect of such business shall accrue and be borne by Linyi Kaiyuan Bearing.

¹ At the date of incorporation, the two ordinary shares were allotted and issued at par value of S\$1.00 each. Subsequently, the concepts of authorised share capital and par value were abolished pursuant to the Companies (Amendment) Act 2005 with effect from 30 January 2006.

RESTRUCTURING EXERCISE

(e) **Conversion of Convertible Loans from Pre-IPO Investors**

Our Company entered into the following loan agreements:-

- (i) the convertible loan agreement dated 18 November 2005 amongst our Company, Yimeng Bearing, Zhang Yuankai, Zhang Anxi and Tan Kim Seng, as amended by the supplemental convertible loan agreement dated 31 March 2006 and the 2nd supplemental convertible loan agreement dated 3 August 2006 amongst our Company, Yimeng Bearing, Zhang Yuankai, Zhang Anxi and Tan Kim Seng, pursuant to which Tan Kim Seng agreed to advance a convertible loan amounting to S\$1,000,000, which would be automatically converted into Shares on our Company delivering a conversion notice to Tan Kim Seng at any time after the date of our receipt of the eligibility-to-list letter from SGX-ST but not later than the date of registration of this Prospectus;
- (ii) the convertible loan agreement dated 21 November 2005 amongst our Company, Yimeng Bearing, Zhang Yuankai, Zhang Anxi and Power Works Pte Ltd, as amended by the supplemental convertible loan agreement dated 3 August 2006 amongst our Company, Yimeng Bearing, Zhang Yuankai, Zhang Anxi and Power Works Pte Ltd pursuant to which Power Works Pte Ltd agreed to advance a convertible loan of S\$300,000 which would be automatically converted into Shares on our Company delivering a conversion notice to Power Works Pte Ltd at any time after the date of our receipt of the eligibility-to-list letter from SGX-ST but not later than the date of registration of this Prospectus;
- (iii) the convertible loan agreement dated 21 November 2005 amongst our Company, Yimeng Bearing, Zhang Yuankai, Zhang Anxi and Teo Kok Woon, as amended by the supplemental convertible loan agreement dated 24 March 2006 and the 2nd supplemental convertible loan agreement dated 3 August 2006 amongst our Company, Yimeng Bearing, Zhang Yuankai, Zhang Anxi and Teo Kok Woon, pursuant to which Teo Kok Woon agreed to advance convertible loans amounting to S\$800,000 which would be automatically converted into Shares on our Company delivering a conversion notice to Teo Kok Woon at any time after the date of our receipt of the eligibility-to-list letter from SGX-ST but not later than the date of registration of this Prospectus; and
- (iv) the loan agreement dated 30 March 2006 amongst our Company, Yimeng Bearing, Zhang Yuankai, Zhang Anxi and Legacy Venture Capital Limited, and the assignment agreement dated 5 April 2006 amongst Legacy Venture Capital Limited, Re Shan Investments Limited, Winage Limited, Wang Yu Huei and Legacy Partners Limited, as amended by the supplemental loan agreement dated 3 August 2006 amongst our Company, Yimeng Bearing, Zhang Yuankai, Zhang Anxi, Re Shan Investments Limited, Winage Limited, Wang Yu Huei and Legacy Partners Limited, pursuant to which Re Shan Investments Limited, Winage Limited, Wang Yu Huei and Legacy Partners Limited (the "Lenders") agreed to advance a non-convertible loan of S\$970,000 and a convertible loan of S\$3,880,000 which would be automatically converted into Shares on our Company delivering a conversion notice to the Lenders at any time after the date of our receipt of the eligibility-to-list letter from SGX-ST but not later than the date of registration of this Prospectus.

RESTRUCTURING EXERCISE

On 10 October 2006, our Company allotted and issued the number of Shares as set out below to the Pre-IPO Investors pursuant to the conversion of the Convertible Loans:-

Pre-IPO Investors	Issue Price per Share (S\$)	Number of Shares
Tan Kim Seng	0.12	8,245,000
Legacy Partners Limited	0.17	6,902,000
Wang Yu Huei	0.17	6,681,000
Teo Kok Woon	0.14	5,831,000
Re Shan Investments Limited	0.17	4,352,000
Winage Limited	0.17	4,352,000
Power Works Pte Ltd	0.12	2,465,000
TOTAL		38,828,000

PRC LEGAL OPINION

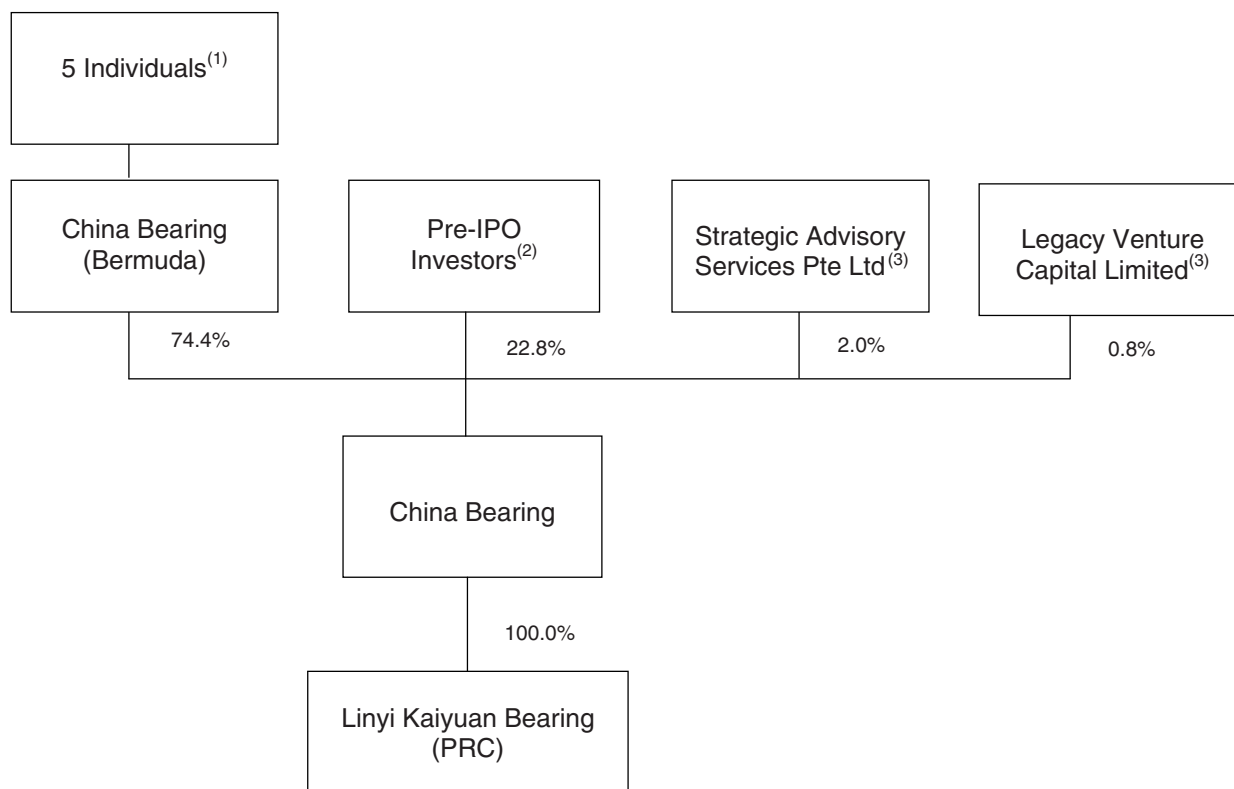
Jun He Law Offices, our Legal Advisers on PRC Law, is of the opinion that:-

1. our Company and subsidiary have obtained all the necessary governmental approvals from PRC authorities for their restructuring prior to 8 September 2006;
2. our Company's proposed listing should not be retroactively subject to prior CSRC Approval or any other approvals from PRC authorities or government departments, as the restructuring of our Company and subsidiary has been substantially completed prior to 8 September 2006; and
3. the CSRC may further clarify the applicability of the M&A Rules and the CSRC Guidelines, although they do not anticipate that it is necessary for our Company to retroactively comply with the CSRC Approval for our proposed listing on SGX-ST.

Should our Company be required to apply for the CSRC Approval, Jun He Law Offices is of the opinion that our Company would have a legally reasonable and sufficient basis to request for a waiver from CSRC, if and when procedures are established to obtain such a waiver. Please see "Appendix II: Summary of Relevant PRC Laws and Regulations" of this Prospectus for further details.

GROUP STRUCTURE

Our corporate and shareholding structure after the Restructuring Exercise and as at the date of this Prospectus is as follows:-



Notes:-

- (1) The 5 Individuals and their respective shareholdings in China Bearing (Bermuda) and the positions held by them within our Group (if any) are as follows:-

Names	% of shareholding in China Bearing (Bermuda)	Position held in our Group
Zhang Yuankai	54.2	Non-executive Chairman
Zhang Anxi	19.9	Managing Director and CEO
Xu Yihe	11.9	Executive Director
Zhang Anling	9.1	Finance Manager
Du Yongren	4.9	Nil

- (2) The Pre-IPO Investors and their respective shareholdings in our Company prior to the Invitation are as follows:-

Names	% of shareholding in our Company
Tan Kim Seng	4.8
Legacy Partners Limited	4.1
Wang Yu Huei	3.9
Teo Kok Woon	3.4
Re Shan Investments Limited	2.6
Winage Limited	2.6
Power Works Pte Ltd	1.4

- (3) For more information on these Shareholders, please refer to the section “General Information on our Group – Shareholders and Shareholding Structure” of this Prospectus.

GROUP STRUCTURE

Details of our subsidiary are as follows:-

Name	Date and Place of Incorporation	Registered Capital	Percentage owned by our Company (%)	Principle Business/ Principal Place of Business
Linyi Kaiyuan Bearing ⁽¹⁾	26 December 2005, PRC	US\$4.50 million (US\$3.29 million paid-up) ⁽²⁾	100.0	Manufacture and distribution of bearings / PRC

Notes:-

- (1) The approved term of business of Linyi Kaiyuan Bearing is 50 years, commencing on 26 December 2005, and subject to renewal, ending on 25 December 2055.
- (2) The outstanding registered capital of US\$1.21 million is due and payable on 25 December 2006. We intend to utilise part of the net proceeds from the Invitation for contribution to the outstanding registered capital before it falls due and payable.

Linyi Kaiyuan Bearing is not listed on any stock exchange.

GENERAL INFORMATION ON OUR GROUP

SHARE CAPITAL

Our Company was incorporated in Singapore on 31 August 2005 under the Companies Act as a limited exempt private company under the name of China Bearing (Singapore) Pte. Ltd.. At the date of incorporation, our Company has a share capital of S\$2.00 divided into 2 ordinary shares of S\$1.00 each. Our Company's constitution is its Memorandum and Articles of Association.

The concepts of authorised share capital and par value were abolished pursuant to the Companies (Amendment) Act 2005 with effect from 30 January 2006.

Pursuant to written resolutions passed on 22 August 2006, our then Shareholder approved, amongst other things, the following:-

- (a) the conversion of our Company into a public limited company and the change of our name to China Bearing (Singapore) Ltd.; and
- (b) the adoption of a new set of Articles of Association.

Pursuant to resolutions passed at an extraordinary general meeting on 9 October 2006, our then Shareholder approved, amongst other things, the following:-

- (a) the sub-division of 2 Shares into 131,172,000 Shares ("Sub-division");
- (b) the allotment and issue of an aggregate of 38,828,000 Shares to the Pre-IPO Investors pursuant to the conversion of the Convertible Loans;
- (c) the allotment and issue of the New Shares pursuant to the Invitation. The New Shares, when allotted, issued and fully paid-up, will rank *pari passu* in all respects with the existing issued and paid-up Shares;
- (d) that authority be given pursuant to Section 161 of the Companies Act to our Directors to:-
 - (A) (i) offer, allot and issue Shares whether by way of rights, bonus or otherwise; and/or
 - (ii) make or grant offers, agreements or options (collectively, "Instruments") that might or would require Shares to be issued, including but not limited to the creation and issue of (as well as adjustments to) warrants, debentures or other instruments convertible into Shares,

at any time and upon such terms and conditions and for such purposes and to such persons as our Directors may in their absolute discretion deem fit, subject to the requirements of the Listing Manual; and
 - (B) (notwithstanding the authority conferred by this authority may have ceased to be in force) issue Shares in pursuance of any Instrument made or granted by our Directors while this authority was in force,

GENERAL INFORMATION ON OUR GROUP

provided that:-

- (1) the aggregate number of Shares to be issued pursuant to such authority (including Shares to be issued in pursuance of Instruments made or granted pursuant to this authority) does not exceed 50 per cent. of the issued share capital of our Company (as calculated in accordance with sub-paragraph (2) below), of which the aggregate number of Shares to be issued other than on a pro rata basis to Shareholders (including Shares to be issued in pursuance of Instruments made or granted pursuant to this authority) does not exceed 20 per cent. of the issued share capital of our Company (as calculated in accordance with sub-paragraph (2) below);
- (2) (subject to such manner of calculation as may be prescribed by the SGX-ST) for the purpose of determining the aggregate number of Shares that may be issued under sub-paragraph (1) above, the percentage of issued share capital shall be based on the post-Invitation share capital of our Company immediately following the close of the Invitation, after adjusting for:-
 - (i) new Shares arising from the conversion or exercise of any convertible securities or share options or vesting of share awards which are outstanding or subsisting at the time this authority is passed; and
 - (ii) any subsequent consolidation or sub-division of Shares;
- (3) in exercising the authority conferred by this authority, our Company shall comply with the provisions of the Listing Manual for the time being in force (unless such compliance has been waived by the SGX-ST) and the Articles of Association for the time being of our Company; and
- (4) (unless revoked or varied by our Company in general meeting) the authority conferred by this authority shall continue in force until the conclusion of the next Annual General Meeting of our Company or the date by which the next Annual General Meeting of our Company is required by law or our Articles of Association to be held, whichever is earlier.

We have only one class of Shares in the capital of our Company, being ordinary shares. None of our Shares are bearer shares. The rights and privileges of our Shares are stated in our Articles of Association. A summary of the Articles of Association of our Company relating to the voting rights of Shareholders is set out in Appendix III of this Prospectus. There are no founder, management, deferred or unissued Shares reserved for issuance for any purpose. No person has been, or is entitled to be, given an option to subscribe for or purchase any securities of our Company or, our subsidiary. As at the date of this Prospectus, our share capital is S\$5,980,002, divided into 170,000,000 Shares.

Upon the allotment and issue of the New Shares which are the subject of the Invitation, the resultant issued and paid-up capital of our Company will be increased to approximately S\$25,180,002 comprising 230,000,000 Shares.

GENERAL INFORMATION ON OUR GROUP

A summary of the changes in our issued and paid-up share capital since incorporation and immediately after the Invitation is as follows:-

	Number of Shares	S\$
Issued and fully paid-up ordinary Shares upon incorporation	2	2
Sub-division	131,172,000	2
Issue of new Shares to Pre-IPO Investors pursuant to the conversion of the Convertible Loans	38,828,000	5,980,000
Pre-Invitation issued and paid-up share capital	170,000,000	5,980,002
New Shares to be issued pursuant to the Invitation	60,000,000	19,200,000
Post-Invitation issued and paid-up share capital	230,000,000	25,180,002

A summary of our Company's unaudited pro forma shareholders' equity as at 31 March 2006, and adjusted to reflect the conversion of the Convertible Loans pursuant to the Restructuring Exercise (the "Adjustments") as well as the issue of the New Shares pursuant to the Invitation are set forth below. These statements should be read in conjunction with the "Unaudited Pro Forma Group Financial Statements of China Bearing (Singapore) Ltd. for the Year ended 31 December 2005 and Three Months ended 31 March 2006" as set out in Appendix VII of this Prospectus:-

	As at 31 March 2006 (S\$)	After the Adjustments (S\$)	After the Invitation (S\$)
Authorised Share capital ⁽¹⁾			
Ordinary shares	10,000,000	— ⁽¹⁾	— ⁽¹⁾
Shareholders' equity			
Share capital	2	5,980,002	25,180,002
Convertible Loans	5,980,000	—	—
Accumulated losses	(144,086)	(144,086)	(144,086)
Expenses in connection with the Invitation	—	—	(2,500,000)
Total shareholders' equity	5,835,916	5,835,916	22,535,916

Note:-

- (1) The concepts of authorised share capital and par value were abolished pursuant to the Companies (Amendment) Act 2005 with effect from 30 January 2006. Consequently, any amount standing to the credit of the share premium account would become part of our Company's share capital.

GENERAL INFORMATION ON OUR GROUP

SHAREHOLDERS AND SHAREHOLDING STRUCTURE

The Shareholders of our Company and their respective shareholdings immediately before and after the Invitation are set out below:-

	Before the Invitation (Direct Interest)		Before the Invitation (Indirect Interest)		After the Invitation (Direct Interest)		After the Invitation (Indirect Interest)	
	Number of Shares	%	Number of Shares	%	Number of Shares	%	Number of Shares	%
Directors								
Zhang Yuankai ⁽¹⁾	—	—	126,412,000 ⁽³⁾	74.4	—	—	126,412,000 ⁽³⁾	55.0
Zhang Anxi ⁽¹⁾	—	—	—	—	—	—	—	—
Xu Yihe ⁽²⁾	—	—	—	—	—	—	—	—
Du Ruicheng	—	—	—	—	—	—	—	—
Chin Yew Choong David	—	—	—	—	—	—	—	—
Yap Kian Peng	—	—	—	—	—	—	—	—
Other shareholders								
China Bearing (Bermuda) Co., Ltd ⁽⁴⁾	126,412,000	74.4	—	—	126,412,000	55.0	—	—
Tan Kim Seng ⁽⁵⁾	8,245,000	4.8	—	—	8,245,000	3.6	—	—
Legacy Partners Limited ⁽⁶⁾	6,902,000	4.1	—	—	6,902,000	3.0	—	—
Wang Yu Huei ⁽⁵⁾	6,681,000	3.9	—	—	6,681,000	2.9	—	—
Teo Kok Woon ⁽⁵⁾	5,831,000	3.4	—	—	5,831,000	2.5	—	—
Re Shan Investments Limited ⁽⁷⁾	4,352,000	2.6	—	—	4,352,000	1.9	—	—
Winage Limited ⁽⁸⁾	4,352,000	2.6	—	—	4,352,000	1.9	—	—
Power Works Pte Ltd ⁽⁹⁾	2,465,000	1.4	—	—	1,465,000	0.6	—	—
Strategic Advisory Services Pte Ltd ⁽¹⁰⁾	3,400,000	2.0	—	—	3,400,000	1.5	—	—
Legacy Venture Capital Limited ⁽¹¹⁾	1,360,000	0.8	—	—	1,360,000	0.6	—	—
Public	—	—	—	—	61,000,000 ⁽¹²⁾	26.5	—	—
	<u>170,000,000</u>	<u>100.0</u>			<u>230,000,000</u>	<u>100.0</u>		

Notes:-

- (1) Zhang Yuankai is the father of Zhang Anxi and father-in-law of Xu Yihe.
- (2) Xu Yihe is the son-in-law of Zhang Yuankai and brother-in-law of Zhang Anxi.
- (3) Zhang Yuankai is deemed interested in the Shares held by China Bearing (Bermuda). His deemed interest arises from his shareholding of 54.2% in China Bearing (Bermuda).
- (4) China Bearing (Bermuda) is an investment holding company incorporated in the Bermuda. Its shareholders are Zhang Yuankai, Zhang Anxi, Xu Yihe, Zhang Anling and Du Yongren, each holding 54.2%, 19.9%, 11.9%, 9.1% and 4.9% respectively. Under the memorandum of charge dated 9 May 2006 entered into between China Bearing (Bermuda) and Legacy Venture Capital Limited, China Bearing (Bermuda) charged all the Shares that it held in the share capital of our Company to Legacy Venture Capital Limited to secure the convertible loan and the Non-convertible Loan under the Loan Agreement. Pursuant to the memorandum of charge, if the total indebtedness has been paid or no commitment to lend remains in effect under the Loan Agreement, Legacy Venture Capital Limited shall, at the request and cost of China Bearing (Bermuda), discharge the security over the charged shares.
- (5) Wang Yu Huei, Tan Kim Seng and Teo Kok Woon are unrelated to any of our Directors or Substantial Shareholders.
- (6) Legacy Partners Limited is an investment holding company incorporated in the British Virgin Islands. Legacy Partners Limited's mandate is to invest in private equity opportunities in promising and fast-growing companies in Asia. The shareholders comprise mainly institutional investors based in Singapore. The investment manager is Legacy Venture Capital Limited. The shareholders of Legacy Partners Limited and Legacy Venture Capital Limited are unrelated to any of our Directors or Substantial Shareholders.

GENERAL INFORMATION ON OUR GROUP

- (7) Re Shan Investments Limited is an investment holding company incorporated in Bahamas. It is wholly-owned by Lee Kian Soo and Lee Chye Tek in equal proportions. They are both unrelated to any of our Directors or Substantial Shareholders.
- (8) Winage Limited is an investment holding company incorporated in the British Virgin Islands. It is wholly-owned by Lim Oon Cheng. He is unrelated to any of our Directors or Substantial Shareholders.
- (9) Power Works Pte Ltd is an engineering company incorporated in Singapore. Its shareholders are Wong Sam Ngian Engineering (Pte) Ltd, Poh Huat Heng Corporation Pte Ltd, Golden Singa Engineering (Singapore) Pte Ltd and Yu Yee Engineering Pte Ltd, each holding 25.0% of the issued share capital of Power Works Pte Ltd. All of these shareholders are in the cable engineering business. They are all unrelated to any of our Directors or Substantial Shareholders.
- (10) Strategic Advisory Services Pte Ltd is a company incorporated in Singapore, providing consultancy and management services. Its shareholders are Khor Kee Lin, Ong Mei Can and Lew Yit Mei, holding 49.998%, 50.0% and 0.002% of the issued share capital of Strategic Advisory Services Pte Ltd respectively. They are unrelated to any of our Directors or Substantial Shareholders. Strategic Advisory Services Pte Ltd has provided consultancy services to our Company in connection with the Invitation.
- (11) Legacy Venture Capital Limited is a company incorporated in Bahamas, providing corporate advisory, private equity and consultancy services to PRC companies. It is wholly-owned by Millennium Management Services Limited, a company incorporated in British Virgin Islands, which is owned by Teo Peng Huat (35.0%) and Lau Kay Keong (65.0%), both of whom are unrelated to any of our Directors or Substantial Shareholders. Legacy Venture Capital Limited has provided consultancy services to China Bearing (Bermuda) in connection with the Invitation.
- (12) Our Independent Directors, Chin Yew Choong David and Yap Kian Peng, intend to subscribe for and/or purchase 200,000 Invitation Shares each. Our Pre-IPO Investors, Tan Kim Seng, Legacy Partners Limited Wang Yu Huei, Teo Kok Woon, Re Shan Investments Limited and Winage Limited, intend to subscribe for and/or purchase 900,000, 868,000, 840,000, 500,000, 546,000 and 546,000 Invitation Shares respectively.

Save as disclosed above, our Company is not directly or indirectly owned or controlled by a corporation, any government or other natural legal person whether severally or jointly.

The Shares held by our Directors and Substantial Shareholders do not carry different voting rights from the Invitation Shares which are the subject of the Invitation.

There is no known arrangement the operation of which may, at a subsequent date, result in a change in control of our Company.

VENDOR

The name of the Vendor and the number of Shares which it will offer pursuant to the Invitation are set out below:-

Name	Shares held immediately before the Invitation		Vendor Shares offered pursuant to the Invitation		Shares held after the Invitation	
	Number of Shares	% of pre-Invitation Share Capital	Number of Vendor Shares	% of pre-Invitation Share Capital	Number of Shares	% of post-Invitation Share Capital
Power Works Pte Ltd	2,465,000	1.4	1,000,000	0.6	1,465,000	0.6

The Vendor does not have any relationship with our Directors, Executive Officers, Controlling Shareholders or their Associates.

GENERAL INFORMATION ON OUR GROUP

MORATORIUM

To demonstrate its commitment to our Group, our Substantial Shareholder, China Bearing (Bermuda), holding 126,412,000 Shares representing approximately 55.0 per cent. of our Company's enlarged issued and paid-up capital after the Invitation, has undertaken not to dispose of or transfer any part of its direct and indirect interest in our Company for a period of six months from the date of our Company's admission to the Official List of the SGX-ST. Zhang Yuankai, Xu Yihe, Zhang Anxi, Zhang Anling and Du Yongren, who together hold the entire issued and paid-up share capital of China Bearing (Bermuda), have each undertaken not to dispose of or transfer any part of their respective interests in China Bearing (Bermuda) for a period of six months from the date of our Company's admission to the Official List of the SGX-ST.

Tan Kim Seng, Legacy Partners Limited, Wang Yu Huei, Teo Kok Woon, Re Shan Investments Limited and Winage Limited, whose Shares will not be offered in the Invitation, holds 8,245,000, 6,902,000, 6,681,000, 5,831,000, 4,352,000 and 4,352,000 Shares respectively, representing approximately 3.6%, 3.0%, 2.9%, 2.5%, 1.9% and 1.9% of our Company's enlarged issued and paid-up capital after the Invitation respectively, have undertaken not to dispose of or transfer any part of their direct and indirect interests in our Company for a period of six months from the date of our Company's admission to the Official List of the SGX-ST.

Legacy Partners Limited is managed by Legacy Venture Capital Limited. Legacy Venture Capital Limited, which is responsible for all executive and investment decisions taken in relation to Legacy Partners Limited, has undertaken that each of the investors of Legacy Partners Limited will not dispose of or transfer any part of their direct or indirect interests in Legacy Partners Limited for a period of six months from the date of our Company's admission to the Official List of the SGX-ST.

Lee Kian Soo and Lee Chye Tek, who holds the entire issued and paid-up share capital of Re Shan Investments Limited, have undertaken not to dispose of or transfer any part of their direct or indirect interests in Re Shan Investments Limited for a period of six months from the date of our Company's admission to the Official List of the SGX-ST.

Lim Oon Cheng, which holds the entire issued and paid-up share capital of Winage Limited, has undertaken not to dispose of or transfer any part of their direct or indirect interests in Winage Limited for a period of six months from the date of our Company's admission to the Official List of the SGX-ST.

Power Works Pte Ltd holds 1,465,000 Shares representing approximately 0.6 per cent. of our Company's enlarged issued and paid-up capital after the Invitation. It has undertaken not to dispose of or transfer any part of its direct and indirect interests in our Company for a period of six months from the date of our Company's admission to the Official List of the SGX-ST. Wong Sam Ngian Engineering (Pte) Ltd, Poh Huat Heng Corporation Pte Ltd, Golden Singa Engineering (Singapore) Pte Ltd and Yu Yee Engineering Pte Ltd, which holds the entire issued and paid-up share capital of Power Works Pte Ltd, have undertaken not to dispose of or transfer any part of their direct or indirect interests in Power Works Pte Ltd for a period of six months from the date of our Company's admission to the Official List of the SGX-ST.

Strategic Advisory Services Pte Ltd, which holds 3,400,000 Shares representing approximately 1.5 per cent. of our Company's enlarged issued and paid-up capital after the Invitation, has undertaken not to dispose of or transfer any part of its direct and indirect interest in our Company for a period of six months from the date of our Company's admission to the Official List of the SGX-ST. Khor Kee Lin, Ong Mei Can and Lew Yit Mei, who together hold the entire issued and paid-up share capital of Strategic Advisory Services Pte Ltd, have undertaken not to dispose of or transfer any part of their direct or indirect interests in Strategic Advisory Services Pte Ltd for a period of six months from the date of our Company's admission to the Official List of the SGX-ST.

GENERAL INFORMATION ON OUR GROUP

Legacy Venture Capital Limited, which holds 1,360,000 Shares representing approximately 0.6 per cent. of our Company's enlarged issued and paid-up capital after the Invitation, has also undertaken not to dispose of or transfer any part of its direct or indirect interest in our Company for a period of six months from the date of our Company's admission to the Official List of SGX-ST. Millennium Management Service Limited, which holds the entire issued and paid-up share capital of Legacy Venture Capital Limited, has undertaken not to dispose of or transfer any part of its direct or indirect interest in Legacy Venture Capital Limited for a period of six months from the date of our Company's admission to the Official list of the SGX-ST. Teo Peng Huat and Lau Kay Keong, who together hold the entire issued share capital of Millennium Management Service Limited, have undertaken not to dispose of or transfer any part of their direct or indirect interests in Legacy Venture Capital Limited for a period of six months from the date of our Company's admission to the Official List of the SGX-ST.

BUSINESS

HISTORY

Although our Company was incorporated only in August 2005, our business began with the establishment of Shandong Yimeng Factory in October 1988. Following a series of reorganisational transactions and the Restructuring Exercise, all the operations of the bearings business were consolidated under our Group. Please see the section “Restructuring Exercise” of this Prospectus for more details.

Significant events in our business are set out below:-

October 1988	Shandong Yimeng Bearing Factory (山东沂蒙轴承厂) ² was established by Zhang Yuankai, Xu Yihe and Du Yongren as a collective enterprise to engage in the manufacture and sale of bearings for light trucks, forklifts and agricultural vehicles to manufacturers of such vehicles in the PRC, such as Shandong Shifeng (Group) Co., Ltd. (山东时风集团有限责任公司), Shandong Wuzheng Group (山东五征集团) and Sichuan E'mei Diesel Engine Co., Ltd. (四川峨眉柴油机械股份有限公司).
January 1995	Shandong Yimeng Bearing Factory diversified its business into the manufacture of bearings for vans and mini-buses. Its customer base was also expanded to include light commercial vehicle manufacturers in the PRC, such as Hebei Yutian Machinery Co., Ltd. (河北宇田机械有限公司), Shaanxi Dongfeng Changhe Axle Co., Ltd. (陕西东方昌河车桥股份有限公司), Asimco Nanyue (Heng Yang) Co., Ltd. (亚新科南岳(衡阳)有限公司), Sichuan Dujiang Machinery Co., Ltd. (四川都江堰机械), Shandong Kangda Fuel Pump Co., Ltd. (山东康达) and Hunan Motor Axle Stock Co., Ltd. (湖南汽车车桥股份有限公司).
September 1997	Shandong Yimeng Bearing Factory acquired the land use rights and buildings situated at Yiqing road in Yinan County which are currently occupied by our subsidiary, Linyi Kaiyuan Bearing, as our production base.
February 2000	Our Managing Director and CEO, Zhang Anxi joined Yimeng Bearing as its deputy chairman and general manager and became instrumental in overseeing the next stage of development in our Group's business.
January 2002	Yimeng Bearing diversified its business into the manufacture and sale of bearings for heavy vehicles such as buses, coaches, container trucks and cranes. Its customer base was further expanded to include heavy vehicle manufacturers in the PRC, including Jinan Wo'erda Automobile Co., Ltd. (济南沃尔达汽车有限公司), CNHTC Jinan Truck Co., Ltd. (中国重型汽车集团济南卡车有限公司), Liaoning Shuguang Automotive Corp. Ltd. (辽宁曙光汽车集团股份有限公司), Sichuan Jian'an Beifang Automobile Axle Co., Ltd. (四川建安北方汽车有限公司), Chongqing Hongyan Motor Co., Ltd. (重庆红岩汽车有限责任公司), Zhucheng Yihe Axle Co., Ltd. (诸城市义和车桥有限公司), Shaanxi Hande Axle Co., Ltd. (陕西汉德车桥有限公司) and Qingdao Zhongli Automobile Assembling Co., Ltd. (青岛青特众力车桥有限公司).
August 2002	Yimeng Bearing started selling its products to a PRC subsidiary of a leading bearing manufacturer from the USA.
April 2005	Yimeng Bearing expanded its business by selling its products to yet another PRC subsidiary of a leading bearing manufacturer from the USA.

² Shandong Yimeng Bearing Factory (山东沂蒙轴承厂) was established under the name of Yinan Bearing Factory and effected a change of name to Yinan County No. 2 Bearing Factory (沂南县第二轴承厂) in May 1991 and subsequently to Shandong Yimeng Bearing Factory (山东沂蒙轴承厂) in May 1992.

BUSINESS

May 2005	A new heating treatment line was purchased and installed for our existing production facilities. The new line improved the quality of our bearings and increased our production capacity by 8.9 million sets of bearings to 16.8 million sets of bearings per annum.
July 2005	Yimeng Bearing commenced export of its bearings directly to distributors in Ukraine and the UAE.

As a testimony to the quality of our products and in recognition of our achievements in various areas including technology employed in our operations, our quality products and our branding, we have been awarded numerous awards by organisations in Shandong Province as well as other organisations in the PRC. Please refer to the section “Awards and Certificates” of this Prospectus for more details.

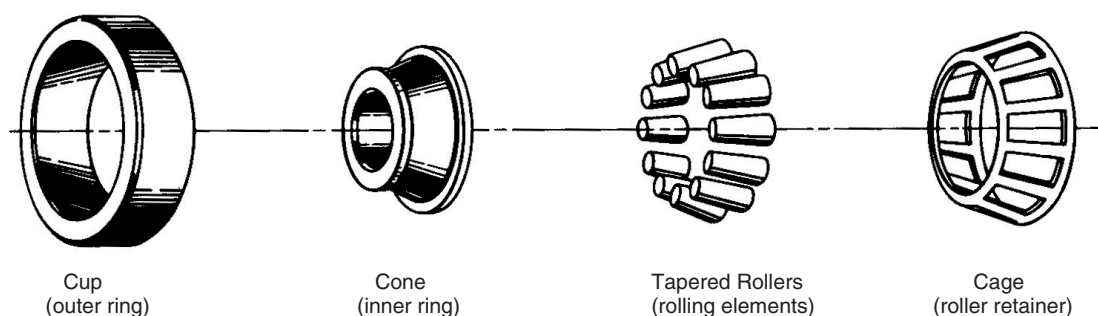
INDUSTRY

General Information on Bearings

Bearings are important mechanical components which are used in various types of machineries and vehicles. Bearings, in general, differ in terms of their load-bearing capacities and speed requirements (in terms of the number of rotations per unit time). Manufacturers may produce standardised bearings in accordance with internationally recognised standards such as Class “3” tapered roller bearings, and customised bearings according to the specific requirements of the machineries or vehicles.

There are various types of bearings, such as tapered roller bearings, deep groove ball bearings and thrust ball bearings. Our main product is the tapered roller bearings. These bearings consist of four components, as follows:-

- (1) the cup (outer ring) which sits in the hub (housing);
- (2) the cone (inner ring) which is mounted onto the shaft;
- (3) the tapered rollers (rolling elements) which allow relative motion between the cone and cup thus minimising friction between the two; and
- (4) the cage (roller retainer) which spaces and holds the rolling elements evenly in proper position.



Bearings reduce friction between two moving parts by providing smooth metal balls or rollers, and a smooth inner and outer metal surface for the balls to roll against. These balls or rollers “bear” the load, allowing the device to spin smoothly. Bearings reduce the “wear-and-tear” of moving parts, thereby reducing the need for replacement. Bearings are also often used in wheels or assembly shafts, disk drives, drilling rigs, dental drills, rolling mills and others.

BUSINESS

The market for bearings in the PRC

The PRC economy is one of the fastest developing economies in the world. In the last 20 years, the PRC economy has grown substantially. The gross domestic product of the PRC grew from RMB1,284 billion in 1984 to RMB15,988 billion in 2004. In 2005, the gross domestic product of the PRC was RMB18,232 billion. The Directors believe that the development of the PRC economy over the last 20 years will fuel the modernisation of the PRC and consequentially increase the demand for machineries and vehicles in the PRC.³

The economic growth of the PRC has fuelled the steady growth for the market for bearings in the PRC. According to the “Eleventh Five-Year Plan of the Bearing Industry of the PRC” (全国轴承行业十一五发展规划)⁴, the domestic sales and export sales of bearings totalled approximately RMB40.4 billion and RMB1.4 billion respectively in 2005. The continued economic and infrastructural development in the PRC is expected to continue to drive the demand for automobiles, mechanical and engineering equipment and machineries, which will in turn contribute to the demand for bearings. According to the “Eleventh Five-Year Plan of the Bearing Industry of the PRC”, domestic sales of bearings in the PRC is estimated at RMB84.0 billion while export sales is expected to reach RMB40.5 billion by 2010.

Under the China Automobile Industry Policies (中国汽车工业产业政策), the manufacture of automobiles and automobile parts were identified by the PRC government as an industry which development is to be encouraged. As such, numerous government incentives are available to PRC companies that are engaged in the manufacture of automobile and automobile parts. To the best of our Directors’ knowledge, the recent development and growth in the PRC’s automobile and its related industries are evidence of the effects of these policies. Our Directors believe that these policies are likely to continue to have positive effects on the demand for automobiles and automobile parts (including bearings) for the foreseeable future.

BUSINESS

We are engaged in the design, development, manufacture and sale of bearings for use in automobiles, equipment and machineries for industrial and agricultural uses. Our bearings are classified into three main categories according to their uses as follows:-

- (1) Micro-size bearings for use in light commercial vehicles of below 3 tonnes such as vans and mini-buses.
- (2) Light bearings for use in vehicles of between about 3 to 10 tonnes such as light trucks, pick-ups, forklifts and agricultural vehicles.
- (3) Heavy bearings for use in vehicles of over 10 tonnes such as buses, coaches, container trucks and cranes.

³ Source: The National Bureau of Statistics of China website - www.stats.gov.cn. The National Bureau of Statistics of China has not consented to the inclusion of the information in this section for the purposes of section 249 of the SFA, and is thereby not liable for the information included herein under sections 253 and 254 of the SFA. Our Directors are aware that the National Bureau of Statistics of China does not guarantee or assume responsibility that the information on its website is accurate, current or reliable, or may be used for any purpose other than for general reference. While we have included such information in its proper form and context in this Prospectus, we have not verified the accuracy of the contents of the relevant information thereof.

⁴ Source: The China Bearing Industry Association. The China Bearing Industry Association has not consented to the inclusion of the information in this section for the purposes of section 249 of the SFA, and is thereby not liable for the information included herein under sections 253 and 254 of the SFA. Our Directors are aware that the China Bearing Industry Association does not guarantee or assume responsibility that the information in its publication is accurate, current or reliable, or may be used for any purpose other than for general reference. While we have included such information in its proper form and context in this Prospectus, we have not verified the accuracy of the contents of the relevant information thereof.

BUSINESS

The different categories of bearings differ mainly in their load-bearing capacities and speed capabilities.

We market our products primarily in the PRC. In 2005, we commenced our export to countries such as Ukraine and the UAE. Our customers are mainly manufacturers of automobiles, equipment and machineries (including components thereof) for industrial and agricultural uses, as well as distributors of bearings.

We place strong emphasis on continuous research and product development to ensure the competitiveness of our products. To facilitate our efforts in enhancing our products and improving our production capabilities, we monitor the market closely for new developments, trends and technological innovations, and continuously seek feedback from customers to keep abreast of the market demands and changes in the requirements of our products by customers. As at the Latest Practicable Date, we have 23 R&D staff (including 3 engineers).

Our operations and production facilities are based in Yinan County, Shandong Province, the PRC. Our production facilities occupy approximately 41,745 sq m in gross floor area. As at the Latest Practicable Date, we have a total of 946 employees (of which 218 are temporary workers) and an annual production capacity of approximately 16,800,000 sets of bearings. Our Directors believe that we are a market leader in the production of bearings in Shandong Province.

Our business strategy is to focus our resources on the manufacture of high value-added bearings and sub-contract that of lower value-added products to third party manufacturers, mainly Gundong Bearing. Such outsourcing arrangements have been in place since 2002.

OUR PRODUCTS



Our product range consists of more than 200 different types of bearings, which are broadly divided into the following international classifications:-

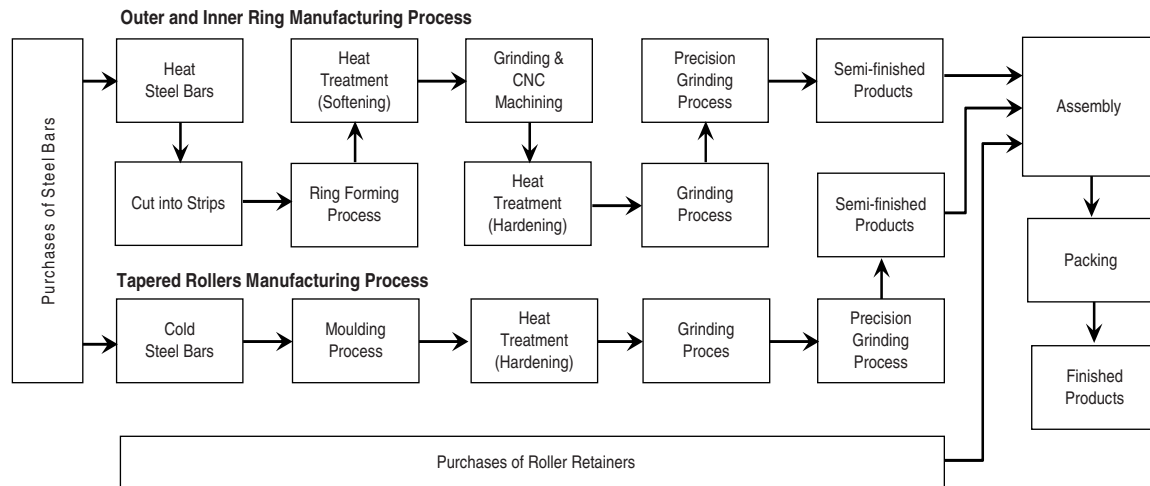
- (a) the Class “3” standard tapered roller bearings;
- (b) the Class “5” thrust ball bearings;
- (c) the Class “N” cylindrical roller bearings; and
- (d) the British system annular tapered roller bearings.

Our micro-size, light and heavy bearings may be under any of the above classes of bearings.

While our product specifications are standardised according to international standards, including ISO/492:2002, our customers may require certain degree of customisation for their orders from time to time.

OUR PRODUCTION PROCESS

The main raw material for the production of bearings is GCr15 Steel. Except for the manufacture of the cage, which is outsourced, we manufacture all other components of our products in house.



Outer and Inner Ring Manufacturing Process

GCr15 steel bars are heated in a furnace to approximately 600°C to 750°C and cut into strips. Thereafter, the strips are moulded into a disc by our stamping machines. The disc is then punctured to form a ring. The ring then undergoes heat treatment whereby it is softened or extended into either an inner ring or outer ring with the requisite specifications. The ring then undergoes a CNC precision machining process, followed by a heat treatment process whereby it is heated to attain the requisite hardness and material composition. This heat treatment process increases the durability of our bearings. The ring will then go through several rounds of grinding and polishing. Thereafter, the inner surface of the ring is ground into a concave surface during the precision grinding process.

Tapered Rollers Manufacturing Process

The steel bars are cooled in a cold treatment machine and pressure-punched into rollers in the moulding process. The rollers then undergo a grinding process whereby they are ground into the required tapered shape. Thereafter, the rollers go through a heat treatment process, followed by a precision grinding process whereby they are further ground into the precise dimensions required. The rollers then undergo an automated process where the roller surfaces are ground to obtain the requisite convex shape for a high load bearing capacity. All semi-finished products comprising the outer and inner rings, rollers and cages are de-magnetised, washed, heated dry and oiled. The outer ring, inner ring, tapered rollers and cage are then assembled and packaged. During assembly, the bearing components must be in alignment so as to minimise friction because of the inter-relationship between the various parts.

BUSINESS

PRODUCTION FACILITIES

Our production facilities are located in Yinan County, Shandong Province, the PRC. The details of which are as follows:-

Location	Approximate Production Floor Area (sq m)
No.2 Yiqing Road, Yinan County, Shandong Province, the PRC (沂南县沂青路2号)	23,500

The land and building in which our production facilities are located are leased from Yimeng Bearing. Please refer to the sections “Properties” and “Interested Person Transactions and Conflicts of Interests” of this Prospectus for further details of the lease.

Currently, we have the following production equipment:-

Types of Plant and Equipment	Quantity
Metal stamping machines	45 units
CNC machining centres	183 units
Grinding machines	91 units
Mould making facilities	35 units
Heat treatment lines	4 lines
Air compressors machines	18 units
De-magnetisation equipment	13 units
Metal removing machines	11 units
Overhead cranes	11 units
Roller cutting machines	5 units
Roller machining centres	4 units

UTILISATION RATE

The utilisation rate of our production facilities for FY2003, FY2004 and FY2005 were as follows:-

← FY2003 →			← FY2004 →			← FY2005 →		
Production Capacity ⁽¹⁾ (sets)	Actual Production (sets)	Utilisation Rate (%)	Production Capacity ⁽¹⁾ (sets)	Actual Production (sets)	Utilisation Rate (%)	Production Capacity ^{(1), (2)} (sets)	Actual Production (sets)	Utilisation Rate (%)
7,918,560	7,243,827	91.5	7,918,560	7,464,157	94.3	13,129,920	9,369,422	71.4

Notes:-

- Production capacity is estimated based on the following assumptions:-
 - production mix ratio of 10: 70: 20 for micro-size, light and heavy bearings respectively; and
 - 24 hours per day for 351 days of operations per year.
- Production capacity for FY2005 increased as a result of the installation of an additional heat treatment line in May 2005. As at the Latest Practicable Date, our production capacity is 16,800,000 sets of bearings per annum.

QUALITY ASSURANCE

We have implemented a strict quality control system. We believe that our reputation for high quality products and service have been important factors in attracting and retaining our customers. As such, we place great emphasis on quality assurance and maintaining the quality of our products. We monitor our production process closely and conduct quality assurance tests at the raw material procurement stage, during the production process and at the final stage before the products are delivered to customers. Our quality control processes are carried out by our quality assurance department during the raw material procurement stage and at appropriate stages of each production process, on a random sampling basis. After the bearings are assembled, every single assembled bearing is checked to ensure that each bearing meets our standards for quality. Our commitment to maintaining quality at a level that is satisfactory to our customers does not end after the products are delivered. Our after-sales service includes obtaining feedback on our products and services from our customers.

In recognition of our quality management, Yimeng Bearing received the ISO9001 and QS9000 quality certifications in 2002. The QS9000 certification is a technical standard set by Ford Motor Company, General Motors and Chrysler Corporation. The QS9000 certification has been replaced by ISO/TS16949:2002 quality certification, which Yimeng Bearing obtained in August 2005. The ISO/TS16949:2002 certification is a worldwide professional technical standard developed by the IATF. The IATF was formed by a group of international automotive manufacturers and their respective trade associations to standardise and hence improve product quality. The ISO/TS16949:2002 certification is required by European and US vehicle manufacturers and is integral to their process of selection of their suppliers for the supply of vehicle components. The ISO/TS16949:2002 certification is regarded as an accreditation evidencing the high standard of a manufacturer's process management, the quality of parts supplied to its customers and timely delivery of its products and services to its customers. Pursuant to the acquisition of the Relevant Assets, Liabilities and Business as set out in the Restructuring Exercise, the ISO/TS16949:2002 certification has been transferred to Linyi Kaiyuan Bearing and the certification was reissued to Linyi Kaiyuan Bearing in August 2006.

We are now strictly enforcing the ISO/TS16949:2002 quality assurance standards to ensure the systematic carrying out of the R&D, production, sales and after-sales service aspects of our business.

Quality Assurance Process

We implement at each stage of the production process, various quality assurance processes including quality checks on our products, to ensure that our products meet quality standards and the requirements of our customers.

(i) Components and Raw Materials used in Production Process

All incoming components and raw materials to be used in the production process are first forwarded to the quality assurance department for inspection by trained quality assurance personnel on a random sampling basis. Our quality assurance personnel would check the chemical composition of the bearing components, and also inspect these for rust and whether the steel bars are of the appropriate dimensions and density. As part of our ISO/TS16949:2002 certification, we have in place operating manuals for the procurement, verification and inspection of all incoming components and raw materials. The aim is to ensure compliance with our quality standards. Materials that do not meet our requirements are rejected and returned to the supplier. Our suppliers of steel bars are also required to meet our internal qualification criteria with regard to chemical composition, quality and pricing. We regularly assess our suppliers in relation to the quality of their supplies.

(ii) In-Process Checks

Our production staff is required to follow our production manual and the guidelines relating to the technical requirements for the production of our products very strictly. Our production manual and guidelines detail the procedures for our production process and quality verification of our products, namely compliance with specified standards. In addition, we conduct periodic inspection of our production machinery and conduct regular repair and maintenance works. This ensures that our production machinery are always operating at optimal levels, thus augmenting our product quality.

BUSINESS

Our quality assurance personnel conduct random sample checks at various stages of the production process to ensure consistency in quality. This allows defects to be detected and corrected early to minimise reworking costs and wastage. Prompt corrective actions will be taken to address any quality-related issues.

(iii) End Process Checks

Inspection of our products is carried out before they are certified ready for delivery to our customers. Each bearing assembly is checked to ensure that it meets the specifications of our customers. In addition, the alignment of all the component parts of the bearings is checked. Bearings which fail our final round of inspection are rejected.

To facilitate the final inspection process, we have included in our operating manuals the specifications and standards of the various types of bearings we produce.

We believe that our efforts in maintaining good quality controls over each step of the manufacturing process have enabled us to maintain consistently high quality products.

Our Directors believe that only a relentless commitment to quality can enable us to maintain stable, long-term relationships with our clients and enable our products to compete effectively in markets inside and outside of the PRC.

AWARDS AND CERTIFICATES

We have, through Yimeng Bearing, received the following awards and certifications which are testimonies to our commitment to quality as well as our creditworthiness in the PRC business community:-

Name of Award/Certification	Issuing Authority	Date of Issue
Shandong On-the-spot Pilot Workshop (省级现场管样板车间)	Shandong Provincial Machinery Industry Bureau (山东省机械厅)	1997
Linyi Outstanding Economic Benefit Enterprise (市级经济效益显著企业)	Shandong Provincial Machinery Industry Bureau (山东省机械厅)	1998
Linyi Industrial Enterprise Top 100 Taxpayer (市级工业企业“利税百强企业”)	Linyi Statistics Bureau (临沂市统计局)	1999
Shandong Mechanical Industry Top 50 Enterprise (省级机械行业“五十强企业”)	Shandong Provincial Machinery Industry Bureau (山东省机械厅)	1999
MMI Machinery Industry Top 100 Enterprises (机械部机械行业“百强企业”)	Ministry of Machinery Industry (“MMI”) of PRC (机械工业部)	2000
No. 1 Taxpayer of Yinan County (沂南县第一利税大户)	Yinan County People's Government (沂南县人民政府)	2000
Advanced Enterprise of Linyi City (市级“先进企业”)	Linyi Machinery Industry Bureau (临沂市机械工业局)	2000
Advanced Quality Management Enterprise of Linyi City (市级质量管理先进单位)	Linyi Municipal People's Government (临沂市人民政府)	2002
National Stable Quality and Qualified Product (全国质量稳定合格产品)	China Association for Quality Inspection (中国质量检验协会)	2002
Major Local Taxpayer of Linyi City (市级“全市地方税收贡献大户”)	Linyi Local Taxation Bureau (临沂市地方税务局)	2002
Management Innovative Enterprise (企业管理创新奖)	CBIA (中国轴承公业协会)	2002

BUSINESS

Name of Award/Certification	Issuing Authority	Date of Issue
Linyi Inspection Exemption Enterprise (市级免检企业)	Linyi Industrial and Commercial Administration Bureau (临沂市工商行政管理)	2003
Shandong Hi-tech Enterprise (省级高新技术企业)	Shandong Province Science and Technology Hall (山东科技厅)	2003
Automobile Industry Leading Accessories and Parts Manufacturing Enterprise in Shandong Province (山东省汽车工业零部件企业龙头企业)	Shandong Provincial Economic and Trade Commission (山东省经济贸易委员会)	2004
Shandong Well-known Brand (山东省知名品牌)	Shandong Provincial Quality Technology Supervision Administration Bureau (山东省质量技术监督局)	2004
Shandong "Stand by Contract" and "Keeping Promises" Enterprise (省级重合同守信用企业)	Shandong Provincial Scientific and Technological Administration Bureau, Shandong Provincial Enterprise Contract Management Association (山东省工商行政管理局, 山东省企业合同管理协会)	2004
Advanced Work Safety Enterprise (安全工作生产先进单位)	Yinan County's People Government (沂南县人民政府)	2005
Shandong Famous Trademark (山东省著名商标)	Shandong Provincial Scientific and Technological Administration Bureau (山东省工商行政管理局)	2005
National Bearing Industry Enterprise with Advanced Management (第三届全国轴承行业管理先进企业)	CBIA (中国轴承工业协会)	2005
Shandong Well-known Brand (山东省知名品牌)	Shandong Provincial Quality and Technology Supervision Administration Bureau (山东省质量技术监督局)	2005
National Bearing Industry Tenth Five- Year Plan Advanced Enterprise (全国轴承行业十五发展先进行业)	CBIA (中国轴承工业协会)	2006

SALES, MARKETING, DISTRIBUTION AND AFTER-SALES SERVICES

Sales, Marketing and Distribution

As at the Latest Practicable Date, our sales and marketing department comprises 22 personnel and is headed by our Marketing Director, Xu Yihe. The department is responsible for marketing our products to new and existing customers within the PRC, monitoring sales (including co-ordinating orders from customers) as well as distributing our products to the customers. Our sales and marketing department is also responsible for collating market information on our customers and potential customers. As at the Latest Practicable Date, our sales are mainly derived in the PRC and our customers are mainly manufacturers of automobiles or automobile components, as well as distributors of bearings in the PRC. We have also started the export of our bearings directly to distributors in Ukraine and the UAE since July 2005.

Our sales and marketing department is divided into 2 divisions, one responsible for domestic sales and the other for international sales respectively. The domestic sales division is further divided into 4 teams based on geographical regions, namely Shandong, East China, Northeast China and Southwest China respectively. Our sales and marketing staff contact and visit existing customers regularly to foster and build our relationship with them, and to understand how we can better meet their needs. They also work together with our technical staff to identify the needs of customers so as to determine the types of bearings which we should produce. We secure new customers through referrals. In addition, new

BUSINESS

customers (mostly distributors) also approach us on the basis of our reputation in the industry. Our sales and marketing personnel regularly attend major automobile exhibitions and other trade exhibitions, for example the International Automotive Fair held in Dubai or the automotive parts fairs organised by the CBIA, to raise our profile and to obtain more information on trends in industries which has demands for bearings as well as to source for new customers. In addition, customer surveys are conducted on an annual basis during which the feedback of our customers is solicited in a formal manner. Advertisements of the bearings produced by us can be found on the internet at google.com and alibaba.com.

After-sales Services

We also provide after-sales service to our customers through the collaborative efforts of our technical services and sales and marketing departments. Our sales and marketing department keeps in constant contact with our customers by paying them regular visits. Through such constant contact, our sales and marketing department obtains feedback on technical information (such as the performance capabilities of our products, the suitability of our products to be used in our customers' products) as well as to follow up on any further new product developments or requirements where we can provide assistance. In the process of receiving feedback and interaction with the customers, our sales and marketing department also conducts market research whereby they obtain and collate market information for future marketing and staff training purposes.

In the event of a negative feedback on our products, our technical services department will seek to understand and address any problems to the satisfaction of our customers. These problems may relate to product quality or wrong specifications. Past feedbacks are collated and staff is trained to improve their skills and service standards.

MAJOR CUSTOMERS

Our customers are mainly manufacturers of automobiles, equipment and machinery (including components thereof) for industrial and agricultural uses, as well as distributors of bearings. The following table sets out our major customers which accounted for 5.0% or more of our total sales in FY2003, FY2004 and FY2005:-

	Principal Activities of Major Customers	As a Percentage of Our Total Sales (%)		
		FY2003	FY2004	FY2005
Shandong Shifeng (Group) Co., Ltd. ("Shandong Shifeng") (山东时风集团有限责任公司)	Manufacture of equipment and machinery for agricultural uses	4.2	3.0	10.2
Liaoning SG Axle Joint Stock Co., Ltd. ("Liaoning SG") (辽宁丹东曙光车桥股份有限公司)	Manufacture of automobile axles	7.8	8.6	8.2
Yantai Timken Co., Ltd. ("Yantai Timken") (烟台铁姆肯有限公司)	Manufacture of tapered roller bearings and mechanical seamless steel tubings	6.1	4.9	7.0
Shandong Huijin Joint Stock Company ("Shandong Huijin") (山东汇金股份有限公司)	Manufacture of car axles	12.8	8.5	5.7
Shaanxi Hande Axle Co., Ltd. ("Shaanxi Hande") (陕西汉德车桥有限公司)	Manufacture of automobile parts	—	3.7	5.5
Zhucheng Yihe Axle Co., Ltd. ("Zhucheng Yihe") (诸成市义和车桥有限公司)	Manufacture of car axles	3.6	5.3	5.4

BUSINESS

	Principal Activities of Major Customers	As a Percentage of Our Total Sales (%)		
		FY2003	FY2004	FY2005
China National Heavy Duty Truck Group Corp., Ltd. ("CNHTC Group") (中国重型汽车集团有限公司)	Manufacture and sale of heavy duty trucks and components	4.6	13.1	6.6
Shiyan Jinrifeng Trading Co., Ltd. ("Shiyan Jinrifeng") (十堰金日丰工贸有限公司)	Distribution of bearings	3.4	6.5	3.1
Gundong Bearing (沂蒙滚动轴承厂)	Manufacture of bearings	8.6	3.8	2.4

The absolute value of our sales to Shandong Shifeng remained relatively unchanged in FY2003 and FY2004 although such sales, as a percentage of our total sales, decreased during this period. In FY2003 and FY2004, Shandong Shifeng purchased mainly light bearings from us. In FY2005, it commenced the manufacturing of heavy vehicles and started to purchase heavy bearings from us as well. As a result, sales to Shandong Shifeng increased to approximately 10.2% of our total sales in FY2005.

Sales to Liaoning SG, as a percentage of our total sales, increased from 7.8% in FY2003 to 8.6% in FY2004 on the back of its increased activities in the manufacture of light vehicles. Sales to Liaoning SG continued to increase in FY2005 as a result of its expansion into the manufacture of heavy buses and trucks although such sales, as a percentage of our total sales, decreased marginally to 8.2%.

The absolute value of our sales to Yantai Timken (a PRC subsidiary of an American bearing manufacturer) increased in FY2004 although such sales, as a percentage of our total sales, decreased from 6.1% in FY2003 to 4.9% in FY2004. Sales to this customer continued to increase in FY2005 with increased orders of bearings and bearing components, and contribution from such sales increased to 7.0% of our total sales in that year.

The absolute value of our sales to Shandong Huijin remained relatively unchanged from FY2003 to FY2005 although such sales, as a percentage of our total sales, decreased over the same period.

Relationship with Shaanxi Hande commenced in FY2004 when it started to purchase mainly heavy bearings from us. Sales to Shaanxi Hande, as a percentage of our total sales, has increased from 3.7% in that year to 5.5% in FY2005 as we managed to secure more orders due mainly to our quality products and service standards.

Sales to Zhucheng Yihe, both in absolute value and as a percentage of our total sales, increased over the past three financial years ended 31 December 2005. This was attributable to increased sales of heavy and light bearings to support the expanded production activities of Zhucheng Yihe.

Sales to CNHTC Group (through its subsidiaries, Jinan Wo'erda Automobile Co., Ltd. and CNHTC Jinan Truck Co., Ltd.), as a percentage of our total sales, increased from 4.6% in FY2003 to 13.1% in FY2004 due to its increased production activities. Sales to CNHTC Group decreased in FY2005 as its production activities were affected by relocation of its production facilities.

Sales to Shiyan Jinrifeng, both in absolute value and as a percentage of our total sales, increased from FY2003 to FY2004. Sales to Shiyan Jinrifeng, both in absolute value and as a percentage of our total sales decreased in FY2005 as a result of a slowdown in the business of Shiyan Jinrifeng.

We supply steel to Gundong Bearing who is our supplier of bearings (mainly light bearings) and bearing components in order to ensure the quality of products supplied by them. Sales of steel to Gundong Bearing decreased, both in absolute value and as a percentage of our total sales, over the past three financial years. This was mainly a result of Gundong Bearing purchasing steel directly from our designated steel suppliers at our request.

BUSINESS

None of our Directors or Substantial Shareholders or their respective Associates has any interest, direct or indirect, in any of our major customers listed above.

CREDIT POLICY

We have in place a credit management policy which includes a credit assessment for all our customers. For new customers, a credit assessment is made prior to the first purchase order. Credit assessment is performed on an annual basis for our existing customers, and this is reviewed and approved by our Managing Director and CEO, Zhang Anxi. Our customers are evaluated based on their payment track record, financial background, length of business relationship and market reputation.

For existing customers with good credit standing, we typically offer a credit term of 30 to 60 days. For customers who are less credit worthy, we will usually request for full upfront cash payment. For overseas customers, sales are generally backed by letters of credit from banks.

All credit terms, such as credit limit and credit period, granted to customers and any subsequent changes, must be approved by our Marketing Director, Xu Yihe. For existing customers who exceed their credit limits, approval from our Marketing Director must be sought before additional purchase orders can be accepted. Our marketing and finance staff monitor closely the payment status of each customer on a monthly basis. Where necessary, they will follow-up with customers on overdue payments. If repeated reminders to settle overdue payments fail to yield results, we may issue letters of demand and proceed with legal actions to collect the debts after considering factors such as the quantum of debts and our relationship with such customers.

Our trade receivables turnover days for FY2003, FY2004, FY2005 and 1Q2006 were as follows:-

	FY2003	FY2004	FY2005	1Q2006
Trade receivables turnover days ⁽¹⁾	90	86	46	22

Note:-

- (1) For FY2003, FY2004 and FY2005, trade receivables turnover days = (average trade receivables/sales) x 365 days. For 1Q2006, trade receivables turnover days = (average trade receivables/sales) x 90 days. Average trade receivables = (opening trade receivables balance + ending trade receivables balance)/2.

Trade receivables turnover days decreased from 90 days in FY2003 to 46 days in FY2005 as a result of the shortening of credit period granted to our customers from a maximum of 90 days in FY2003 to a maximum of 60 days in FY2004, and subsequently to a maximum of 45 days in FY2005. The trade receivables turnover days further decreased to 22 days in 1Q2006 as a result of tighter collection prior to festive season during this period.

Aging Schedule of Trade Receivables

Our trade receivables as at 31 March 2006 amounted to approximately RMB23.1 million and the aging schedule was as follows:-

No. of Days	0 to 30	31 to 60	61 to 90	91 to 120	> 120
% of trade receivables	44.7	30.1	16.8	5.4	3.0

BUSINESS

The allowance for doubtful trade receivables and bad debts written off in FY2003, FY2004, FY2005 and 1Q2006 were as follows:-

	FY2003	FY2004	FY2005	1Q2006
Allowance for doubtful trade receivables (RMB'000)	—	—	11	—
Bad debts written off	—	—	—	—
As a percentage of profit before taxation (%)	—	—	n.m. ⁽¹⁾	—

Note:-

(1) Not meaningful.

The allowance for doubtful trade receivables of RMB11,000 in FY2005 was a specific provision for trade receivables in relation to sales made in FY2003 to one of our customers.

MAJOR SUPPLIERS

The following table sets out our major suppliers which accounted for 5.0% or more of our total purchases in FY2003, FY2004 and FY2005:-

	Product(s) Supplied	As a Percentage of Our Total Purchases (%)		
		FY2003	FY2004	FY2005
Gundong Bearing (沂蒙滚动轴承厂)	Bearings and bearing components (namely, cages)	41.1	28.8	37.2
Dalian Jinniu Co., Ltd. (大连金牛股份有限公司)	GCr15 Steel	24.6	15.1	2.6
Laigang Group Co., Ltd. (莱钢钢铁总厂)	GCr15 Steel	17.2	15.6	6.0
Weifang Weixin Metal Materials Co., Ltd. (威坊威信金属材料有限公司)	GCr15 Steel	—	6.7	28.6
Liaoning Special Steel Group (辽宁特殊钢集团)	GCr15 Steel	—	13.7	0.3

Our main raw material, GCr15 steel, is generally available from various suppliers. The year-to-year fluctuations in our purchases from each of our major steel suppliers were due mainly to the commercial terms they offer (such as price and quality).

Gundong Bearing is our main sub-contractor of lower value-added bearings and bearing components (namely cages). Our purchases from Gundong Bearing decreased from RMB27.6 million in FY2003 to RMB23.1 million in FY2004 as we reduced our purchase of light bearing components from Gundong Bearing, in line with the lower demand for light bearings in FY2004. Our purchases from Gundong Bearing increased from RMB23.1 million in FY2004 to RMB34.0 million in FY2005. This was attributable to an increase in purchases of cages and light bearings, in line with the increase in demand for our range of bearing products in FY2005.

None of our Directors or Substantial Shareholders or their respective Associates has any interest, direct or indirect, in any of our major suppliers listed above.

Most of our suppliers of GCr15 steel generally require payment upon delivery of goods. Suppliers of other materials (such as roller retainer and grinding material) generally grant us credit terms of between 30 to 90 days.

BUSINESS

Our trade payables turnover days for FY2003, FY2004, FY2005 and 1Q2006 were as follows:-

	FY2003	FY2004	FY2005	1Q2006
Trade payables turnover days ⁽¹⁾	195	131	60	39

Note:-

- (1) For FY2003, FY2004 and FY2005, our trade payables turnover days = (average trade payables/cost of sales) x 365 days. For 1Q2006, trade payables turnover days = (average trade payables/cost of sales) x 90 days. Average trade payables = (opening trade payables balance + ending trade payables balance)/2.

Our trade payables turnover decreased from 195 days in FY2003 to 60 days in FY2005 due mainly to more prompt payment by us as a result of improved cash flow from profitable operations.

INVENTORY MANAGEMENT

Our inventories comprise raw materials, semi-finished products (including bearing components) and finished products. Our Finance department performs sample stock count on a quarterly basis, while a full stock count is carried out on an annual basis. Inventory level is determined principally by our production department, taking into account sales orders on hand, the expected demand patterns for our products and the lead-time for production and delivery of our products. We currently maintain approximately one and a half months' worth of raw materials and up to two months' supply of semi-finished and finished products.

We do not provide general allowances for stock obsolescence. We regularly assess our inventory to identify slow-moving stocks, stocks which may have deteriorated and raw materials which are no longer required for production and make specific allowances for stock obsolescence on a case-by-case basis.

Our inventory turnover days for FY2003, FY2004, FY2005 and 1Q2006 were as follows:-

	FY2003	FY2004	FY2005	1Q2006
Inventory turnover days ⁽¹⁾	179	144	75	36

Note:-

- (1) For FY2003, FY2004 and FY2005, inventory turnover days = (average inventory/cost of sales) x 365 days. For 1Q2006, inventory turnover days = (average inventory/cost of sales) x 90 days. Average inventory = (opening inventory balance + ending inventory balance)/2

Our inventory turnover days improved from 179 days in FY2003 to 75 days in FY2005 attributable to (i) our implementation of just-in-time policy for stocking of raw materials and production scheduling in FY2004, and (ii) more concerted efforts to control our inventory levels by monitoring sales order forecasts provided by our major customers.

INTELLECTUAL PROPERTY

We protect confidential information (such as our production processes trade secrets and other information relating to our business operations and management) by limiting access to top management and certain technical staff, and we require these personnel to enter into a confidentiality agreement with us. We further protect confidential information by breaking up production operations through the division of labour such that none of our production or technical staff will have access to a significant amount of confidential information that can be exploited to our detriment.

Yimeng Bearing is the registered holder of the trademark “沂蒙” (Registration No.: 1346985). The term of validity of this trademark registration is from 21 December 1999 till 20 December 2009. Under the Asset Purchase Agreement, this trademark was transferred to Linyi Kaiyuan Bearing as part of the Relevant Assets, Liabilities and Business. As at the Latest Practicable Date, the registration of the transfer is pending completion.

BUSINESS

Save as disclosed above, we are not dependent on any registered trademark or patent or any other intellectual property rights.

RESEARCH AND PRODUCT DEVELOPMENT

As at the Latest Practicable Date, our R&D team comprises 23 employees (including 3 engineers) and is responsible for development of new products and improvement on existing products. For each of the last three financial years ended 31 December 2005, our expenses on R&D were approximately RMB0.8 million, RMB0.9 million and RMB0.8 million respectively. As a result of our R&D efforts, we have added 19, 19 and 24 new products to our range of products in FY2003, FY2004 and FY2005 respectively.

To facilitate our efforts in enhancing our products and improving our production capabilities, we monitor the market closely for new developments, trends and technological innovations, and continuously seek feedback from customers to keep abreast of the market demands and changes in the requirements of our products. In addition, we maintain close ties with research institutes and centres such as Luoyang Research Institute, the technical department of Shandong University (山东大学) and Luoyang Technical College (洛阳工学院), which provide technical assistance to us and also equip our staff with the relevant new skills which they require to keep up with changes in manufacturing technology. In particular, our relationship with Luoyang Research Institute has been a long-standing one, starting in 1992.

We have a licensing agreement with Luoyang Research Institute for the tapered roller bearings CAD optimisation design technology (圆锥滚子轴承 CAD 优化设计技术), tapered roller bearing variable curvature crown amending process and equipment technology (圆锥滚子变曲率凸度修型工艺与装备技术) and VMUC-180 roller bearing raceway automatic lapping machine technology (VMUC-180 滚子轴承自动超精研机技术). These technologies are used in the design of our bearings to enable us to produce bearings which can better distribute stress, reduce friction, thereby making the bearings more durable and produce less noise.

Our Directors believe that such ties would enable us to keep up with the latest technological developments in the industry which we operate in, as well as to design bearings which meet the specific requirements of our customers.

PROPERTIES

We currently lease the following properties from Yimeng Bearing:-

Description	Use	Approximate Area (sq m)	Annual Rental (RMB)	Tenure/Date of Expiry of Tenure
Land and buildings at No.2 Yiqing Road, Yinan County, Shandong Province, the PRC	Office, plant and factory	41,745	944,106	10 years with effect from 1 April 2006

Please refer to the section “Interested Person Transactions and Conflicts of Interests” of this Prospectus for more details.

We plan to increase our production capacity by building another factory in Yinan County, Shandong Province, to focus on the manufacture of bearings for heavy vehicles and automobiles. We have identified a suitable site of approximately 55,000 sq m for this purpose and Linyi Kaiyuan Bearing has entered into a Land Use Fee Contract dated 9 May 2006 with Yinan County Land Resource Bureau. Pursuant to the Land Use Fee Contract, Linyi Kaiyuan Bearing has to pay a land use fee of RMB2,475,600, of which the first instalment of RMB600,000 has already been paid. The second and last instalment of RMB1,875,600 shall be paid before 31 December 2006. Pursuant to an approval letter from Yinan County Government dated 17 July 2006 and a State-owned Land Use Right Grant Contract dated 13 July 2006 entered into between Yinan County Land Resource Bureau, Shandong Province, PRC and Linyi Kaiyuan Bearing (the “Grant Contract”), Yinan County Government has given approval for the Land Use Right of the piece of

BUSINESS

land to be granted to Linyi Kaiyuan Bearing on the terms and conditions contained in the Grant Contract. Under the terms and conditions of the Grant Contract, Linyi Kaiyuan Bearing has to fulfil all its obligations, including amongst others, the payment of the land premium amount of RMB2,887,500 in four instalments, with the last instalment of RMB1,287,500 to be paid by or before 1 May 2007. Upon fulfillment of its obligations under the Grant Contract, it will be issued a Land Use Right Certificate, entitling it to the full and effective land use rights of the property. The aggregate purchase consideration for the new land is RMB5.4 million, comprising approximately RMB2.5 million land use fee and approximately RMB2.9 million land premium. Please refer to the section “Strategy and Future Plans” of this Prospectus for more details.

EMPLOYEES

The number of our employees as at the end of FY2003, FY2004 and FY2005 were as follows:-

	FY2003	FY2004	FY2005
Job Function			
Management	53	54	55
Administration	41	45	44
Sales and Marketing	21	21	21
Research & Development	24	24	24
Production	589	584	584
Full-Time Employees	728	728	728
Temporary Staff	125	228	226
Total	853	956	954

All our employees are presently based in the PRC. Our employees have a collective bargaining agreement with us and are members of an employee union. We have not experienced any strikes or work stoppages by our employees and believe our relationship with our employees is good. We do not currently employ a significant number of temporary employees. The statutory minimum wage for our employees in Yinan County, Shandong Province, the PRC, is RMB380 per month for full-time employees and RMB2.27 per hour for hourly-rated workers. As at the Latest Practicable Date, all our employees' wages are above the statutory minimum wage. We also maintain social insurance for all our 728 full-time employees in the PRC, in accordance with applicable PRC regulatory requirements.

We also hire temporary workers to meet labour shortages during periods of increased demand for our products. For FY2003, FY2004 and FY2005, we had hired 125, 228 and 226 temporary workers respectively.

INSURANCE

We maintain comprehensive all-risks insurance policies covering our production facilities, including the buildings and machineries, inventory and the vehicles used in our business.

We believe that we have adequate insurance coverage. However, significant damage to our operations or any of our properties may still have a material and adverse impact on our results of operations and financial conditions. We are not insured against loss of key management personnel or business interruption. Please refer to the section “Risk Factors” of this Prospectus for further details.

BUSINESS

COMPETITION

Due to the capital-intensive nature and the level of sophistication in technical requirements, barrier to entry in our industry is relatively high. We compete primarily on performance, quality and reliability of our products, engineering and technological capabilities, service quality, pricing and delivery schedules. The quality of our products is the most important of these criteria, followed by price.

Our products are sold primarily in the PRC and we compete mainly with manufacturers in the PRC. Our Directors believe that competition in the PRC market will intensify with time, in the form of competition from existing competitors and from foreign suppliers. Our main competitors in the PRC are established companies with longer operating histories, and they may have more extensive resources and larger clientele base than us. They include Wafangdian Bearing Group Corporation (瓦房店轴承集团), Ha'er Bin Bearing Group Corporation (哈尔滨轴承集团), Gansu Hailin Zhongke Science and Technology Co., Ltd. (甘肃海林中科科技股份有限公司) and Luoyang Bearing Group (洛阳轴承集团). In addition, they may have extensive sales and marketing networks in the PRC.

Due to the size of the automobile and machinery markets in the PRC, we expect an increase in the number of foreign bearing manufacturers seeking to enter the PRC market. These foreign companies may have substantially more capital and resources for R&D, greater production capability and better marketing abilities than us. Our foreign competitors include the SKF Group (Sweden), the Timken Company (the USA) and the NSK Group (Japan). In addition, there may be companies with similar product range currently operating in different markets from us. In the future, we may face competition from these companies as we expand into their markets and *vice versa*.

However, our Directors believe that we are able to compete in the increasingly competitive markets for bearings because of the consistent quality, volume and range of our products, our competitive pricing and our after-sales service.

COMPETITIVE STRENGTHS

Our competitive strengths are as follows:-

Established track record and brand reputation

We have a long-standing and credible track record since commencement of business in 1988. Our “Yimeng” (“沂蒙”) brand is an established brand which enjoys a good reputation in the PRC, principally in the Shandong Province, in relation to product performance, quality and reliability. Over the years, we have received numerous awards and certifications which attest to our product quality, brand reputation and good track record. The awards we received include the Automobile Industry Leading Accessories and Parts Manufacturing Enterprise in Shandong Province (山东省汽车工业零部件企业龙头企业), Well-known Brand of Shandong Province (山东省知名品牌) and Famous Trademark of Shandong Province (山东省著名商标).

Experienced management team and technical expertise

Our management team has extensive experience, substantial technical expertise and valuable business relationships within the industry. Our Non-executive Chairman, Zhang Yuankai, has more than 50 years of experience in this industry and has been instrumental to our success. He was a deputy director of technical skills committee of the CBIA. Our Managing Director and CEO, Zhang Anxi also has vast experience in the bearing industry and is ably supported by an experienced and dedicated management and technical team. They have established strong relationships with our customers and suppliers. Our Executive Directors and Executive Officers are actively involved in the day-to-day operations, which enable us to respond to the requirements of our customers and to make key management decisions promptly. Please refer to the section “Directors and Executive Officers” of this Prospectus for details of our directors and management team.

BUSINESS

Quality products at competitive prices

We have established a good track record for the quality of our products. We have implemented and maintained an effective quality control system for which we received ISO/TS16949:2002 accreditation. Our products are reliable and of good quality.

In addition, we have implemented stringent cost control measures such as just-in-time policy for stocking of raw materials. Improved technology and a disciplined workforce have helped us achieve an efficient production process, which allows us to offer competitive pricing for our products.

Strong customer relationships and a stable customer base

Over the years, we have established stable and good long-term working relationships with many major customers.

We have a dedicated sales and marketing team as well as an after-sales service team made up of our technical services staff to attend to the needs and requirements of our customers. Our sales and marketing team contacts our customers regularly to foster and strengthen our relationship with them while our after-sales team also makes frequent visits to our customers to obtain feedback and attend to complaints, thereby establishing customer loyalty. We have consistently strived to fulfil the stringent quality and cost requirements of our customers, so as to enjoy repeat sales orders from them.

Strong research and development capability

We place great emphasis on the R&D of our products, and believe that the continual development of new and improved products, as well as improved manufacturing technology, is the key to maintaining our competitive advantage. We have added 19, 19 and 24 new products to our range of products in FY2003, FY2004 and FY2005 respectively.

As at the Latest Practicable Date, our R&D team consists of 23 employees, 3 of whom are engineers. We also have research collaboration with Luoyang Research Institute which is a reputable research facility in the PRC focusing on research on bearings. Our Directors believe that our good relationship with such institute would augment our competitive edge in our R&D capability.

Strategic location in the PRC

Our subsidiary, Linyi Kaiyuan Bearing, is strategically located in Yinan County, Shandong Province, the PRC which is approximately 45 km north of Linyi City, Shandong Province, the PRC. Linyi City has a developed rail and road network, and is in close proximity to the major national expressways and railways, with easy access to major manufacturing regions in the PRC. As such, we are not only able to access markets along such transportation networks, we are also able to lower transportation costs and improve delivery efficiency.

PROSPECTS

Continuing growth in demand for bearings in the PRC

The bearing industry is one of the industries which the PRC government has identified as having the potential for growth. According to the “Eleventh Five-Year Plan of the Bearing Industry of the PRC” (全国轴承行业十一五发展规划), the PRC government has put in place plans and strategies to achieve its objective of being one of the leading bearing producing nations in the world by year 2020. These include (i) focus on the development of bearings and bearing products for automobiles, motorcycles, machineries and equipment for industrial and agricultural uses, and (ii) emphasis on R&D capabilities in the development of high value-added bearings for automobiles, aeronautical, passenger cars as well as road and rail industries. Our Directors believe that these policies will likely have a positive effect on the growth of the bearing industry in the PRC.

BUSINESS

For the foreseeable future, our Directors believe that there will be sustained growth in the market demand for our products in the PRC due to the rapid pace of growth and increased industrialisation within the PRC. This will lead to a stronger demand for automobiles as well as engineering and power generating equipment and machineries. We intend to tap this industry trend and prospects to increase our market share and further improve our financial performance. In particular, we intend to focus our resources on the manufacture of bearings for automobiles.

According to the “Eleventh Five-Year Plan of the Bearing Industry of the PRC” (全国轴承行业十一五发展规划), the demand for motor cars in the PRC is estimated to grow from approximately 6.4 million in 2006 to approximately 9.1 million in 2010. Up to the Latest Practicable Date, we have been producing bearings for the manufacture of automobiles, equipment and machineries for industrial and agricultural uses. We intend to expand our product range into bearings for passenger cars.

Under the China Automobile Industry Policies (中国汽车工业产业政策), the manufacture of automobiles and automobile parts were identified by the PRC government as an industry which development is to be encouraged. As such, numerous government incentives are available to PRC companies that are engaged in the manufacture of automobile and automobile parts. To the best of our Directors’ knowledge, the recent development and growth in the PRC’s automobile and its related industries are evidence of the effects of these policies. Our Directors believe that these policies will encourage the development of the manufacture of automobiles which will lead to higher demand for automobile parts (including bearings).

Tapping into the global demand for bearings

We plan to actively develop the overseas market to tap the global demand for bearings and to grow our business further.

Our Directors believe that the worldwide demand for bearings will likely grow steadily over the next few years primarily due to growth in the global economy, which in turn translates into a stronger demand for our products.

Our Directors intend to capitalise on the opportunities offered by emerging overseas markets such as Southeast Asian, European and USA markets and tap the global demand for bearings for automobiles. With our good product quality, wide product range and competitive pricing, we believe that we will be able to establish a foothold for ourselves in the global market. To this end, we intend to set up a representative office in Asia (outside PRC) by end of 2007 to develop the Southeast Asian market. We also intend to gain a foothold in the European and US markets through strategic partnerships with local distributors. We also expect to intensify our sales, marketing and business development activities to penetrate into these new markets.

TREND INFORMATION

The trends observed by our Directors for FY2006 are as follows:-

- (a) We expect the overall volume of sales of our bearings to increase in line with higher demand and our future plans. We do not expect our selling prices of each product category to fluctuate significantly. However, as we intend to focus on the production and sale of new and improved range of bearings, which have higher selling prices, our average selling price may increase, subject to the extent that we are successful in manufacturing and selling such bearings;
- (b) We expect the unit cost of sales to remain relatively stable as the price of GCr15 steel, which is our main raw material, is unlikely to fluctuate significantly, barring unforeseen circumstances; and
- (c) We expect our operating expenses to increase in FY2006, largely in tandem with the increase in sales.

BUSINESS

For the period of 1 January 2006 to the Latest Practicable Date, we received confirmed orders amounting to approximately RMB188.0 million, of which approximately RMB174.9 million has been fulfilled. However, due to the possibility of changes in our customers' delivery schedules or cancellations and potential delays in delivery, our order book as at any particular date may not be indicative of sales for any succeeding period.

Save as disclosed in this Prospectus, in particular the section "Risk Factors", and barring unforeseen circumstances, our Directors believe that there are no other significant known trends in production, sales and inventory, and in the costs and selling prices of our products or other known trends, uncertainties, demands, commitments, or events that are reasonably likely to have a material effect on our net sales or revenue, profitability, liquidity or capital resources, or that would cause the financial information disclosed in this Prospectus to be not necessarily indicative of our future operating results or financial condition. Please also refer to the section "Cautionary Note on Forward-Looking Statements".

STRATEGY AND FUTURE PLANS

Our goal is to become a leading producer and supplier of bearings in the PRC. For this purpose, we seek to grow and develop our business operations in the following ways:-

Increase our production capacity

In order to meet the anticipated increase in market demand for our products in the PRC and overseas markets, we intend to expand our production capacity. We plan to increase our production capacity by building another factory in Yinan County, Shandong Province, to focus on the manufacturing of bearings for heavy vehicles and passenger cars.

We have identified a suitable site of 55,000 sq m for this purpose. Please refer to the section "Properties" of this Prospectus for more details of the land. We intend to utilise approximately S\$5.0 million (equivalent to RMB24.9 million) of the net Invitation proceeds for the purchase of this land and the construction of an additional manufacturing plant thereon. In addition, we intend to utilise approximately S\$10.5 million (equivalent to RMB52.3 million) of the net Invitation proceeds for the purchase of machineries and equipment for the proposed new manufacturing plant. The construction of the new manufacturing plant is expected to be completed in the first quarter of 2007. Upon completion, we expect our production capacity for the new manufacturing plant to be approximately 3.2 million sets of heavy bearings and 0.3 million sets of passenger car bearings per annum.

Expand our product range and enhance product quality

We place strong emphasis on product development to improve the performance and reliability of our products and also seek to expand our product range.

We plan to hire more experienced staff with the relevant skills and experience to augment the knowledge and capabilities of our existing product development team. We will also procure new research equipment to enhance our product development efforts. We intend to utilise approximately S\$0.5 million (equivalent to RMB2.5 million) of the net Invitation proceeds to strengthen our R&D capabilities.

We plan to further develop and improve our existing products by improving their reliability and finish, greater resistance to wear-and-tear, a longer usage period, lower sound emission and better fit for all the component parts. We will continually seek feedback from our customers on ways to improve the performance and appearance of our products. In addition, we will also be examining ways to improve the design and production of our components as well as our manufacturing processes, in order to reduce the costs and increase the efficiency of production.

BUSINESS

Expand market share for existing market segments

We intend to further strengthen and consolidate our position in the PRC by doing the following to expand our customer base:-

- (a) conduct R&D for new products;
- (b) produce bearings to be used in heavy vehicles and passenger cars, for which there is high demand;
- (c) increase our sales and marketing efforts by increasing the size of our sales and marketing as well as after-sales departments, for both the overseas and local divisions; and
- (d) participate actively in automobile accessories and other industry-related exhibitions to market our products and raise our corporate profile.

Expand to overseas markets

Although we believe that the PRC has strong potential for growing our business, we also believe that there are significant opportunities in overseas markets. Our Directors are of the view that penetration into overseas markets will be an important factor in our growth. To this end, we intend to set up a representative office in Asia (outside the PRC) by end of 2007 to develop the Southeast Asian market. We also intend to gain a foothold in the European and US markets through strategic partnerships with local distributors. We will seek to intensify our sales, marketing and business development activities to penetrate into these new markets.

To establish a broader geographic presence within the PRC so as to have better access to both potential and existing customers, we plan to set up representative offices in locations where we currently do not have any presence and which are not conveniently accessible from our base in Shandong Province, the PRC. These will be established with a view to enhance efficiency in terms of delivery and marketing.

Diversify into new market segments

There is a growing demand for automobiles in the PRC on the back of its economic growth and the resultant improvement in the standard of living of its consumers. Furthermore, there has been a significant number of international automobile manufacturers who have set up manufacturing operations in the PRC. Our Directors believe that the growing passenger car market holds strong potential for our tapered roller bearings. We intend to develop, manufacture and market our bearings for use in passenger cars.

A portion of the production capacity of the new manufacturing plant will be utilised for the manufacture of bearings for passenger cars. Part of the net proceeds from the Invitation will be used to finance the construction of the new manufacturing plant and the purchase of new machineries and equipment for use in the new manufacturing plant. Please refer to the section "Use of Proceeds" of this Prospectus for further details.

SUMMARY OF OUR GROUP'S FINANCIAL INFORMATION

The following selected financial information should be read in conjunction with the full text of this Prospectus, including the following:-

- (i) "Report of the Independent Auditors on the Combined Financial Statements of China Bearing (Singapore) Ltd. for the Financial Years ended 31 December 2003, 2004 and 2005" as set out in Appendix IV of this Prospectus;
- (ii) "Combined Unaudited Financial Statements of China Bearing (Singapore) Ltd. for the Three-Month Financial Period ended 31 March 2006" as set out in Appendix VI of this Prospectus; and
- (iii) "Unaudited Pro Forma Group Financial Statements of China Bearing (Singapore) Ltd. for the Year ended 31 December 2005 and Three Months ended 31 March 2006" as set out in Appendix VII of this Prospectus.

Selected financial information has been prepared on a pro forma basis to show the effects of (i) the acquisition of the Relevant Assets, Liabilities and Business, and (ii) the loans under the Convertible Loan Agreements and the Loan Agreement, under the Restructuring Exercise.

RESULTS OF OPERATIONS OF OUR GROUP ⁽¹⁾

(RMB '000)	← Combined Audited →			Combined Unaudited		← Pro Forma →	
	FY2003	FY2004	FY2005	1Q2005	1Q2006	FY2005	1Q2006
Revenue	107,614	146,021	202,902	64,685	84,781	202,902	84,781
Cost of sales	(81,576)	(102,971)	(134,107)	(45,946)	(44,776)	(133,794)	(44,712)
Gross profit	26,038	43,050	68,795	18,739	40,005	69,108	40,069
Other operating income	3,678	6,140	3,281	822	803	3,281	803
Distribution costs	(1,802)	(1,469)	(1,668)	(346)	(724)	(1,668)	(724)
Administrative expenses	(4,784)	(5,728)	(6,759)	(1,336)	(4,318)	(6,491)	(4,238)
Other operating expenses	(1,651)	(1,862)	(2,211)	(774)	(1,207)	(3,174)	(1,443)
Finance costs	(337)	(186)	(3)	–	–	(3)	–
Profit before taxation	21,142	39,945	61,435	17,105	34,559	61,053 ⁽²⁾	34,467
Taxation	(9,773)	(13,182)	(20,361)	(5,645)	(11,550)	(20,235)	(11,520)
Net profit attributable to Shareholders	11,369	26,763	41,074	11,460	23,009	40,818 ⁽²⁾	22,947
EPS (RMB cents) ⁽³⁾	6.7	15.7	24.2	6.7	13.5	24.0 ⁽²⁾	13.5
Adjusted EPS (RMB cents) ⁽⁴⁾	4.9	11.6	17.9	5.0	10.0	17.7 ⁽²⁾	10.0

Notes:-

- (1) Our financial results for the period under review have been prepared on the basis that our Group has been in existence throughout the period under review.
- (2) Had the Service Agreement, as described in the section "Directors, Management and Staff – Service Agreement" of this Prospectus, been in place since 1 January 2005, the unaudited pro forma profit before taxation and net profit attributable to Shareholders for FY2005 would have been approximately RMB60.4 million and RMB40.4 million respectively. The EPS and Adjusted EPS would have been 23.8 cents and 17.6 cents respectively.
- (3) For comparative purposes, EPS for the period under review has been computed based on the net profit attributable to Shareholders and the pre-Invitation share capital of 170,000,000 Shares.
- (4) For comparative purposes, Adjusted EPS for the period under review has been computed based on the net profit attributable to Shareholders, adjusted for the post-Invitation share capital of 230,000,000 Shares.

SUMMARY OF OUR GROUP'S FINANCIAL INFORMATION

FINANCIAL POSITION OF OUR GROUP ⁽¹⁾

(RMB '000)	Combined Audited as at 31 December			Combined Unaudited as at	Pro Forma	
	2003	2004	2005	31 March 2006	as at 31 December 2005	as at 31 March 2006
ASSETS						
Non-current						
Property, plant and equipment	55,756	51,413	48,669	44,711	36,874	33,061
Intangible assets	4,150	3,550	2,950	2,800	2,950	2,800
	59,906	54,963	51,619	47,511	39,824	35,861
Current						
Inventories	42,207	38,806	16,392	19,194	16,392	7,932
Trade and other receivables	44,592	39,276	25,606	30,256	25,732	30,256
Cash and cash equivalents	28,922	38,911	65,708	78,755	1,530	17,165
	115,721	116,993	107,706	128,205	43,654	55,353
TOTAL ASSETS	175,627	171,956	159,325	175,716	83,478	91,214
EQUITY						
Shareholders' equity	92,805	88,096	105,967	129,077	15,769	28,398
LIABILITIES						
Non-current						
Loans from related parties	—	—	—	—	25,106	25,106
Current						
Trade and other payables	66,859	40,897	40,544	32,908	37,801	32,908
Dividend payable	5,528	37,000	—	—	—	—
Bank borrowings	5,220	—	—	—	—	—
Provision for taxation	5,215	5,963	12,814	13,731	—	—
Non-convertible Loan	—	—	—	—	4,802	4,802
	82,822	83,860	53,358	46,639	42,603	37,710
TOTAL LIABILITIES	82,822	83,860	53,358	46,639	67,709	62,816
TOTAL EQUITY AND LIABILITIES	175,627	171,956	159,325	175,716	83,478	91,214
NTA per Share (RMB cents) ⁽²⁾	52.2	49.7	60.6	74.3	7.5	15.1

Notes: -

- (1) Our financial position as at 31 December 2003, 31 December 2004, 31 December 2005 and 31 March 2006 have been prepared on the basis that our Group has been in existence as at those dates.
- (2) NTA per Share for the period under review has been computed based on the NTA and pre-Invitation share capital of 170,000,000 Shares.

SUMMARY OF OUR GROUP'S FINANCIAL INFORMATION

The following financial information presented in Singapore Dollars has been translated for the sole purpose of investor convenience and has not been audited. These translations are made with reference to the RMB and the S\$ exchange rates as shown under the section "Exchange Rates" of this Prospectus and should not be construed as representations that the RMB amounts represent such Singapore Dollar amounts or could be converted into Singapore Dollars at the rate indicated or any other rate.

RESULTS OF OPERATIONS OF OUR GROUP ⁽¹⁾ (translated into Singapore Dollars)

(S\$'000)	← Combined Audited →			Combined Unaudited		← Pro Forma →	
	FY2003	FY2004	FY2005	1Q2005	1Q2006	FY2005	1Q2006
Revenue	22,646	29,806	41,215	12,784	17,138	41,215	17,138
Cost of sales	(17,167)	(21,019)	(27,241)	(9,080)	(9,051)	(27,177)	(9,038)
Gross profit	5,479	8,787	13,974	3,704	8,087	14,038	8,100
Other operating income	774	1,253	666	162	162	666	162
Distribution costs	(379)	(300)	(339)	(68)	(146)	(339)	(146)
Administrative expenses	(1,007)	(1,169)	(1,373)	(264)	(873)	(1,319)	(857)
Other operating expenses	(347)	(380)	(449)	(153)	(244)	(645)	(292)
Finance costs	(71)	(38)	(1)	–	–	(1)	–
Profit before taxation	4,449	8,153	12,478	3,381	6,986	12,400 ⁽²⁾	6,967
Taxation	(2,057)	(2,691)	(4,136)	(1,116)	(2,335)	(4,110)	(2,329)
Net profit attributable to Shareholders	2,392	5,462	8,342	2,265	4,651	8,290 ⁽²⁾	4,638
EPS (cents) ⁽³⁾	1.4	3.2	4.9	1.3	2.7	4.9 ⁽²⁾	2.7
Adjusted EPS (cents) ⁽⁴⁾	1.0	2.4	3.6	1.0	2.0	3.6 ⁽²⁾	2.0

Notes: -

- (1) Our financial results for the period under review have been prepared on the basis that our Group has been in existence throughout the period under review.
- (2) Had the Service Agreement, as described in the section "Directors, Management and Staff – Service Agreement" of this Prospectus, been in place since 1 January 2005, the unaudited pro forma profit before taxation and net profit attributable to Shareholders for FY2005 would have been approximately S\$12.3 million and S\$8.2 million respectively. The EPS and Adjusted EPS would have been 4.8 cents and 3.6 cents respectively.
- (3) For comparative purposes, EPS for the period under review has been computed based on the net profit attributable to Shareholders and the pre-Invitation share capital of 170,000,000 Shares.
- (4) For comparative purposes, Adjusted EPS for the period under review has been computed based on the net profit attributable to Shareholders, adjusted for the post-Invitation share capital of 230,000,000 Shares.

SUMMARY OF OUR GROUP'S FINANCIAL INFORMATION

FINANCIAL POSITION OF OUR GROUP ⁽¹⁾ (translated into Singapore Dollars)

(S\$'000)	Combined Audited as at 31 December			Combined Unaudited as at	Pro Forma	
	2003	2004	2005	31 March 2006	as at 31 December 2005	as at 31 March 2006
ASSETS						
Non-current						
Property, plant and equipment	11,439	10,145	10,027	9,012	7,597	6,664
Intangible assets	851	700	608	564	608	564
	12,290	10,845	10,635	9,576	8,205	7,228
Current						
Inventories	8,660	7,657	3,377	3,869	3,377	1,599
Trade and other receivables	9,149	7,750	5,275	6,099	5,301	6,099
Cash and cash equivalents	5,934	7,679	13,536	15,876	315	3,460
	23,743	23,086	22,188	25,844	8,993	11,158
TOTAL ASSETS	36,033	33,931	32,823	35,420	17,198	18,386
EQUITY						
Shareholders' equity	19,041	17,383	21,830	26,019	3,249	5,724
LIABILITIES						
Non-current						
Loans from related parties	—	—	—	—	5,172	5,061
Current						
Trade and other payables	13,717	8,070	8,353	6,633	7,788	6,633
Dividend payable	1,134	7,301	—	—	—	—
Bank borrowings	1,071	—	—	—	—	—
Provision for taxation	1,070	1,177	2,640	2,768	—	—
Non-convertible Loan	—	—	—	—	989	968
	16,992	16,548	10,993	9,401	8,777	7,601
TOTAL LIABILITIES	16,992	16,548	10,993	9,401	13,949	12,662
TOTAL EQUITY AND LIABILITIES	36,033	33,931	32,823	35,420	17,198	18,386
NTA per Share (cents) ⁽²⁾	10.7	9.8	12.5	15.0	1.6	3.0

Notes: -

- (1) Our financial position as at 31 December 2003, 31 December 2004, 31 December 2005 and 31 March 2006 have been prepared on the basis that our Group has been in existence as at those dates.
- (2) NTA per Share for the period under review has been computed based on the net tangible assets and pre-Invitation share capital of 170,000,000 Shares.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS BY PRODUCT SEGMENTS

A breakdown of our past performance by product segments for FY2003, FY2004, FY2005, 1Q2005 and 1Q2006 is set out below:-

Revenue

	FY2003		FY2004		FY2005		1Q2005		1Q2006	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Micro-size	11,894	11.1	10,125	6.9	11,138	5.5	4,226	6.5	1,489	1.8
Light	68,161	63.3	64,459	44.1	95,119	46.9	27,204	42.1	25,673	30.3
Heavy	17,920	16.7	64,326	44.1	86,813	42.8	31,010	47.9	55,072	65.0
Others ⁽¹⁾	9,639	8.9	7,111	4.9	9,832	4.8	2,245	3.5	2,547	2.9
	107,614	100.0	146,021	100.0	202,902	100.0	64,685	100.0	84,781	100.0

Gross Profit

	FY2003		FY2004		FY2005		1Q2005		1Q2006	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Micro-size	3,440	13.2	2,715	6.3	3,990	5.8	1,837	9.8	513	1.3
Light	17,012	65.3	15,753	36.6	29,414	42.8	6,157	32.9	12,222	30.6
Heavy	5,208	20.0	24,402	56.7	34,776	50.5	10,553	56.3	26,565	66.4
Others ⁽¹⁾	378	1.5	180	0.4	615	0.9	192	1.0	705	1.7
	26,038	100.0	43,050	100.0	68,795	100.0	18,739	100.0	40,005	100.0

Gross Profit Margin

	FY2003	FY2004	FY2005	1Q2005	1Q2006
	%	%	%	%	%
Micro-size	28.9	26.8	35.8	43.5	34.4
Light	25.0	24.4	30.9	22.6	47.6
Heavy	29.1	37.9	40.1	34.0	48.2
Others ⁽¹⁾	3.9	2.5	6.3	8.6	27.7
Overall	24.2	29.5	33.9	29.0	47.2

Note: -

(1) Others refer to separate bearing components such as outer rings, inner rings of bearings.

RESULTS BY GEOGRAPHICAL REGIONS

REVENUE

	FY2003		FY2004		FY2005		1Q2005		1Q2006	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
China	107,614	100.0	146,021	100.0	202,826	100.0	64,685	100.0	84,781	100.0
Others ⁽¹⁾	—	—	—	—	76	—	—	—	—	—
Total	107,614	100.0	146,021	100.0	202,902	100.0	64,685	100.0	84,781	100.0

Note:-

(1) Others refer to Ukraine and the UAE.

We have not presented a breakdown of profits from operations by geographical regions as it is not meaningful to allocate our operating costs across different locations of our end-customers.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

BASIS OF PREPARATION

The following discussion and analysis of our results of operations and financial position has been prepared by our management and should be read in conjunction with the following:-

- (i) "Report of the Independent Auditors on the Combined Financial Statements of China Bearing (Singapore) Ltd. for the Financial Years ended 31 December 2003, 2004 and 2005" as set out in Appendix IV of this Prospectus;
- (ii) "Combined Unaudited Financial Statements of China Bearing (Singapore) Ltd. for the Three-Month Financial Period ended 31 March 2006" as set out in Appendix VI of this Prospectus; and
- (iii) "Unaudited Pro Forma Group Financial Statements of China Bearing (Singapore) Ltd. for the Year ended 31 December 2005 and Three Months ended 31 March 2006" as set out in Appendix VII of this Prospectus.

Except as otherwise indicated, the following discussion is based on our combined audited financial statements. When information is given on a pro forma basis, such information is prepared to show what the effects on our financial results and financial positions would have been had the Restructuring Exercise occurred on 1 January 2005, that is, the effects of (i) the acquisition of the Relevant Assets, Liabilities and Business, and (ii) the loans under the Convertible Loan Agreements and the Loan Agreement, under the Restructuring Exercise. Please refer to pages VII-7 to VII-13 of our "Unaudited Pro Forma Group Financial Statements of China Bearing (Singapore) Ltd. for the Year ended 31 December 2005 and Three Months ended 31 March 2006 as set out in Appendix VII of this Prospectus for details of the accounting adjustments made.

OVERVIEW

We are engaged in the business of the design, development, manufacture and sale of bearings for automobiles, equipment and machineries for industrial and agricultural uses. Our operations and production facilities are located in Yinan County, Shandong Province and occupy approximately 41,745 sq m in gross floor area. As at the Latest Practicable Date, we have a total of 728 full-time employees and production capacity of approximately 16,800,000 sets of bearings per annum.

Our bearings are mainly standardised bearings with certain degree of customisation to meet the specific requirements of our customers. Our customers include manufacturers of automobiles, equipment and machineries (including components thereof) for industrial and agricultural uses, as well as distributors of bearings. In particular, our bearings are sold to manufacturers of light commercial vehicles (vans and mini-buses), light trucks and agricultural vehicles, and heavy vehicles (buses and cranes).

Our sales are mainly derived in the PRC and since July 2005, we started to export our bearings directly to distributors in Ukraine and the UAE.

Revenue

We recognise our revenue upon delivery and acceptance by our customers and collectibility of the related receivables is reasonably assured. Our revenue is recorded at the invoiced value net of VAT, rebates and discounts, where applicable. For the period under review, our sales are primarily denominated in RMB.

Our bearings can be categorised according to their uses, under the three categories as follows:-

- (a) Micro-size bearings for light commercial vehicles of below 3 tonnes such as vans and mini buses. Sales derived from this segment accounted for 11.1%, 6.9%, 5.5%, 6.5% and 1.8% of our total sales in FY2003, FY2004, FY2005, 1Q2005 and 1Q2006 respectively.
- (b) Light bearings for vehicles of between 3 to 10 tonnes such as light trucks, pick-ups, forklifts and agricultural vehicles. Sales derived from this segment accounted for 63.3%, 44.1%, 46.9%, 42.1% and 30.3% of our total sales in FY2003, FY2004, FY2005, 1Q2005 and 1Q2006 respectively.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

- (c) Heavy bearings for heavy vehicles of over 10 tonnes such as buses, coaches, container trucks and cranes. Sales derived from this segment accounted for 16.7%, 44.1%, 42.8%, 47.9% and 65.0% of our total sales in FY2003, FY2004, FY2005, 1Q2005 and 1Q2006 respectively.

In addition to the above, we sell bearing components, such as outer rings and inner rings, to our customers. Such sales accounted for, on average, approximately 5.4% of our revenue for the period under review.

The key factors that affect our revenue include:-

- (a) Demand for automobiles, equipment and machineries for industrial and agricultural uses, in the PRC and globally. Growth in demand for vehicles and machineries will result in an increase in demand for bearings and this is expected to have a positive impact on our revenue.
- (b) Ability to secure repeat orders from our existing customers and expand our customer base. Our ability to further develop new and improved products and increase our customer base is expected to have an impact on our revenue.
- (c) Ability to compete effectively in our industry. Players in this market generally compete on key attributes such as performance, quality and reliability of products, service quality, pricing and delivery schedules.
- (d) Our ability to develop and customise new products or enhance existing products to adapt to customers' expectations and market changes.
- (e) The business cycle and level of capital expenditure of our customers.
- (f) Our ability to expand and manage our manufacturing capacity. Our manufacturing capacity will have a direct impact on our ability to meet market demand, which would in turn affect our revenue.

Please refer to the section "Risk Factors" of this Prospectus for other factors that may affect our revenue and financial performance.

Seasonality

Based on our experience, we typically record higher sales in the first and last quarter of the year due to our customers' tendency to build up their inventories in the months prior to the year-end festive sales.

Cost of sales

The following table sets out details of our cost of sales:-

(% of cost of sales)	FY2003	FY2004	FY2005	1Q2005	1Q2006
Direct materials	77.8	78.4	82.5	87.1	83.4
Direct labour	5.9	7.0	6.5	4.4	8.2
Factory overheads					
– Depreciation expense	7.0	5.3	4.0	3.0	2.9
– Utilities	6.8	6.6	4.7	4.4	4.1
– Transportation costs	1.8	1.6	0.6	0.7	0.7
– Others	0.7	1.1	1.7	0.4	0.7
	16.3	14.6	11.0	8.5	8.4
Total	100.0	100.0	100.0	100.0	100.0

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Direct materials comprise raw materials such as GCr15 steel bars and roller retainers purchased from our sub-contractors, for use in our manufacture of bearings, accounting for 67.9%, 82.1%, 79.9%, 87.4% and 93.0% of our direct materials in FY2003, FY2004, FY2005, 1Q2005 and 1Q2006 respectively. The balance of our direct material costs relates to purchases of lower value-added bearings for resale to our customers. Our direct material costs are mainly affected by fluctuations in steel prices, which are in turn affected by the demand and supply for steel. Direct materials accounted for 77.8%, 78.4%, 82.5%, 87.1% and 83.4% of our cost of sales in FY2003, FY2004, FY2005, 1Q2005 and 1Q2006 respectively.

Direct labour costs comprise salaries, compulsory statutory contributions and staff welfare for our production staff. Our direct labour costs are dependent on the number of production staff employed, availability of labour in the market with the required skill sets, and the rates of employer's contribution to defined contribution plans for staff. Direct labour costs accounted for 5.9%, 7.0%, 6.5%, 4.4% and 8.2% of our cost of sales in FY2003, FY2004, FY2005, 1Q2005 and 1Q2006 respectively. The increase in FY2004 was mainly due to an increase in temporary production workers engaged to meet increased production requirements, from 125 in FY2003 to 228 in FY2004. In FY2005, direct labour costs as a percentage of cost of sales decreased due mainly to improvements in productivity. As at 31 March 2006, our production staff comprised 584 full-time staff and 226 temporary workers.

Factory overheads comprised depreciation of property, plant and equipment, utilities, transportation charges for our purchases and other expenses such as maintenance costs and other direct production overheads. These accounted for 16.3%, 14.6%, 11.0%, 8.5% and 8.4% of our cost of sales in FY2003, FY2004, FY2005, 1Q2005 and 1Q2006 respectively. Our factory overheads, as a percentage of our cost of sales, decreased from 16.3% in FY2003 to 11.0% in FY2005 as a result of increased productivity and greater economies of scale.

Other operating income

Other operating income comprises mainly income from sale of scrap materials, interest income from bank balances, processing fee in FY2004 and gain on disposal of fixed assets in FY2003.

Operating expenses

Our operating expenses comprise distribution costs, administrative expenses and other operating expenses. These accounted for 7.6%, 6.2%, 5.2%, 3.8% and 7.4% of our revenue in FY2003, FY2004, FY2005, 1Q2005 and 1Q2006 respectively.

Distribution costs accounted for 21.9%, 16.2%, 15.7%, 14.1% and 11.6% of our total operating expenses for FY2003, FY2004, FY2005, 1Q2005 and 1Q2006 respectively. Distribution costs comprise mainly freight and delivery charges, advertising expenses, trade shows and exhibition costs, salaries and allowances for sales and marketing staff, as well as entertainment and travelling expenses incurred for marketing and sales activities. Such expenses are dependent on the level of the marketing activities undertaken by us as well as the number of sales and marketing staff employed.

Administrative expenses accounted for 58.1%, 63.2%, 63.5%, 54.4% and 69.1% of our total operating expenses for FY2003, FY2004, FY2005, 1Q2005 and 1Q2006 respectively. Administrative expenses comprise mainly payroll and related costs of our management and administrative staff, depreciation expenses, amortisation of intangible assets, insurance expenses, R&D expenses and general administrative expenses related to our administrative office premise.

Other operating expenses accounted for 20.0%, 20.6%, 20.8%, 31.5% and 19.3% of our total operating expenses for FY2003, FY2004, FY2005, 1Q2005 and 1Q2006 respectively. These expenses included statutory contributions made to environment protection and education fund, losses on disposal of plant, property and equipment and other operating expenses.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Finance costs

Our finance costs comprise interest on bank loans and discounted bills.

Taxation

Our Group's overall effective tax rates for FY2003, FY2004, FY2005, 1Q2005 and 1Q2006 were 46.2%, 33.0%, 33.1%, 33.0% and 33.4% respectively, based on the combined financial statements.

During the period under review, our business was conducted under a PRC company owned by PRC nationals. Under the Enterprise Income Tax Law of the PRC, our business is subject to an income tax rate of 33.0%. The effective rate in FY2003 was higher than the income tax rate of 33.0% due to under-provision of tax in prior years.

Inflation

We do not expect inflation to have any material impact on our business.

REVIEW OF PAST PERFORMANCE

FY2004 vs FY2003

Revenue

Our revenue increased by RMB38.4 million or 35.7% from RMB107.6 million in FY2003 to RMB146.0 million in FY2004. This increase was attributable to an increase of RMB46.4 million in sales of heavy bearings which was partially offset by a decrease of RMB1.8 million in sales of micro-size bearings, RMB3.7 million in sales of light bearings and RMB2.5 million in sales from other segment. The general selling prices of our bearings were higher in FY2004, with our offering of new and improved range of bearings. Such higher selling prices also took into account an approximately 38.4% increase in the average steel price in FY2004.

We commenced the manufacture and sale of heavy bearings in FY2002. The sales volume of these bearings increased substantially from FY2003 to FY2004. In addition, there was higher demand for our heavy bearings as a result of greater demand for heavy trucks due to the continued economic and infrastructure developments in the PRC. In view of this, we allocated our production resources towards the production of heavy bearings. Accordingly, our production and sale of micro-size bearings and light bearings decreased in FY2004. Our range of heavy bearings increased from 27 in FY2003 to 36 in FY2004 respectively.

Existing customers contributed to RMB29.3 million of the RMB38.4 million increase in revenue in FY2004. In particular, sales to our major customers namely Shandong Shifeng, Liaoning SG, Shandong Huijin, Shaanxi Hande, Zhucheng Yihe and Yantai Timken, increased by RMB12.4 million in FY2004.

Gross profit

Our gross profit increased by RMB17.0 million or 65.3%, from RMB26.0 million in FY2003 to RMB43.0 million in FY2004. Our gross profit margin improved from 24.2% in FY2003 to 29.5% in FY2004 due to greater economies of scale and concerted efforts to improve our product mix by focusing on heavy bearings sales which carried higher gross profit margin.

Gross profit margin for heavy bearings improved from 29.1% in FY2003 to 37.9% in FY2004. This was mainly due to the higher demand which resulted in an approximately 21.0% increase in the average selling price for our heavy bearings. The gross profit margins for micro-size bearings and light bearings decreased from 28.9% and 25.0% in FY2003 to 26.8% and 24.4% in FY2004 respectively. This was due mainly to slower increase in the selling prices of these bearings vis-à-vis the rise in material costs.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Other operating income

Other operating income increased by RMB2.5 million or 66.9%, from RMB3.6 million in FY2003 to RMB6.1 million in FY2004. This was due mainly to processing fee of RMB2.8 million received from one of our major customers and an increase in sale of scrap materials of RMB0.6 million which was partially offset by a decrease in miscellaneous income of RMB0.4 million. Furthermore, the gain on disposal of fixed assets of RMB0.5 million in FY2003 did not recur in FY2004.

Operating expenses

Distribution costs decreased by RMB0.3 million or 18.5%, from RMB1.8 million in FY2003 to RMB1.5 million in FY2004. The lower distribution costs was due mainly to a decrease in freight and delivery charges of RMB0.2 million as we engaged in more cost-efficient LCL (Loose Cargo Load) arrangement for the delivery of goods to customers. With LCL arrangements, the logistic service provider consolidates our logistics and the other transportation requirements with other users, and hence lower the cost of freight and delivery charges for us.

Administrative expenses increased by RMB0.9 million or 19.7%, from RMB4.8 million in FY2003 to RMB5.7 million in FY2004 due mainly to increased payroll and staff-related expenses of RMB0.2 million and insurance expenses of RMB0.7 million.

Other operating expenses increased by RMB0.2 million or 12.8% from RMB1.7 million in FY2003 to RMB1.9 million in FY2004, largely in line with our increased business activities.

Finance costs

Finance costs decreased by RMB0.1 million or 44.8%, from RMB0.3 million in FY2003, to RMB0.2 million in FY2004, mainly attributable to lower interest on bank loans as we made full repayment of our bank loans in FY2004.

Profit before taxation

Profit before taxation increased by RMB18.8 million or 88.9%, from RMB21.1 million in FY2003 to RMB39.9 million in FY2004, due to the improvement in gross profit, increase in other operating income and the decrease in distribution costs and finance costs which were partially offset by the increase in administrative expenses and other operating expenses.

Taxation

Our income tax expense for FY2003 and FY2004 were RMB9.8 million and RMB13.2 million respectively. Effective tax rates for FY2003 and FY2004 were 46.2% and 33.0% respectively. The higher statutory tax rate in FY2003 was a result of under provision of taxation in prior years.

FY2005 vs FY2004

Revenue

Our revenue increased by RMB56.9 million or 38.9%, from RMB146.0 million in FY2004 to RMB202.9 million in FY2005. This increase was attributable to increased sales from all our product segments, with an increase of RMB1.0 million from sales of micro-size bearings, RMB30.7 million from sales of light bearings, RMB22.5 million from sales of heavy bearings and RMB2.7 million from other segment. Selling prices of all our bearings increased in FY2005, with our offering of new and improved range of bearings which better satisfy the demand of our customers for these products.

Our revenue generated from micro-size bearings increased in FY2005 despite a decrease in sales volume as a result of higher selling prices. Our revenue generated from light bearings and heavy bearings increased in FY2005, on the back of higher sales volume and an approximately 8.3% and 28.6% increase in the average selling prices of light and heavy bearings respectively in FY2005. In FY2005, demand for our light bearings increased with higher demand from manufacturers of light trucks and vehicles in the PRC. In FY2005, our offering of new and improved light bearings and heavy bearings increased from 85 and 36 in FY2004 to 137 and 52 in FY2005 respectively.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Existing customers contributed to RMB56.3 million of the RMB56.9 million increase in revenue in FY2005. In particular, sales to our major customers namely Shandong Shifeng, Liaoning SG, Shandong Huijin, Shaanxi Hande, Zhucheng Yihe and Yantai Timken, increased by RMB35.8 million in FY2005.

In FY2005, we commenced our export sales to Ukraine and the UAE, and generated revenue of RMB0.1 million.

Gross profit

Our gross profit increased by RMB25.7 million or 59.8%, from RMB43.1 million in FY2004 to RMB68.8 million in FY2005. Our gross profit margin increased from 29.5% in FY2004 to 33.9% in FY2005 as we recorded improvements in gross profit margins from all our product segments as a result of greater economies of scale, productivity and generally higher selling prices associated with our offering of new and improved range of bearings in FY2005.

Other operating income

Other operating income decreased by RMB2.8 million or 46.6%, from RMB6.1 million in FY2004 to RMB3.3 million in FY2005. This was due mainly to a decrease in the sale of scrap materials of RMB0.3 million in FY2004 which was partially offset by a government grant for R&D activities of RMB0.1 million. Furthermore, processing fee of RMB2.8 million which was received from one of our major customers in FY2004 did not recur in FY2005.

Operating expenses

Distribution costs increased by RMB0.2 million or 13.5%, from RMB1.5 million in FY2004 to RMB1.7 million in FY2005. This was due mainly to an increase of RMB0.4 million in travelling expenses and RMB0.2 million in advertising and promotion expenses due to our increased business activities. These increases were partly offset by a decrease in freight and delivery charges of RMB0.4 million as we increased the use of the more cost-efficient LCL (Loose Cargo Load) arrangements for the delivery of goods to customers, which further decreased such charges in FY2005.

Administrative expenses increased by RMB1.1 million or 18.0%, from RMB5.7 million in FY2004 to RMB6.8 million in FY2005. This increase was mainly attributed to an increase of RMB0.7 million in professional fees and RMB0.4 million in staff payroll and related expenses, travelling and entertainment expenses.

Other operating expenses increased by RMB0.4 million or 18.7%, from RMB1.8 million in FY2004 to RMB2.2 million in FY2005, largely in line with the increase in business activities.

Finance costs

Finance costs in FY2005 were insignificant, compared to RMB0.2 million in FY2004 as we made full repayment of our bank loans in 2004.

Profit before taxation

Profit before taxation increased by RMB21.5 million or 53.8%, from RMB39.9 million in FY2004 to RMB61.4 million in FY2005. The increase was due to an increase in gross profit and decrease in finance costs, partially offset by an increase in our operating expenses and decrease in other operating income.

Taxation

Our income tax expense for FY2004 and FY2005 were RMB13.2 million and RMB20.4 million respectively. Effective tax rate for FY2004 and FY2005 were 33.0% for both years.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

1Q2006 vs 1Q2005

Revenue

Our revenue increased by RMB20.1 million or 31.1%, from RMB64.7 million in 1Q2005 to RMB84.8 million in 1Q2006. The increase was attributable to an increase in sales of heavy bearings of RMB24.1 million which was partly offset by decrease in sales of micro-size bearings of RMB2.7 million and light bearings of RMB1.5 million in 1Q2006.

The increase in sales of heavy bearings resulted from higher sales volume and selling prices as there was increased demand from heavy truck and vehicle manufacturers and bearings distributors. The decrease in sales of micro-size and light bearings was mainly due to our management's decision to continue allocation of our production resources in 1Q2006 to meet the increased demand for our heavy bearings which generally commanded higher gross profit margin.

Existing customers contributed to RMB13.4 million of the RMB20.1 million increase in revenue in 1Q2006. In particular, sales to our major customers namely Shandong Shifeng, Liaoning SG, Shandong Huijin, Shaanxi Hande, Zhucheng Yihe and Yantai Timken, increased by RMB11.8 million in 1Q2006 compared to 1Q2005.

Gross profit

Our gross profit increased by RMB21.3 million or 113.5%, from RMB18.7 million in 1Q2005 to RMB40.0 million in 1Q2006. Our gross profit margin increased from 29.0% in 1Q2005 to 47.2% in 1Q2006 due mainly to improvement in gross profit margins of both light bearings and heavy bearings, partially offset by lower gross profit margin of micro-size bearings.

Gross profit margin of light bearings improved from 22.6% in 1Q2005 to 47.6% in 1Q2006, while that of heavy bearings improved from 34.0% in 1Q2005 to 48.2% in 1Q2006. These improvements were largely attributable to an approximately 98.3% and 10.6% increase in average selling prices of light and heavy bearings respectively with our offering of new and improved range of such bearings, greater economies of scale associated with higher production volume and productivity. Gross profit margin for micro-size bearings decreased from 43.5% in 1Q2005 to 34.4% in 1Q2006 mainly as a result of lower selling prices.

Other operating income

Other operating income remained relatively unchanged at RMB0.8 million in 1Q2005 and 1Q2006.

Operating expenses

Distribution costs increased by RMB0.4 million or 109.2%, from RMB0.3 million in 1Q2005 to RMB0.7 million in 1Q2006, mainly due to increase of RMB0.1 million in travelling expenses, RMB0.1 million in salaries and allowance for sales and marketing staff and RMB0.1 million in freight and delivery charges.

Administrative expenses increased by RMB3.0 million or 223.2%, from RMB1.3 million in 1Q2005 to RMB4.3 million in 1Q2006. This increase was mainly attributable to directors' fees and bonuses of RMB2.1 million in 1Q2006 and other expenses in the period.

Other operating expenses increased by RMB0.4 million or 55.9%, from RMB0.8 million in 1Q2005 to RMB1.2 million in 1Q2006, in line with the increase in sales.

Profit before taxation

Profit before taxation increased by RMB17.5 million or 102.0%, from RMB17.1 million in 1Q2005 to RMB34.6 million in 1Q2006. The increase was due to the increase in gross profit, partly offset by the increase in operating expenses.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Taxation

Our income tax expense for 1Q2005 and 1Q2006 were RMB5.6 million and RMB11.6 million respectively. Effective tax rates were 33.0% and 33.4% in 1Q2005 and 1Q2006 respectively.

Reconciliation of Combined and Pro Forma Results of Operations for FY2005 and 1Q2006

Pursuant to the Restructuring Exercise, we acquired the Relevant Assets, Liabilities and Business, excluding the land and buildings (where our current operations are based), certain inventories (comprising raw materials, consumables and work-in-progress) as well as the dividend payable by Yimeng Bearing to its shareholders. We currently lease the same land and buildings from Yimeng Bearing. Adjustments were made to the combined results of operations for FY2005 and 1Q2006, to take into account effects of the aforesaid and reflect our results of operations had the Restructuring Exercise been effected at the beginning of the period under review. As such, the pro forma net profit attributable to Shareholders for FY2005 and 1Q2006 differ by approximately RMB256,000 and RMB62,000 respectively, from that of the combined results of operations. Please refer to pages VII-11 to VII-13 of Appendix VII of this Prospectus for further details of these adjustments.

REVIEW OF FINANCIAL POSITION

Non-current assets

Our non-current assets comprise property, plant and equipment, and intangible assets. Non-current assets amounted to RMB59.9 million, RMB55.0 million, RMB51.6 million and RMB47.5 million as at 31 December 2003, 31 December 2004, 31 December 2005 and 31 March 2006 respectively. These non-current assets represented 34.1%, 32.0%, 32.4% and 27.0% of our total assets respectively.

Property, plant and equipment comprise buildings on leasehold land, land use rights, factory facilities, motor vehicles, plant and machinery and electrical fittings.

As at 31 December 2003, property, plant and equipment amounted to RMB55.8 million, comprising RMB2.3 million, RMB3.0 million, RMB7.5 million, RMB1.9 million, RMB40.8 million and RMB0.3 million of buildings on leasehold land, land use rights, factory facilities, motor vehicles, plant and machinery and electrical fittings respectively.

As at 31 December 2004, property, plant and equipment amounted to RMB51.4 million, comprising RMB2.3 million, RMB2.8 million, RMB7.1 million, RMB1.7 million, RMB37.2 million and RMB0.3 million of buildings on leasehold land, land use rights, factory facilities, motor vehicles, plant and machinery and electrical fittings respectively. In FY2004, property, plant and equipment decreased by RMB4.4 million due to disposals of plant and machinery with NBV of RMB0.5 million and motor vehicles with NBV of RMB0.3 million in FY2004, depreciation charge of RMB6.3 million, partially offset by additions of plant and machinery of RMB2.1 million and motor vehicles of RMB0.6 million.

As at 31 December 2005, property, plant and equipment amounted to RMB48.7 million, comprising RMB2.2 million, RMB2.5 million, RMB7.1 million, RMB1.3 million, RMB35.4 million and RMB0.2 million of buildings on leasehold land, land use rights, factory facilities, motor vehicles, plant and machinery and electrical fittings respectively. Property, plant and equipment decreased by RMB2.7 million in FY2005 as a result of disposals of plant and machinery with NBV of RMB0.4 million, motor vehicles with NBV of RMB0.1 million, and land use rights with NBV of RMB0.1 million, depreciation charge of RMB6.1 million, partially offset by additions of plant and machinery of RMB3.6 million, factory facilities of RMB0.3 million and motor vehicles of RMB0.1 million.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

As at 31 March 2006, property, plant and equipment amounted to RMB44.7 million, comprising RMB2.2million, RMB2.5 million, RMB7.0 million, RMB1.2 million, RMB31.7 million and RMB0.1 million of buildings on leasehold land, land use rights, factory facilities, motor vehicles, plant and machinery and electrical fittings respectively. Property, plant and equipment decreased by RMB4.0 million in 1Q2006 due mainly to disposals of plant and machinery with NBV of RMB2.5 million and depreciation charge of RMB1.4 million.

Intangible assets relate to purchase of rights to use designs of precision roller-bearings. Intangible assets are amortised according to their economic useful life of 10 years, which is RMB0.6 million per annum from the date of acquisition.

Current assets

Current assets comprise inventories, trade and other receivables, and cash and cash equivalents. Current assets amounted to RMB115.7 million, RMB117.0 million, RMB107.7 million and RMB128.2 million as at 31 December 2003, 31 December 2004, 31 December 2005 and 31 March 2006 respectively. These current assets represented 65.9%, 68.0%, 67.6% and 73.0% of our total assets respectively.

Our inventories amounted to RMB42.2 million, RMB38.8 million, RMB16.4 million and RMB19.2 million as at 31 December 2003, 31 December 2004, 31 December 2005 and 31 March 2006 respectively, and accounted for 36.5%, 33.2%, 15.2% and 15.0% of current assets as at the respective dates. Inventories comprise raw materials, consumables, finished goods and work-in-progress. The decrease in inventories over the period under review was due to our effort in implementing tighter inventory control. Inventory turnover days improved from 179 days in FY2003 to 144 days, 75 days and 36 days in FY2004, FY2005 and 1Q2006 respectively. As at 31 December 2003, our inventories comprised RMB11.2 million, RMB3.3 million, RMB22.3 million and RMB5.4 million of raw materials, consumables, finished goods and work-in-progress respectively. As at 31 December 2004, our inventories comprised RMB9.9 million, RMB3.8 million, RMB21.3 million and RMB3.8 million of raw materials, consumables, finished goods and work-in-progress respectively. As at 31 December 2005, our inventories comprised RMB1.5 million, RMB3.0 million, RMB8.7 million and RMB3.2 million of raw materials, consumables, finished goods and work-in-progress respectively. As at 31 March 2006, our inventories comprised RMB3.7 million, RMB3.1 million, RMB7.9 million and RMB4.5 million of raw materials, consumables, finished goods and work-in-progress respectively.

Trade and other receivables stood at RMB44.6 million, RMB39.3 million, RMB25.6 million and RMB30.2 million as at 31 December 2003, 31 December 2004, 31 December 2005 and 31 March 2006 respectively, and accounted for 38.5%, 33.6%, 23.8% and 23.6% of current assets as at the respective dates. Trade and other receivables include trade receivables, note receivables and other receivables such as advance payments to our suppliers, sales personnel for business purposes and third parties, deposits and prepayments, and sundry receivables. Advances made to third parties were unsecured, interest-free and receivable on demand. As at 31 December 2003, trade and other receivables comprised trade receivables of RMB35.4 million, note receivables of RMB1.1 million and other receivables of RMB8.1 million, including advances to suppliers of RMB1.4 million, advances to third parties of RMB3.8 million and sundry receivables of RMB1.2 million. As at 31 December 2004, trade and other receivables comprised trade receivables of RMB32.0 million, note receivables of RMB0.4 million and other receivables of RMB6.9 million, including advances to suppliers of RMB4.3 million and advances to third parties of RMB1.0 million. As at 31 December 2005, trade and other receivables comprised trade receivables of RMB19.2 million and other receivables of RMB6.4 million, including advances to suppliers of RMB4.5 million and prepayments in relation to the Invitation of RMB1.3 million. As at 31 March 2006, trade and other receivables comprised trade receivables of RMB23.1 million and other receivables of RMB7.2 million, including advances to suppliers of RMB4.4 million and prepayments in relation to the Invitation of RMB2.0 million.

Cash and cash equivalents stood at RMB28.9 million, RMB38.9 million, RMB65.7 million and RMB78.8 million as at 31 December 2003, 31 December 2004, 31 December 2005 and 31 March 2006 respectively, and accounted for 25.0%, 33.2%, 61.1% and 61.4% of our current assets as at the respective dates. Cash and cash equivalents comprise cash on hand and bank balances.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Current liabilities

Our current liabilities comprise trade and other payables, dividend payable, provision for taxation and bank borrowings. Current liabilities amounted to RMB82.8 million, RMB83.9 million, RMB53.4 million and RMB46.6 million as at 31 December 2003, 31 December 2004, 31 December 2005 and 31 March 2006 respectively.

Trade and other payables amounted to RMB66.9 million, RMB40.9 million, RMB40.5 million and RMB32.9 million as at 31 December 2003, 31 December 2004, 31 December 2005 and 31 March 2006 respectively, and accounted for 80.7%, 48.8%, 76.0% and 70.6% of current liabilities as at the respective dates. Trade and other payables comprise trade payables (including bill payables, accruals for salaries and related costs) and other payables (including advances to customers and third parties, staff salaries withheld, staff benefit payables and sundry payables). As at 31 December 2003, trade and other payables comprised trade payables of RMB58.4 million and other payables of RMB8.5 million. As at 31 December 2004, trade and other payables comprised trade payables of RMB31.8 million and other payables of RMB9.1 million. The decrease in trade payables in FY2004 was attributable to prompt payment to our suppliers due mainly to improved cashflow from our profitable operations. As at 31 December 2005, trade and other payables comprised trade payables of RMB32.2 million and other payables of RMB8.3 million. As at 31 March 2006, trade and other payables comprised trade payables of RMB25.0 million and other payables of RMB7.9 million.

Dividend payable stood at RMB5.5 million and RMB37.0 million as at 31 December 2003 and 31 December 2004 respectively. These amounts related to dividend payable by Yimeng Bearing, and were subsequently paid in 2005.

Provision for taxation stood at RMB5.2 million, RMB6.0 million, RMB12.8 million and RMB13.7 million as at 31 December 2003, 31 December 2004, 31 December 2005 and 31 March 2006 respectively. These related to tax provisions made by Yimeng Bearing, and these taxes were settled in April 2006.

Bank borrowings stood at RMB5.2 million as at 31 December 2003, and were subsequently repaid in 2004.

Shareholders' equity

Shareholders' equity amounted to RMB92.8 million, RMB88.1 million, RMB106.0 million and RMB129.1 million as at 31 December 2003, 31 December 2004, 31 December 2005 and 31 March 2006 respectively.

Shareholders' equity decreased by RMB4.7 million, from RMB92.8 million as at 31 December 2003 to RMB88.1 million as at 31 December 2004, due to dividend payable of RMB31.5 million out from reserves and retention of net profits in FY2004 of RMB26.8 million.

Shareholders' equity increased by RMB17.9 million, from RMB88.1 million as at 31 December 2004 to RMB106.0 million as at 31 December 2005. The increase was mainly due to the retention of net profits in FY2005 of RMB41.1 million, issuance of convertible loans of RMB5.3 million and offset by capital reduction of RMB28.5 million.

Shareholders' equity increased by RMB23.1 million, from RMB106.0 million as at 31 December 2005 to RMB129.1 million as at 31 March 2006, due to the retention of net profits in 1Q2006 of RMB23.0 million.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Reconciliation of Combined and Pro Forma Financial Positions as at 31 December 2005 and 31 March 2006

Pursuant to the Restructuring Exercise, we acquired the Relevant Assets, Liabilities and Business, excluding land and buildings (where our current operations are based), certain inventories (comprising raw materials, consumables and work-in-progress) and certain liabilities. We currently lease the same land and buildings from Yimeng Bearing. The following adjustments were made to the combined financial positions as at 31 December 2005 and 31 March 2006, to take into account effects of the aforesaid:-

- (i) Property, plant and equipment – adjustment of RMB11.8 million and RMB11.7 million as at 31 December 2005 and 31 March 2006 respectively, being NBV of the land and buildings not acquired by us pursuant to the Restructuring Exercise;
- (ii) Inventories – adjustment of RMB11.3 million as at 31 March 2006, being certain inventories (comprising raw materials, consumables and work-in-progress) not acquired by us pursuant to the Restructuring Exercise;
- (iii) Trade and other receivables – adjustment of RMB0.1 million as at 31 December 2005, being tax recoverable arising from the tax effects on higher lease expenses for the land and buildings not acquired by us pursuant to the Restructuring Exercise, compared with depreciation charges on such assets stated in the combined financial statements;
- (iv) Cash and cash equivalents – net adjustment of RMB64.2 million as at 31 December 2005, in relation to (a) RMB12.8 million, being taxation deemed paid by Yimeng Bearing; (b) RMB50.3 million, being dividend declared and deemed paid by Yimeng Bearing; (c) RMB3.7 million of certain liabilities which were not assumed by us pursuant to the Restructuring Exercise; and (d) RMB2.6 million, being net cash from convertible loans after the acquisition of the Relevant Assets, Liabilities and Business. Net adjustment of RMB61.6 million as at 31 March 2006, in relation to (a) RMB13.7 million, being taxation deemed paid by Yimeng Bearing; (b) RMB50.3 million of net dividend payment to the shareholders of Yimeng Bearing pursuant to the Restructuring Exercise; (c) RMB0.2 million relating to gain on disposal of land use rights of the land and buildings by Yimeng Bearing; and (d) RMB2.6 million, being net cash from convertible loans after the acquisition of the Relevant Assets, Liabilities and Business;
- (v) Shareholders' equity – net adjustments of RMB90.2 million and RMB100.7 million as at 31 December 2005 and 31 March 2006 respectively as a result of the adjustments to the assets and liabilities described herein;
- (vi) Loans from related parties – adjustment of RMB25.1 million as at 31 December 2005 and 31 March 2006 respectively, being loans from shareholders of Yimeng Bearing in relation to the dividend payable to them;
- (vii) Trade and other payables – net adjustment of RMB2.7 million as at 31 December 2005, in relation to (a) RMB1.0 million accrued rental for lease of the land and buildings from Yimeng Bearing; and (b) RMB3.7 million of certain liabilities not assumed by us pursuant to the Restructuring Exercise;
- (viii) Provision for taxation – adjustment of RMB12.8 million and RMB13.7 million as at 31 December 2005 and 31 March 2006 respectively, being taxation deemed paid by Yimeng Bearing; and
- (ix) Non-convertible Loan – adjustment of RMB4.8 million as at 31 December 2005 and 31 March 2006 respectively, being Non-convertible Loan of RMB4.8 million pursuant to the Loan Agreement.

Please refer to pages VII-7 to VII-10 of Appendix VII of this Prospectus for further details on the above adjustments.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

LIQUIDITY AND CAPITAL RESOURCES

We funded our growth and operations through a combination of shareholders' equity, retained earnings, bank borrowings and loans from related parties. As at the Latest Practicable Date, we have cash and cash equivalents of approximately RMB53.4 million comprising cash and bank balances. As at the Latest Practicable Date, we have no outstanding bank borrowings. Please refer to the section "Capitalisation and Indebtedness" of this Prospectus for more details.

Our cash has mainly been used to purchase property, plant and equipment, in particular, mainly plant and machinery for our production facilities, and to meet working capital requirements. Our material sources of unused liquidity as at the Latest Practicable Date are our cash and bank balances.

Our Directors are of the opinion that, after taking into account cash flows generated from operating activities and our existing cash and bank balances, we have adequate working capital to meet our present requirements.

We set out below a summary of our cash flow for the period under review:-

	← Combined Audited →			Combined Unaudited	← Pro Forma →	
(RMB'000)	FY2003	FY2004	FY2005	1Q2006	FY2005	1Q2006
Cash flows from operating activities						
Operating profit before working capital changes	27,966	47,313	68,035	36,365	67,091	36,129
Adjustments for working capital changes	(1,818)	(17,245)	35,720	(12,778)	32,900	(9,036)
Operating profit after adjustments for working capital changes	26,148	30,068	103,755	23,587	99,991	27,093
Income tax paid	(6,228)	(12,434)	(13,510)	(10,633)	(26,324)	(11,550)
Net cash from operating activities	19,920	17,634	90,245	12,954	73,667	15,543
Net cash (used in)/from investing activities	(1,705)	(2,239)	(3,168)	93	(3,091)	93
Net cash used in financing activities	(1,487)	(5,406)	(60,280)	—	(107,957)	—
Net increase/(decrease) in cash and cash equivalents	16,728	9,989	26,797	13,047	(37,381)	15,636
Cash and bank balances at the beginning of the year/period	12,194	28,922	38,911	65,708	38,911	1,529
Cash and bank balances at the end of the year/period	28,922	38,911	65,708	78,755	1,530	17,165

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Net cash from operating activities

In FY2003, operating profit before working capital changes amounted to RMB27.9 million, and after adjustments for working capital changes of RMB1.8 million and income tax paid of RMB6.2 million, we generated net cash of RMB19.9 million from our operating activities. Working capital changes comprised increases in inventories and operating receivables of RMB4.0 million and RMB18.3 million respectively, offset by an increase in operating payables of RMB20.5 million, largely due to the overall increase in revenue in FY2003.

In FY2004, operating profit before working capital changes amounted to RMB47.3 million, and after adjustments for working capital changes of RMB17.2 million and income tax paid of RMB12.4 million, we generated net cash of RMB17.6 million from our operating activities. Working capital changes comprised decreases in inventories of RMB3.4 million, operating receivables of RMB5.3 million and operating payables of RMB25.9 million.

In FY2005, operating profit before working capital changes amounted to RMB68.0 million, and after adjustments for working capital changes of RMB35.7 million and income tax paid of RMB13.5 million, we generated net cash of RMB90.2 million from our operating activities. Working capital changes comprised decreases in inventories and operating receivables of RMB22.4 million and RMB13.7 million respectively, offset by a decrease in operating payables of RMB0.4 million.

In 1Q2006, operating profit before working capital changes amounted to RMB36.3 million, and after adjustments for working capital changes of RMB12.8 million and income tax paid of RMB10.6 million, we generated net cash of RMB13.0 million from our operating activities. Working capital changes comprised increases in inventories and operating receivables of RMB2.8 million and RMB4.7 million respectively, and a decrease in operating payables of RMB5.3 million.

Net cash (used in)/from investing activities

Net cash used in investing activities in FY2003 amounted to RMB1.7 million, which resulted mainly from our purchase of property, plant and equipment of RMB5.9 million for the expansion and upgrading of our production facilities, partly offset by proceeds from the disposal of property, plant and equipment of approximately RMB4.0 million.

In FY2004, we used net cash of RMB2.2 million for our investing activities, in our purchase of property, plant and equipment of RMB2.7 million, partly offset by proceeds from the disposal of property, plant and equipment of RMB0.3 million and interest received of RMB0.2 million.

In FY2005, net cash used in investing activities amounted to RMB3.2 million, mainly for our purchase of property, plant and equipment of RMB4.0 million, partly offset by proceeds from the disposal of property, plant and equipment of RMB0.6 million and interest received of RMB0.2 million.

In 1Q2006, we generated net cash of RMB0.1 million from investing activities due mainly to interest income received in the period.

Net cash used in financing activities

In FY2003, we used RMB1.5 million for the repayment of bank borrowings of RMB1.2 million and payment of interest of RMB0.3 million.

In FY2004, we used RMB5.4 million for the repayment of bank borrowings of RMB5.2 million and payment of interest of RMB0.2 million.

In FY2005, we used RMB60.3 million mainly for payment of dividend of RMB37.0 million and cancellation of shares of RMB28.5 million, partly offset by cash received from convertible loans issued in FY2005.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

CAPITAL EXPENDITURE, DIVESTMENTS AND COMMITMENTS

Capital Expenditure and Divestments

Our capital expenditure and divestments for the last 3 financial years ended 31 December 2005 and for the period from 1 January 2006 to the Latest Practicable Date were as follows:-

(RMB'000)	FY2003	FY2004	FY2005	1 January 2006 to the Latest Practicable Date
Capital Expenditure				
Plant and machinery	4,582	2,147	3,610	464
Motor vehicles	557	572	112	194
Factory facilities ⁽¹⁾	740	—	258	—
Electrical fittings	—	37	—	—
	5,879	2,756	3,980	658
Capital Divestment				
Plant and machinery	2,823	562	388	2,573
Motor vehicles	16	281	91	297
Buildings on leasehold land ⁽¹⁾	383	—	—	—
Factory facilities ⁽¹⁾	232	—	—	—
Land use rights ⁽¹⁾	—	—	162	—
	3,454	843	641	2,870
Net Expenditure/(Divestment)	2,425	1,913	3,339	(2,212)

Note:-

(1) These relate to land and buildings of Yimeng Bearing not acquired pursuant to the Restructuring Exercise.

The above capital expenditure was financed by funds generated from our operations.

In FY2003, we replaced some of our plant and machinery. In particular, we replaced a heat treatment line, 4 units of CNC machining centre and 1 unit of stamping machine. In addition, we purchased two passenger vehicles and three trucks to meet our transportation needs. In FY2004, we added approximately 10 grinding machines and CNC precision grinding machines to meet the increasing demand for our products. In addition, we also purchased a unit of 400-tonne stamping machine. In FY2005, a heat treatment line was also installed.

Capital Commitments

Linyi Kaiyuan Bearing entered into a Land Use Fee Contract dated 9 May 2006 with Yinan County Land Resource Bureau. Under the Land Use Fee Contract, Linyi Kaiyuan Bearing has to pay a land use fee of RMB2,475,600, of which the first instalment of RMB600,000 has already been paid. The second and last instalment of RMB1,875,600 shall be paid before 31 December 2006. Linyi Kaiyuan Bearing has also entered into a State-owned Land Use Right Grant Contract with the Yinan County Land Resource Bureau, Shandong Province, PRC dated 13 July 2006, under which Linyi Kaiyuan Bearing has to pay a land premium amount of RMB2,887,500 in four instalments, with the last instalment of RMB1,287,500 to be paid by or before 1 May 2007.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Lease Commitments

As at the Latest Practicable Date, we have the following operating lease commitment:-

	RMB'000
Within one year	944
Within two to five years	3,776
Within six to ten years	4,248
	8,968

The operating lease relates to the rental of land and buildings from Yimeng Bearing. Please refer to the sections "Business – Properties" and "Interested Person Transactions and Conflicts of Interests – Ongoing and Continuing Interested Person Transactions" of this Prospectus for more details.

FOREIGN EXCHANGE EXPOSURE

Our reporting currency is in RMB. Our sales, being predominantly derived from the PRC, are mainly denominated in RMB. In FY2005, we commenced export sales to Ukraine and the UAE. Such sales were denominated in USD and were insignificant in FY2005. Sales denominated in USD are translated into RMB using exchange rates approximating those ruling at transaction dates.

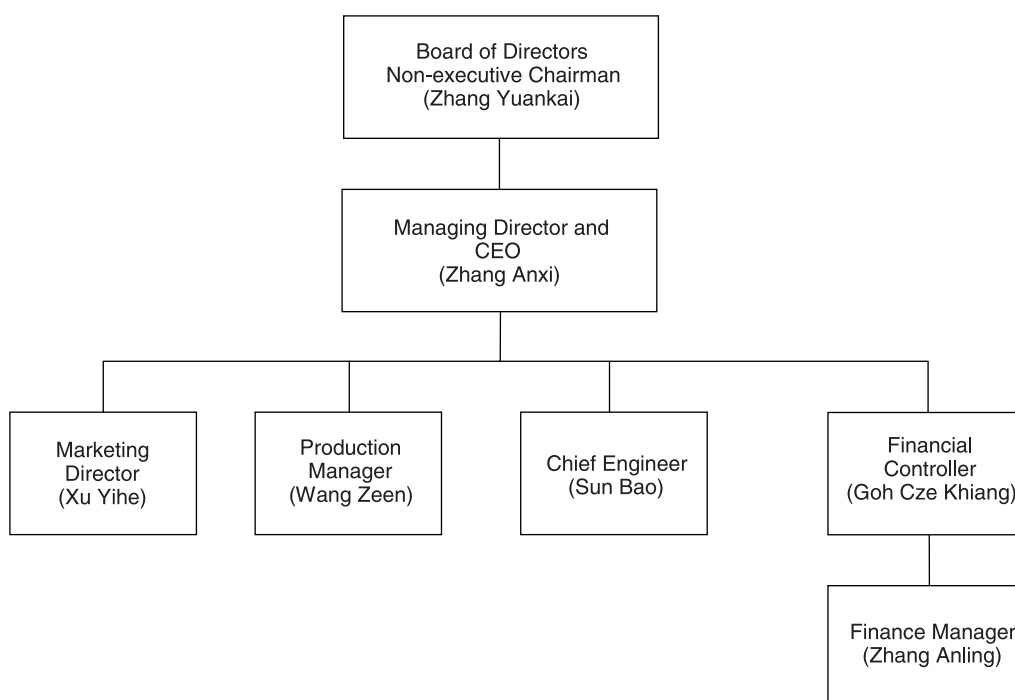
Other than the operations of our Company, all our purchases and operating expenses are denominated in RMB. We did not have any foreign exchange gain or loss for the past three financial years ended 31 December 2005 and 1Q2006.

Currently, we do not have any hedging policy with respect to foreign currency exposure. We will continue to monitor our foreign currency exposure, if any, and will hedge any material transactions denominated in foreign currencies to manage our foreign currency exposure should the need arise in the future.

DIRECTORS, MANAGEMENT AND STAFF

MANAGEMENT REPORTING STRUCTURE

The following chart shows our management reporting structure as at the Latest Practicable Date.



DIRECTORS AND EXECUTIVE OFFICERS

Directors

The board of Directors is responsible for the overall management of our Group. Our Directors' particulars are listed below:-

Name	Age	Address	Principal Occupation
Zhang Yuankai	71	86 Huashan Road, Yinan County, Shandong Province PRC 276300 (山东省沂南县城花山路86号)	Non-executive Chairman
Zhang Anxi	51	Yuquan Road, Yinan County, Shandong Province, PRC 276300 (山东省沂南县城玉泉路)	Managing Director and CEO
Xu Yihe	49	Xishan District, Yinan County, Shandong Province, PRC 276300 (山东省沂南县城西山小区)	Executive Director (Marketing)
Du Ruicheng	49	Unit No. 3-606, Zhangdianda Plaza 238 West Road Zibo City Shandong 276000 (中国山东省淄博市张店达商场西路238号内3-606号)	Non-executive Director
Chin Yew Choong David	46	28 Jalan Sejarah Singapore 299073	Independent Director
Yap Kian Peng	39	214A Yio Chu Kang Road #02-19 Singapore 545657	Independent Director

DIRECTORS, MANAGEMENT AND STAFF

Information on the areas of responsibility, the business, working and educational experience of the Directors is set out below:-

Mr Zhang Yuankai is our Non-executive Chairman and founder. Zhang Yuankai is responsible for strategic planning and development of new products and markets. He has been spearheading the expansion and growth of our Company. He is currently a member of the standing committee of the Shandong Province People's Congress (山东省人民代表大会常务委员会) since March 2003. He began his career in the metallurgical industry as a supervisor in Yinan Zhang Zhuan Steel Co-operative (沂南县张庄铁业社). From 1980 to 1988, he worked at Yinan Bearing Factory (沂南县轴承厂) as a factory manager. Zhang Yuankai acquired extensive experience and knowledge in the manufacturing of bearings and the management of the bearings business from his work at this company. In 1988, he acquired a steel manufacturing company and converted its facilities to the bearing manufacturing facilities of our Group. In December 1997, he became the chairman of our Group. Zhang Yuankai was the deputy director of the Technical Committee of the CBIA from April 1993 to April 1996. In October 1993, Zhang Yuankai was awarded the "1992 Shandong Province Machinery Industries Excellent Entrepreneur" award by the Shandong Machinery Industries Department of the Shandong provincial government.

Mr Zhang Anxi is our Managing Director and CEO. He joined our Group as deputy general manager and deputy chairman in 2000. Zhang Anxi is responsible for the overall management of our Group. Since 2000, we succeeded in achieving new business development in the bearing industry under the leadership of Zhang Anxi. In November 2004, Zhang Anxi was awarded the "Outstanding Entrepreneur of the Linyi City, Shandong Province" (临沂市优秀企业家) by Economic and Trade Committee of Linyi City (临沂市经济贸易委员会). In December 2002, Zhang Anxi was awarded the "2002 Shandong Province Machinery Industries Excellent Entrepreneur" award by the Shandong Machinery Industries Department of the Shandong provincial government. From 1994 to 2000, he was the managing director and authorised representative of Yinan Hongfeng Machinery Company Limited (沂南宏丰机械有限公司), a manufacturing company, where he was responsible for the operation and strategic direction of the company. In 1998, Zhang Anxi obtained his Bachelors Degree in Business Administration from the Shandong Economics College (山东经济学院). Zhang Anxi is the son of our Non-executive Chairman, Zhang Yuankai.

Mr Xu Yihe is our Executive Director (Marketing) and is responsible for the overall marketing, customer service and business development of our Group. He joined Yimeng Bearing in 1997. From 1988 to 1997, Xu Yihe was a deputy factory manager in Shandong Yimeng Bearing Factory. (山东沂蒙轴承厂). During 1980 to 1988, he worked as production supervisor in Linyi Bearing Factory (临沂轴承厂). From 1976 to 1980, Xu Yihe was a deputy workshop manager in Yinan Zhang Zhuang Maintenance Workshop (沂南县张庄修配厂). Xu Yihe is the son-in-law of our Non-executive Chairman, Zhang Yuankai. Xu Yihe graduated from Shandong Economics College (山东经济学院) in 1994 after completing an undergraduate course in business administration.

Mr Du Ruicheng is our Non-executive Director and is a member of each of our Audit, Remuneration and Nominating Committees. He joined our Group in August 2006. Du Ruicheng has been the Deputy Principal of Shandong Technology University (formerly known as Shandong Mechanical College) since October 2003. Du Ruicheng has worked in this university since June 1989. From June 1989 to May 1991, he was a lecturer. From May 1991 to November 1996, he was Head of Research and Development at the university. From November 1996 to January 1999, he was Head of Lecturers. From January 1999 to January 2001, he was the Assistant to the Principal. Then from January 2001 to October 2003, he was the Head of Lecturers. In January 1981, Du Ruicheng graduated from Shandong Agricultural Mechanical Chemical College with a Bachelors Degree. In June 1989, Du Ruicheng graduated from Beijing Agricultural Engineering University with a Master Degree in Agricultural Automation.

Mr Chin Yew Choong David is our Independent Director and is a member of each of our Audit, Remuneration and Nominating Committees. He joined our Group in August 2006. Chin Yew Choong David is a director of Drew & Napier LLC. He is also the Chief Representative of Drew & Napier LLC, Shanghai office. He became a partner of this firm in 1992 and has been a director since 2001. He graduated with an Honours Degree in Law from the National University of Singapore and was called to the Bar in 1985.

DIRECTORS, MANAGEMENT AND STAFF

Mr Yap Kian Peng is our Independent Director and is a member of each of our Audit, Remuneration and Nominating Committees. He joined our Group in August 2006. Since 2005, he is the executive director of Capital Equity Holdings Pte Ltd, a private equity investment company with interests in petrochemical, food and beverage, logistics and manufacturing. In addition, since 2004, Yap Kian Peng is also the executive director of CKG Chemicals Pte Ltd and its subsidiary, CKG Chemicals (Hong Kong) Limited, in charge of their financing and accounting functions. Mr Yap was employed by Malayan Banking Berhad from 2001 to 2004, initially as a senior business development manager and subsequently promoted to be the team head of the Trade Finance Business Development Group. From 1998 to 2000, he was a director of You Yi Glass Contractor Pte Ltd, a company engaged in the business of trading glass sheets. In 1992, Mr Yap worked as a bank officer in OCBC and in 1996, he was promoted to assistant manager, a post which he held until 1998. Mr Yap graduated from RMIT University, Australia, with a Bachelor Degree in Business (Business Administration) in 1996.

Executive Officers

Our Executive Officers' particulars are listed below:-

Name	Age	Address	Principal Occupation
Goh Cze Khiang	39	No. 2 Jalan Abiad Empat, Taman Pelangi, 80400 Johor Bahru, Johor, Malaysia	Financial Controller
Zhang Anling	31	People's Bank of China Hostel District, District, Xianghe Road, Yinan County, Shandong Province, PRC 276300 (沂南县人民银行宿舍区(祥和路))	Finance Manager
Sun Bao	63	31-15 Chang De Road, Yantai City, Shandong Province, PRC 276300 (山东省烟台市长德街31-15号)	Chief Engineer
Wang Zeen	36	4th Village of Zhang Zhuang, Yinan County, Shandong Province, PRC 276300 (沂南县张庄镇张庄四村)	Production Manager

Information on the areas of responsibility and the business, working and educational experience of our Executive Officers is set out below:-

Mr Goh Cze Khiang is our Financial Controller and is responsible for the financial management of our Group. Goh Cze Khiang has accumulated approximately 18 years of working experience in the financial and accounting field, and has been with our Group since May 2006. Prior to that, he was a non-executive director and consultant with Asia Professional Advisory Sdn. Bhd. and EDS Management Sdn. Bhd. from January 2005 to April 2006, where he was responsible for financial management, financial reporting and compliance matters of their clients. From February 1996 to December 2004, Goh Cze Khiang was the southern region manager of Jardine OneSolution (M) Sdn. Bhd., a Jardine Matherson Group of companies, where he was responsible for the entire operations. From June 1994 to January 1996, Goh Cze Khiang was working with ECS Computer (JB) Sdn. Bhd. as a finance and administrative manager. From 1988 to 1994, he held various finance and administrative positions in commercial, manufacturing and accounting practices. He is currently a fellow member of the Association of Chartered Certified Accountant, a Chartered Accountant of Malaysia Institute of Accountants and a Certified Financial Planner of Financial Planning Association of Malaysia.

Ms Zhang Anling is our Finance Manager and is responsible for the financial reporting and compliance of tax and commercial laws of our subsidiary in the PRC. From 2003 to 2006, Zhang Anling was a director of Yimeng Bearing and was in-charge of the accounting, finance, taxation and inventory management of Yimeng Bearing. From 1995 to 2003, Zhang Anling was involved in audit work with the Yinan County

DIRECTORS, MANAGEMENT AND STAFF

Audit Board (沂南县审计局) first as a deputy audit supervisor and then later as an audit supervisor. She obtained her Bachelor Degree in Accountancy from Fudan University (复旦大学) in 1998. Zhang Anling was also registered as a middle level auditor in 1999 by PRC Audit Board (中华人民共和国审计署) and as a middle level accountant in 2002 by PRC Ministry of Finance (中华人民共和国财政部). Zhang Anling is the daughter of Zhang Yuankai (our Non-executive Chairman), sister of Zhang Anxi (our Managing Director and CEO) and sister-in-law of Xu Yihe (our Executive Director).

Mr Sun Bao is our Chief Engineer and is responsible for all aspects of R&D of new products for our Group as well as the quality assurance and technical aspects relating to the manufacture of our products. Sun Bao has accumulated more than 30 years of working experience in a production environment dealing with bearings. He had worked as quality assurance manager, in technical development and in an R&D department in the bearing industry. He has been an employee of our Group since February 2000. Sun Bao obtained a Diploma in Engineering from the State Economic Committee Management School (国家经委管理学校) in 1990.

Mr Wang Zeen is our Production Manager and is responsible for production management of our Group, including ensuring the productivity and quality of products, meeting the delivery schedules and specifications set by customers. Wang Zeen joined our Group in 1997. Before that, Wang Zeen was the production supervisor of Yimeng Bearing Factory Co. Ltd. (沂蒙轴承厂有限公司) from 1996 to 1997. From 1991 to 1996, Wang Zeen was a production worker in Yinan Bearing Factory (沂南县轴承厂). Wang Zeen obtained his Diploma in Mechanical Engineering Automation from Shandong University of Mining.

Save as disclosed above, none of our Directors and Executive Officers are related to each other or to the Substantial Shareholders.

The list of present and past directorships (for the last five years) of each Director, other than in our Company, is set out in the section "Other General Information" of this Prospectus.

COMPENSATION

The compensation (which includes benefits in kind, directors' fees and bonuses) paid to our Directors and Executive Officers for services rendered to our Group on an aggregate basis and in remuneration bands are as follows:-

	FY2003	FY2004	FY2005	Estimated amount for FY2006 ⁽³⁾
Directors				
Zhang Yuankai	Band A	Band A	Band A	Band A
Zhang Anxi	Band A	Band A	Band A	Band A
Xu Yihe	Band A	Band A	Band A	Band A
Du Ruicheng	n.a.	n.a.	n.a.	Band A
Chin Yew Choong David	n.a.	n.a.	n.a.	Band A
Yap Kian Peng	n.a.	n.a.	n.a.	Band A
Executive Officers				
Goh Cze Khiang	n.a.	n.a.	n.a.	Band A
Zhang Anling	Band A	Band A	Band A	Band A
Sun Bao	Band A	Band A	Band A	Band A
Wang Zeen	Band A	Band A	Band A	Band A

Notes:-

- (1) Band A: Compensation from S\$0 to S\$250,000 per annum.
- (2) n.a.: Not applicable.
- (3) The estimated amount of remuneration payable in FY2006 exclude any bonus or annual profit sharing incentive payable.

We have not set aside or accrued any amounts to provide for pension, retirement or similar benefits.

DIRECTORS, MANAGEMENT AND STAFF

SERVICE AGREEMENT

Our Company had on 22 August 2006 entered into a service agreement ("Service Agreement") with our Managing Director and CEO, Zhang Anxi, for an initial period of three years commencing from the date of the agreement. The Service Agreement shall be renewable automatically every (3) years (or such shorter periods as the parties may agree), such renewal being subject to the confirmation of the Board at least three (3) months before the renewal date.

The Service Agreement may be terminated by (i) our Company, at any time, upon giving Zhang Anxi notice in writing of six (6) months or an amount equal to six (6) months' salary in lieu of such notice, or by (ii) Zhang Anxi, only after a period of three years commencing from the date of the agreement, upon giving our Company notice in writing of six (6) months. The Service Agreement may also be terminated by our Company without any notice or payment in lieu of notice upon the occurrence of certain events, such as serious misconduct or unlawful neglect in the discharge of duties under the Service Agreement on the part of Zhang Anxi.

The monthly salary of Zhang Anxi under the terms of the Service Agreement is RMB50,000. Under the Service Agreement, Zhang Anxi is also entitled to a bonus equivalent to one (1) month's salary which is payable on or around the thirtieth (30th) day of June in each year. In addition to the salary and bonus, Zhang Anxi shall, for each financial year of our Company, be entitled to receive an annual profit sharing incentive equal to the amount stated in the second column of the table below:-

Audited Profit Before Tax ("PBT")	Profit Sharing Incentive Payable
PBT ≤ RMB60 million	Nil
RMB60 million < PBT ≤ RMB80 million	1.0% on every RMB1 in excess of RMB60 million of PBT
RMB80 million < PBT ≤ RMB100 million	RMB200,000 plus 1.5% on every RMB1 in excess of RMB80 million of PBT
PBT > RMB100 million	RMB500,000 plus 2.0% on every RMB1 in excess of RMB100 million of PBT

If the employment is for less than a full financial year of our Company, the annual profit sharing incentive for that financial year shall be apportioned in respect of the actual number of days of employment on the basis of a 365-day year.

The monthly salary, bonus and the basis of computing any incentive bonus shall be subject to the annual review of the Board. Zhang Anxi will abstain from voting on any decision made by the Board in connection with the amendment of any term of, or the renewal of, his Service Agreement.

Zhang Anxi shall during the term of his employment with our Company, participate and be covered by all insurance policies obtained by our Company for its employees on a Group basis.

Zhang Anxi shall also be entitled, during his employment, to other benefits, including the use of a motor car. All travelling-related expenses, entertainment expenses and other out-of-pocket expenses properly incurred by him in the course of the employment will be borne by our Company.

Zhang Anxi has covenanted that he shall not, at any time from the date of the Service Agreement, in relation to any trade, business or company, use a name in such a way as to be capable of being or likely to be confused with the name of our Company and shall use all reasonable endeavours to procure that no such name shall be used by any person, firm or company with which he is connected. Zhang Anxi has also covenanted that he will not, during the twelve months after cessation of his employment with our Company or such reduced period as our Company shall determine under the Service Agreement, compete with our Company.

DIRECTORS, MANAGEMENT AND STAFF

The Service Agreement also contains confidentiality terms valid for the term of his employment and shall continue after the termination of such Service Agreement for a period of twelve months or until the said information or knowledge comes into the public domain. Pursuant to the confidentiality terms, Zhang Anxi shall not (i) disclose or divulge to any person, (ii) through failure to exercise all due care and diligence cause any unauthorised disclosure of, (iii) use for his own purposes or for any purposes other than those of our Company or (iv) use in any manner which may cause loss or injury to our Company, any confidential information of our Group. The Service Agreement does not provide for any benefits upon termination of employment.

Had the Service Agreement been in effect from 1 January 2005, the total remuneration payable to Zhang Anxi would have been approximately RMB661,000 instead of RMB36,000. In this case, our unaudited pro forma profit before taxation and profit attributable to Shareholders for FY2005 would have been RMB60.4 million (equivalent to S\$12.3 million) and RMB40.4 million (equivalent to S\$8.2 million) instead of RMB61.1 million (equivalent to S\$12.4 million) and RMB40.8 million (equivalent to S\$8.3 million) respectively.

There are no existing or proposed service contracts entered or to be entered into by our Directors with our Company or our Subsidiary which provide for benefits upon termination of employment.

CORPORATE GOVERNANCE

The Directors recognise the importance of corporate governance and the offering of high standards of accountability to the shareholders of our Company, and will follow closely the best practices outlined in the Best Practices Guide issued by the SGX-ST and the Code of Corporate Governance. Our Board of Directors has formed three committees:- (i) the Audit Committee, (ii) the Remuneration Committee and (iii) the Nominating Committee.

Audit Committee

Our Audit Committee comprises Yap Kian Peng and Chin Yew Choong David, who are both our Independent Directors, and Du Ruicheng, our Non-executive Director. Yap Kian Peng is the chairman of our Audit Committee.

Our Audit Committee will assist our Board in discharging their responsibility to safeguard our assets, maintain adequate accounting records as well as develop and maintain effective systems of internal control, with the overall objective of ensuring that our management creates and maintains an effective control environment in our Group.

Our Audit Committee shall meet periodically to perform the following functions:-

- (a) to review with the external auditors the audit plan, and the results of our external auditors' examination and evaluation of our system of internal controls;
- (b) to review the consolidated financial statements, balance sheets, profit and loss accounts and the external auditors' report on those financial statements, before submission to the Board of Directors for approval, focusing in particular on changes in accounting policies and practices, major risk areas, significant adjustments resulting from the audit compliance with accounting standards and compliance with the Listing Manual and any other relevant statutory or regulatory requirements;
- (c) to review the co-operation given by our management to our auditors;
- (d) to consider the appointment, re-appointment and removal of the external auditors;
- (e) to review and approve any interested person transactions, falling within the scope of Chapter 9 of the Listing Manual;

DIRECTORS, MANAGEMENT AND STAFF

- (f) to review any potential conflicts of interest;
- (g) to consider the repayment of loans to the shareholders of Yimeng Bearing and Zhang Anxi, taking into consideration, *inter alia*, our Group's working capital and gearing positions;
- (h) to review and approve any future hedging policies, instruments used for hedging and foreign exchange policies and practices of the Group;
- (i) to undertake such other reviews and projects as may be requested by our Board and to report to our Board its findings from time to time on matters arising and requiring the attention of our Audit Committee; and
- (j) to generally undertake such other functions and duties as may be required by statute or the Listing Manual, and by such amendments made thereto from time to time.

Apart from the duties listed above, the Audit Committee shall commission and review the findings of internal investigations into matters where there is any suspected fraud or irregularity, or failure of internal controls or infringement of any relevant law, rule or regulation which has or is likely to have a material impact on our Group's operating results and/or financial position.

Each member of our Audit Committee shall abstain from voting on any resolutions in respect of matters in which he is or may be interested.

Remuneration Committee

Our Remuneration Committee comprises Chin Yew Choong David and Yap Kian Peng, who are both our Independent Directors, and Du Ruicheng, our Non-executive Director. Chin Yew Choong David is the chairman of our Remuneration Committee. Our Remuneration Committee will recommend to our Board a framework of remuneration for the Directors and key executives and determine specific remuneration packages for each Executive Director. The recommendations of our Remuneration Committee should be submitted for endorsement by the entire Board. All aspects of remuneration, including but not limited to directors' fees, salaries, allowances, bonuses, options and benefits in kind shall be covered by our Remuneration Committee. Each member of the Remuneration Committee shall abstain from voting on any resolutions in respect of his remuneration package.

Nominating Committee

Our Nominating Committee comprises Du Ruicheng, our Non-executive Director, and Yap Kian Peng and Chin Yew Choong David, who are both our Independent Directors. Du Ruicheng is the chairman of our Nominating Committee. Under our Articles of Association, at least one third of our Directors are required to retire from office at every annual general meeting of our Company. Every Director must retire from office at least once every three years. A retiring Director is eligible and may be nominated for re-election. The Nominating Committee has been set up to take on the responsibility of re-nomination of Directors (including Independent Directors of our Company), taking into consideration each director's contribution and performance. The Nominating Committee is also charged with the responsibility of determining annually whether or not a Director is independent and deciding whether or not a Director is able to and has been adequately carrying out his duties as a director. The Nominating Committee will decide how our Board's performance is to be evaluated and propose objective performance criteria, subject to the approval of our Board, which addresses how the Board has enhanced long-term shareholders' value. Our Board will also implement a process to be carried out by our Nominating Committee for assessing the effectiveness of our Board as a whole and for assessing the contribution by each individual Director to the effectiveness of our Board. Each member of the Nominating Committee shall abstain from voting on any resolutions in respect of the assessment of his performance or re-nomination as a Director.

DIRECTORS, MANAGEMENT AND STAFF

Term of Office

Our Directors currently do not have a fixed term of office. Each Director shall retire from office at least once every three years. Directors who retire are eligible to stand for re-election. As Zhang Yuankai is above the age of 70 years, under section 153(2) of the Companies Act, he shall vacate the office of a director at the annual general meeting. Notwithstanding section 153(2) of the Companies Act, under section 153(6) of the Companies Act, he may by an ordinary resolution passed at an annual general meeting, be appointed or reappointed as a Director or be authorised to continue in office as a Director.

INTERESTED PERSON TRANSACTIONS AND CONFLICTS OF INTERESTS

In general, transactions between our Group and any of its interested persons (namely, the Directors, Executive Officers or Controlling Shareholders or their Associates) are known as interested person transactions. Other than the steps taken to effect the Restructuring Exercise as described in the section “Restructuring Exercise” of this Prospectus, the following sets out a discussion on material interested person transactions for the last three financial years ended 31 December 2005 and up to the Latest Practicable Date, and references to our Group and interested persons are construed accordingly.

PAST INTERESTED PERSON TRANSACTIONS

1. Reimbursable expenses incurred on behalf of China Bearing (Bermuda)

In FY2005 and 1Q2006, our Company made the following payments for the incorporation of China Bearing (Bermuda):-

Amount outstanding as at 31 December			Largest outstanding amount from 1 January 2003 to the Latest Practicable Date
2003 (RMB'000)	2004 (RMB'000)	2005 (RMB'000)	(RMB'000)
–	–	50	84

These amounts have been fully reimbursed by China Bearing (Bermuda) and there is no amount outstanding as at the Latest Practicable Date.

2. Purchase of inventories from Yimeng Bearing

Certain inventories as at 31 March 2006, comprising raw materials (mainly GCr15 steel), consumables and work-in-progress were not included in the Relevant Assets, Liabilities and Business pursuant to the Restructuring Exercise. In April 2006, Linyi Kaiyuan Bearing purchased these inventories from Yimeng Bearing for its manufacturing requirements. The purchase prices were based on the net book value of such inventories as at 31 March 2006, and the aggregate value of such purchases was RMB11.3 million. There will be no further purchases of inventories from Yimeng Bearing subsequent to the date of this Prospectus.

The amount owing to Yimeng Bearing in relation to the aforementioned purchases was fully repaid on 8 April 2006 using the proceeds from a loan from Zhang Anxi. Please refer to the section “Ongoing and Continuing Interested Person Transactions – Loan from Zhang Anxi” of this Prospectus for further details of this loan.

3. Provision of security by Zhang Anxi and his Associates

Pursuant to the Convertible Loan Agreements, our Managing Director and CEO, Zhang Anxi and his Associates provided the following securities for the purpose of the Restructuring Exercise, as set out in the table below:-

Lender	Loan Amounts (S\$)	Largest Loan Amount Outstanding from 1 January 2003 to Latest Practicable Date (S\$)	Outstanding Amount as at Latest Practicable Date (S\$)	Nature of Securities / Guarantees
Tan Kim Seng	1,000,000 (a convertible loan under the Convertible Loan Agreements)	1,000,000	1,000,000	Corporate guarantee from from Yimeng Bearing Personal guarantees from Zhang Anxi

INTERESTED PERSON TRANSACTIONS AND CONFLICTS OF INTERESTS

Lender	Loan Amounts (\$)	Largest Loan Amount Outstanding from 1 January 2003 to Latest Practicable Date (\$)	Outstanding Amount as at Latest Practicable Date (\$)	Nature of Securities / Guarantees
Teo Kok Woon	800,000 (a convertible loan under the Convertible Loan Agreements)	800,000	800,000	Corporate guarantee from Yimeng Bearing Personal guarantee from Zhang Anxi
Power Works Pte Ltd	300,000 (a convertible loan under the Convertible Loan Agreements)	300,000	300,000	Corporate guarantee from Yimeng Bearing Personal guarantee from Zhang Anxi
Legacy Venture Capital Limited ⁽¹⁾	3,880,000 (convertible loan under the Loan Agreement)	3,880,000	3,880,000	Charge of Shares ⁽²⁾ by China Bearing (Bermuda) ⁽³⁾

Notes:-

- (1) Under an Assignment Agreement dated 5 April 2006, Legacy Venture Capital Limited assigned all its rights, title, interest and benefits under the Loan Agreement to Re Shan Investments Limited (19.5%), Winage Limited (19.5%), Wang Yu Hui (30.0%) and Legacy Partners Limited (31.0%).
- (2) Under a memorandum of charge dated 9 May 2006 between China Bearing (Bermuda) and Legacy Venture Capital Limited, China Bearing (Bermuda) charged its shares in the share capital of our Company to Legacy Venture Capital Limited.
- (3) China Bearing (Bermuda) is an investment holding company incorporated in Bermuda. Its shareholders are Zhang Yuankai, Zhang Anxi, Xu Yihe, Zhang Anling and Du Yongren, each holding 54.2%, 19.9%, 11.9%, 9.1% and 4.9% respectively.

The Convertible Loans were fully converted to Shares on 10 October 2006, in accordance with the Convertible Loan Agreements and the Loan Agreement, and the aforementioned securities provided by Zhang Anxi and his respective Associates were released.

ONGOING AND CONTINUING INTERESTED PERSON TRANSACTIONS

1. Provision of security by Zhang Yuankai, Zhang Anxi and their Associates

Pursuant to the Loan Agreement, our Non-executive Chairman, Zhang Yuankai, our Managing Director and CEO, Zhang Anxi, and their Associates provided certain securities for the Non-convertible Loan pursuant to the Restructuring Exercise, as set out in the table below:-

Lender	Loan Amounts (\$)	Largest Loan Amount Outstanding from 1 January 2003 to Latest Practicable Date (\$)	Outstanding Amount as at Latest Practicable Date (\$)	Nature of Securities / Guarantees
Legacy Venture Capital Limited ⁽¹⁾	970,000 (Non-convertible Loan)	970,000	970,000	Charge of Shares ⁽²⁾ by China Bearing (Bermuda) ⁽³⁾ Personal guarantees from Zhang Yuankai and Zhang Anxi

INTERESTED PERSON TRANSACTIONS AND CONFLICTS OF INTERESTS

Notes:-

- (1) Under an Assignment Agreement dated 5 April 2006, Legacy Venture Capital Limited assigned all its rights, title, interest and benefits under the Loan Agreement to Re Shan Investments Limited (19.5%), Winage Limited (19.5%), Wang Yu Hwei (30.0%) and Legacy Partners Limited (31.0%).
- (2) Under a memorandum of charge dated 9 May 2006 between China Bearing (Bermuda) and Legacy Venture Capital Limited, China Bearing (Bermuda) charged its shares in the share capital of our Company to Legacy Venture Capital Limited.
- (3) China Bearing (Bermuda) is an investment holding company incorporated in Bermuda. Its shareholders are Zhang Yuankai, Zhang Anxi, Xu Yihe, Zhang Anling and Du Yongren, each holding 54.2%, 19.9%, 11.9%, 9.1% and 4.9% respectively.

Interest on the Non-convertible Loan is at a rate of 14% per annum, commencing from 11 April 2006 to the date of repayment, provided that a minimum interest of S\$67,900 shall be payable. Under the Loan Agreement, the Non-convertible Loan shall be repaid on or after the date falling 12 months after 11 April 2006 or the date of our admission to the Official List of the SGX-ST, whichever is earlier.

2. Amount owing to the shareholders of Yimeng Bearing

Pursuant to the Asset Purchase Agreement, our subsidiary, Linyi Kaiyuan Bearing, acquired the Relevant Assets, Business and Liabilities of Yimeng Bearing. Part of the liabilities assumed was an amount of approximately RMB25.1 million owing to the shareholders of Yimeng Bearing, being dividend declared by Yimeng Bearing for FY2006 which remained unpaid.

On 8 June 2006, the shareholders of Yimeng Bearing, namely Shandong Yimeng Bearing Factory Co., Ltd., Zhang Yuankai, Zhang Anxi, Xu Yihe and Zhang Anling entered into an agreement under which they agreed that the aforementioned amount owing shall be converted into a loan to Linyi Kaiyuan Bearing (i) on an unsecured and interest-free basis; and (ii) repayable only after 3 years from the date of admission of our Company to the Official List of the SGX-ST, and subject to the approval of the Audit Committee, taking into account, *inter alia*, our Group's working capital and gearing positions.

3. Loan from Zhang Anxi

Zhang Anxi extended a loan of RMB11.3 million to Linyi Kaiyuan Bearing for the purpose of paying the amount owing to Yimeng Bearing in relation to the purchase of inventories mentioned in the section "Past Interested Person Transactions – Purchase of Inventories from Yimeng Bearing" of this Prospectus pursuant to a loan agreement entered into between Zhang Anxi and Linyi Kaiyuan Bearing dated 8 June 2006. This loan is on an unsecured and interest-free basis, and is repayable only after 3 years from the date of admission of our Company to the Official List of the SGX-ST. In addition, the repayment of this loan is subject to the approval of the Audit Committee, taking into account, *inter alia*, our Group's working capital and gearing positions. The full amount of the loan is outstanding as at the Latest Practicable Date.

4. Lease of property from Yimeng Bearing

We currently lease the land and buildings at No. 2 Yiqing Road, Yinan County, Shandong Province, the PRC from Yimeng Bearing for office, plant and factory uses. Yimeng Bearing owns the land use rights to these properties. The gross floor area is approximately 41,745 sq m. The present lease for the land and buildings is for a term of 10 years, which commenced on 1 April 2006 and will expire on 31 March 2016. The annual rental for the said land and buildings is RMB944,106.

The rental was determined based on valuation reports prepared by the independent professional valuers, Linyi Hengzheng Certified Public Accountants Co., Ltd. and Shandong Yitong Property Valuation Co., Ltd.. Subsequent review or renewal of the leases in relation to the properties, the rental payable to Yimeng Bearing shall be based on valuation reports from independent professional valuers, subject to the approval of the Audit Committee.

Save as disclosed, none of our Directors, Executive Officers or Controlling Shareholders or their respective Associates was or is interested in any material transaction undertaken by our Group between the beginning of the three most recent financial years and the Latest Practicable Date.

INTERESTED PERSON TRANSACTIONS AND CONFLICTS OF INTERESTS

Interests of Experts

No expert is interested, directly or indirectly, in the promotion of, or in any property or assets which have, within the two years preceding the date of this Prospectus, been acquired or disposed of by or leased to our Company or our subsidiary or are proposed to be acquired or disposed of by or leased to our Company or our subsidiary.

No expert is engaged on a contingent basis by our Company or our subsidiary, or has a material interest, whether direct or indirect, in our Shares, our subsidiary or has a material economic interest, whether direct or indirect, in our Company including an interest in the success of the Invitation.

Guidelines for Future Interested Person Transactions

Any future transactions with interested persons (as defined in the SGX-ST Listing Manual) shall comply with the requirements of the SGX-ST Listing Manual. As required by the SGX-ST Manual, our Company has adopted a set of new Articles of Association which requires a director to abstain from voting in any contract or arrangement in which he has a material personal interest.

We shall conduct all future transactions with interested persons at arm's length. In addition, the Audit Committee shall review the principal terms and conditions of any such transactions to ensure that they are on normal commercial terms and not prejudicial to our Company and our minority shareholders. Whenever an Audit Committee member is interested in any interested person transaction, he shall abstain from reviewing and voting on that particular transaction.

Our Board of Directors will also ensure compliance with all disclosure requirements on interested person transactions, including those of prevailing legislation, the SGX-ST Listing Manual and applicable accounting standards. In addition, these transactions will also require shareholders' approval if the SGX-ST Listing Manual so requires.

POTENTIAL CONFLICT OF INTERESTS

Pursuant to the Restructuring Exercise, Linyi Kaiyuan Bearing acquired the Relevant Assets, Liabilities and Business from Yimeng Bearing, which relate to the design, development, manufacture and sale of bearings for use in automobiles, equipment and machineries for industrial and agricultural uses. Zhang Yuankai (our Non-Executive Chairman), Zhang Anxi (our Managing Director and CEO), Xu Yihe (our Executive Director) and Zhang Anling (our Finance Manager) have aggregate interests, directly and indirectly, of approximately 95.1% in Yimeng Bearing. They are also directors of Yimeng Bearing.

Yimeng Bearing has undertaken that, after the Restructuring Exercise, it:-

- (1) shall cease its operations in the design, development, manufacture and sale of bearings for use in automobiles, equipment and machineries for industrial and agricultural uses;
- (2) shall not carry on the same business or deal in similar products as our Group, or carry on any business which is in competition, whether directly or indirectly, with us; and
- (3) shall not use any name, logo or trademark which is used by us, including but not limited to, the trademark “沂蒙” of which the registration of transfer to our Group is pending completion, or use any name, logo or trademark in such a way as to be capable of being or likely to be confused with those of our Group.

Zhang Yuankai, Zhang Anxi, Xu Yihe and Zhang Anling have each undertaken that they will not, for as long as they remain (i) a Director or Executive Officer, as the case may be, and/or (ii) a Shareholder with an interest of 5.0% or more (whether direct or indirect) in the voting shares of our Company, that they and/or their Associates will not, directly or indirectly, carry on, or be engaged or interested in any capacity in any other business, trade or occupation whatsoever, except in a business, trade or occupation which does not compete with any business carried on or proposed to be carried on by our Group.

INTERESTED PERSON TRANSACTIONS AND CONFLICTS OF INTERESTS

Save as disclosed above and in the section “Interested Person Transactions and Conflicts of Interests” of this Prospectus:-

- (i) no Director, Executive Officer, Controlling Shareholder, or any of their respective Associates has any interest, direct or indirect, in any transactions to which our Company was or is to be a party;
- (ii) no Director, Executive Officer, Controlling Shareholder, or any of their respective Associates has any interest, direct or indirect, in any company carrying on the same business or a similar trade which competes materially and directly with the existing business of our Group; and
- (iii) no Director, Executive Officer, Controlling Shareholder, or any of their respective Associates has any interest, direct or indirect, in any company that is our customer or supplier of goods and services.

EXCHANGE CONTROLS

The following is a description of the exchange controls that exist in the jurisdictions which we operate in.

Our subsidiary in the PRC are subject to certain exchange controls as discussed below. To date, we have not encountered any adverse experience with regard to the repatriation of capital, profits, dividends or interest from our overseas subsidiary to us and we have not experienced any rejection by the relevant authorities in these countries for our applications for remittances of funds to Singapore.

The PRC

The main regulations with respect to foreign exchange control in the PRC are the Regulations on the Administration of the Settlement, Sales, and Payment of Foreign Exchange (1996) and the Regulations on Foreign Exchange Control (1996, amended in 1997). In the PRC, SAFE regulates the foreign exchange matters including conversion of RMB into foreign currencies, and *vice versa*. Currently, the FIEs are required to apply to SAFE for a “Foreign Exchange Registration Certificate for Foreign Investment Enterprise”.

Such registration certificates are renewable and allow FIEs to open foreign currency accounts for the payment of:

- (a) recurring items, including the distribution of dividends and profits to foreign investors of FIEs upon presentation of board resolutions which authorise the distribution of profits or dividends (“Current Account”); and
- (b) capital items, such as repatriation of capital, repayment of loans and for securities investment (“Capital Account”).

Currency transactions within the scope of the “Current Account” can be effected without requiring the approval of SAFE, while the conversion of currency in the “Capital Account” still requires the approval of SAFE.

In addition, on 24 January 2005, SAFE promulgated the Circular of the State Administration of Foreign Exchange Concerning Relevant Issues on Improving Foreign Exchange Administration for Merger and Acquisitions with Foreign Entities (the “Circular”). The Circular provides for, *inter alia*, strict supervision and control by SAFE and its local branches/offices of capital contribution examination, foreign currency registration for share transfers, registration of shareholders’ loan, remittance of profits out of the PRC, re-investment of profits, and share transfers by foreign invested enterprises established in the manner of acquisitions of PRC enterprises by foreign enterprises with PRC residents as shareholders. The Notice on Questions concerning Overseas Investment Registration by Domestic Residents and Foreign Exchange Registration for Acquisition of Domestic Enterprises by Foreign Investors (国家外汇管理局关于完善外资并购外汇管理有关问题的通知)(“No. 29 Notice”) issued by SAFE on 8 April 2005, further clarified that “overseas investment foreign exchange registration” (境外投资外汇登记) applies to PRC domestic residents even if the relevant foreign acquisition has been completed before the Circular was issued.

On 21 October 2005, SAFE promulgated the Notice on Issues concerning Foreign Exchange Management in Financing by PRC Residents³ by Overseas Special Purpose Vehicle (SPV)⁴ and Return-investments⁵ (国家外汇管理局关于境内居民通过境外特殊目的公司融资及返程投资外汇管理有关问

³ “PRC Residents” is defined for the purposes of No. 75 Notice to include PRC resident legal entities which shall include PRC incorporated legal persons and PRC economic organizations and PRC resident natural persons which shall include natural persons holding PRC ICs or passports or other natural person without PRC identity but residing in China due to relationship of economic interest.

⁴ “overseas special purpose vehicle” or “SPV” is defined for the purposes of No. 75 Notice as the overseas enterprises directly incorporated or indirectly controlled by the PRC Residents for the purpose of the use of the assets or interests in the domestic enterprise owned by such PRC Residents to procure overseas equity financing(including convertible bonds).

⁵ “return-investment” is defined for the purposes of No. 75 Notice as the direct investments made by PRC Residents by way of SPVs including but not limited to purchase or swap of shareholdings owned by Chinese Parties in PRC companies, incorporation of Foreign Invested Enterprises (FIEs) and purchase of domestic assets or control of domestic assets by agreement by such FIEs, purchase of domestic assets by agreement and use of such assets to set up FIEs and contribution to the registered capital of domestic companies to be increased.

EXCHANGE CONTROLS

题的通知) (“No. 75 Notice”), which came into effect on 1 November 2005 and replaces the Circular and the No. 29 Notice, requires, among other matters, every PRC resident to file an “overseas investment foreign exchange registration” (境外投资外汇登记) with the local branch of SAFE before setting up or taking control⁶ of a SPV and shall update the filing of the “overseas investment foreign exchange registration” with local branch of SAFE in respect of such SPV’s particulars such as net assets and any changes thereof after injection of the assets or shares of a PRC domestic company owned by such PRC resident into such SPV and subsequent carrying out of the overseas equity financing through such SPV. The requirement of “overseas investment foreign exchange registration” applies retroactively to the PRC Residents who have already established or controlled SPVs and completed return-investments.

In summary, the present position under the PRC law relating to foreign exchange control, taking into account the promulgation of the recent new regulations and the extent the existing provisions stipulated in previous regulations do not contradict these new regulations, are as follows:

- (1) The previous dual exchange rate system for RMB was abolished and a unified floating exchange rate system based largely on supply and demand was introduced. The People’s Bank of China, having regard to the trading prices between RMB and major foreign currencies on the inter-bank foreign exchange market, publishes on each bank business day the exchange rates against major foreign currencies.
- (2) The PRC enterprises had been generally required to sell their foreign exchange earnings to designated banks unless specifically approved otherwise and purchase foreign exchange at designated banks for current account transactions. However, after the Implementing Rules for Administration of Current Transaction Foreign Exchange Accounts of Domestic Entities (境外机构经常项目外汇账户管理实施细则) was promulgated by the SAFE on 9 September 2002, PRC enterprises with foreign exchange accounts are entitled to reserve their foreign exchange earnings in their foreign exchange accounts and pay for current transactions with the foreign exchanges in such accounts to the extent that its foreign exchange earnings in the accounts do not exceed the maximal limit as approved by the relevant foreign exchange control authorities.
- (3) FIEs may have their own foreign currency account and are permitted to retain a certain percentage of their recurrent exchange earnings.
- (4) FIEs which require foreign exchange for their ordinary trading activities such as trade services and payment of interest on foreign debts may purchase foreign exchange from designated foreign exchange banks if the application is supported by proper payment notices or supporting documents.
- (5) FIEs may require foreign exchange for the payment of dividends that are payable in foreign currencies under applicable regulations, such as distributing profits to their foreign investors. They can withdraw funds in their foreign exchange bank accounts kept with designated foreign exchange banks, subject to the due payment of tax on such dividends. Where the amount of the funds in foreign exchange is insufficient, the enterprise may, upon the presentation of the resolutions of the directors on the profit distribution plan of the particular enterprise, purchase foreign exchange from designated foreign exchange banks.
- (6) FIEs may apply to the Bank of China or other designated foreign exchange banks to remit the profits out of the PRC to the foreign parties to equity or cooperative joint ventures or the foreign investors in wholly foreign-owned enterprises if the requirements provided by the PRC laws, rules and regulations are met.

⁶ “Control” is defined for the purposes of No. 75 Notice as the procurement by PRC Residents of the right of operation, collection of interests or decision-making of the SPV or domestic company by virtue of acquisition, trust, agency, voting right, buy-back, convertible bonds, etc.

EXCHANGE CONTROLS

- (7) SAFE and its local branch will conduct an examination on the certificates or forms of “overseas investment foreign exchange registration” filed and updated in accordance with the requirement of No. 75 Notice while proceeding with the related “foreign exchange registration” (外资外汇登记) in respect of capital contributions, foreign debts(including shareholder’s loan) and share transfers for foreign invested enterprises established by PRC residents using the overseas finance through SPVs. SPVs can only receive distributed dividends, profits and other payments from foreign invested enterprises being their PRC subsidiaries upon the satisfaction of the requirement for filing and updated filing of “overseas investment foreign exchange registration” with local branch of SAFE in accordance with No.75 Notice.
- (8) PRC residents who have already established or controlled SPVs and completed return-investments shall carry out “overseas investment foreign exchange registration” before 31 March 2006. Within 180 days upon obtaining distributed dividends, profits from the SPVs and/or income deriving from changes in shareholding of the SPVs, PRC residents shall repatriate the same to China.

As a step of the restructure exercise, the ultimate shareholders of the Company who are PRC citizens have followed the registration requirement with the branch of SAFE in Shandong Province pursuant to No. 75 Notice in December 2005. They will also be required to comply with further requirements under No. 75 Notice in respect of any future changes or declarations of dividends as mentioned above. In this regard, they have given an undertaking to our Company to comply with further requirements of No. 75 Notice.

Foreign exchange payments and conversion between RMB and foreign exchange currencies under capital account items out of the PRC or to foreign-funded financial institutions in the PRC, such as payments of the principal amount with respect to foreign currency-denominated obligations, direct investments and securities investments are subject to the SAFE’s prior approval. Foreign debt registration is required under the foreign debt monitoring system of the PRC. Although generally most FIEs do not need SAFE approval for international commercial loans, the monitoring rules require all FIEs to register such loans with SAFE.

The foreign exchange earnings of FIEs are required to be sold to designated banks unless otherwise allowed to be retained and kept in their foreign exchange accounts with designated banks. Foreign exchange proceeds under loans from foreign institutions or individuals or from issues of shares or bonds denominated in foreign currency need not be sold to designated banks, but must be kept in the FIE’s foreign exchange bank accounts unless otherwise specifically approved. All the foreign exchange activities in the PRC shall be handled through designated foreign exchange banks (which include all the foreign banks having banking licenses in the PRC, and some specifically designated PRC local banks). FIEs conducting capital investments outside of the PRC may also be subject to the approvals by the Ministry of Commerce, SAFE and the State Development and Reform Commission.

TAXATION

SINGAPORE TAXATION

The following is a discussion of certain tax matters arising under the current tax laws in Singapore and is not intended to be and does not constitute legal or tax advice. While this discussion is considered to be a correct interpretation of existing laws in force as at the Latest Practicable Date, no assurance can be given that courts or fiscal authorities responsible for the administration of such laws will agree with this interpretation or that changes in such laws will not occur. The discussion is limited to a general description of certain tax consequences in Singapore with respect to ownership of the Share by Singapore investors and does not purport to be a comprehensive nor exhaustive description of all of the tax considerations that may be relevant to a decision to purchase the Shares.

Prospective investors should consult their tax advisors regarding Singapore tax and other tax consequences of owning and disposing the Shares. It is emphasised that neither our Company, our Directors nor any other persons involved in the Invitation accepts responsibility for any tax effects or liabilities resulting from the subscription for, purchase, holding or disposal of the Shares. Dividends payable by our Company on the Shares will be declared in Singapore Dollars and paid to shareholders in Singapore Dollars.

The following discussion describes the material Singapore income tax, stamp duty and estate duty consequences of the purchase, ownership and disposal of the Shares.

General

Singapore tax residents, both corporates and individuals, are subject to Singapore income tax on income accrued in or derived from Singapore and, subject to certain exceptions, on foreign income received or deemed to be received in Singapore.

Foreign-sourced income in the form of dividends, branch profits and services income received or deemed to be received in Singapore by all tax resident taxpayers on or after 1 June 2003 will be exempt from tax if certain prescribed conditions are met.

All foreign-sourced income received in Singapore by Singapore tax resident individuals is exempt from tax with effect from Year of Assessment 2005. In addition, certain Singapore-sourced investment income derived by individuals on or after 1 January 2004 is also exempt from tax.

A company is tax resident in Singapore if the control and management of its business is exercised in Singapore. An individual is tax resident in Singapore in a year of assessment if, in the preceding year, he resides in Singapore (except for temporary absence from Singapore) or if he is physically present in Singapore or exercised an employment in Singapore (other than as a director of a company) for 183 days or more.

Non-resident corporate taxpayers are subject to income tax on income accrued in or derived from Singapore, and subject to certain exceptions, on foreign income received in Singapore. Non-resident individuals, subject to certain exceptions, are subject to Singapore income tax only on income accrued in or derived from Singapore.

The corporate tax rate in Singapore is currently 20% with certain exemptions for the first \$100,000 of chargeable income. The above tax exemption does not apply to Singapore franked dividends received by companies.

For a Singapore tax resident individual, the rate of tax will vary according to his chargeable income. The maximum marginal tax rate will be reduced to 21% in the Year of Assessment 2006 and then to 20% in the Year of Assessment 2007, i.e. the years ending 2005 and 2006 respectively. The tax rates of all income bands will also be reduced.

TAXATION

Dividend Distributions

Singapore adopted the one-tier corporate tax system with effect from 1 January 2003. Under the one-tier corporate tax system, the tax payable on normal chargeable income by Singapore companies, whether tax resident in Singapore or not, would constitute a final tax. Dividends payable by companies on the one-tier corporate tax system would be tax exempt in the hands of its shareholders. Such dividends are referred to as tax exempt (one-tier) dividends.

Where a Singapore tax resident company has income that is exempt from tax or subject to tax at concessionary tax rates or has received foreign income which may be tax exempt (if certain prescribed conditions are met) or relieved from Singapore income tax due to the availability of foreign tax credits, our company may pay tax exempt dividends (known as normal exempt dividends) out of such foreign income. Normal exempt dividends paid to shareholders of ordinary shares are free from Singapore tax in the hands of the shareholders, whether resident or non-resident for Singapore tax purposes. In the case of a company which is on one-tier corporate tax system, such a company can pay tax exempt (one-tier) dividends (instead of normal exempt dividends) out of their exempt profits to shareholders. The tax exempt (one-tier) dividends paid on shares, including those of a preferential nature, are tax exempt in the hands of these shareholders.

There is no withholding tax on dividends paid to non-Singapore tax resident shareholders. Foreign shareholders are advised to consult their own tax advisors in respect of the tax laws of their respective countries of residence and the applicability of any double taxation agreement that their country of residence may have with Singapore.

Gains on Disposal of the Shares

Singapore does not impose tax on capital gains. However, there are no specific laws or regulations which deal with the characterisation of capital gains. Hence, gains arising from the disposal of the Shares are not taxable in Singapore unless the IRAS regards the seller as carrying on a trade of buying and selling of shares, in which case, the profits on disposal will be construed to be of an income nature and be subject to Singapore income tax.

Stamp Duty

There is no stamp duty payable on the subscription of the Shares.

Stamp duty is payable on the instrument of transfer of the Shares at the rate of \$2.00 for every \$1,000.00 or any part thereof, computed on the market value of the Shares registered in Singapore or consideration paid, whichever is the higher.

The purchaser is liable for stamp duty, unless there is an agreement to the contrary. No stamp duty is payable if no instrument of transfer is executed or the instrument of transfer is executed outside Singapore. However, stamp duty may be payable if the instrument of transfer which is executed outside Singapore is received in Singapore.

The above stamp duty is not applicable to scripless transfers of the Shares through the CDP system.

Estate Duty

Singapore estate duty is imposed on the value of immovable properties situated in Singapore owned by an individual who was not domiciled in Singapore at the time of his death, subject to specific exemption limits. Movable assets of a non-domiciled individual will be exempt from estate duty.

Singapore estate duty is also imposed on the value of immovable properties situated in Singapore and on movable properties wherever they may be, which pass upon the death of an individual who is domiciled in Singapore, subject to specific exemption limits.

TAXATION

Our Shares are considered to be movable property situated in Singapore as our Company is incorporated in Singapore with the share register maintained in Singapore. Accordingly, our Shares held by an individual who is domiciled in Singapore are subject to Singapore estate duty upon the individual's death. Singapore estate duty is payable to the extent that the value of the Shares aggregated with any other assets subject to Singapore estate duty exceeds \$600,000. Unless other exemptions apply to the other assets, for example, the separate exemption limit for residential properties, any excess beyond \$600,000 will be taxed at five per cent. (5.0%) on the first \$12,000,000 of the individual's Singapore chargeable assets and thereafter at 10.0%.

Prospective purchasers of the Shares who are individuals, whether or not domiciled in Singapore, should consult their own tax advisors regarding the Singapore estate duty consequences of their ownership of the Shares.

Goods and Services Tax ("GST")

The sale of the Shares by a GST registered investor belonging in Singapore through an SGX-ST member or to another person belonging in Singapore is an exempt sale not subject to GST. Generally, any GST incurred by the GST registered investor in making this exempt supply would not be claimable from the Comptroller of GST.

Where the Shares are sold by a GST registered investor to a person belonging outside Singapore, the sale is generally a taxable sale subject to GST at zero-rate. Any GST incurred by a GST registered investor in the making of this taxable supply in the course or furtherance of a business may be recovered from the Comptroller of GST.

Services such as brokerage, handling and clearing charges rendered by a GST registered person to an investor belonging in Singapore in connection with the investor purchase, sale, holding of shares will be subject to GST at the current rate of five per cent. (5.0%). Similar services rendered to an investor belonging outside Singapore are generally zero-rated.

CLEARANCE AND SETTLEMENT

Upon listing and quotation on SGX-ST, our Shares will be traded under the book-entry settlement system of the CDP, and all dealings in and transactions of the Shares through SGX-ST will be effected in accordance with the terms and conditions for the operation of securities accounts with the CDP, as amended from time to time.

Our Shares will be registered in the name of CDP or its nominee and held by CDP for and on behalf of persons who maintain, either directly or through depository agents, securities accounts with CDP. Persons named as direct securities account holders and depository agents in the depository register maintained by the CDP will not be treated, under our Articles of Association and the Companies Act, as members of our Company in respect of the number of Shares credited to their respective securities accounts.

Persons holding the Shares in securities account with CDP may withdraw the number of Shares they own from the book-entry settlement system in the form of physical share certificate(s). Such share certificates will, however, not be valid for delivery pursuant to trades transacted on SGX-ST, although they will be *prima facie* evidence of title and may be transferred in accordance with our Articles of Association. A fee of S\$10.00 for each withdrawal of 1,000 Shares or less and a fee of S\$25.00 for each withdrawal of more than 1,000 Shares is payable upon withdrawing the Shares from the book-entry settlement system and obtaining physical share certificates. In addition, a fee of S\$2.00 or such other amount as our Directors may decide, is payable to the share registrar for each share certificate issued and a stamp duty of S\$10.00 is also payable where our Shares are withdrawn in the name of the person withdrawing our Shares or S\$0.20 per S\$100.00 or part thereof of the last-transacted price where it is withdrawn in the name of a third party. Persons holding physical share certificates who wish to trade on SGX-ST must deposit with CDP their share certificates together with the duly executed and stamped instruments of transfer in favour of CDP, and have their respective securities accounts credited with the number of Shares deposited before they can effect the desired trades. A fee of S\$10.00 is payable upon the deposit of each instrument of transfer with CDP.

Transactions in the Shares under the book-entry settlement system will be reflected by the seller's securities account being debited with the number of Shares sold and the buyer's securities account being credited with the number of Shares acquired. No transfer or stamp duty is currently payable for the Shares that are settled on a book-entry basis.

A Singapore clearing fee for trades in our Shares on the SGX-ST is payable at the rate of 0.05 per cent. of the transaction value subject to a maximum of S\$200 per transaction. The clearing fee, instrument of transfer deposit fee and share withdrawal fee may be subject to GST of 5%.

Dealings of our Shares will be carried out in Singapore Dollars and will be effected for settlement on CDP on a scripless basis. Settlement of trades on a normal "ready" basis on the SGX-ST generally takes place on the third Market Day following the transaction date, and payment for the securities is generally settled on the following business day. CDP holds securities on behalf of investors in securities accounts. An investor may open a direct account with CDP or a sub-account with a CDP agent. The CDP agent may be a member company of the SGX-ST, bank, merchant bank or trust company.

OTHER GENERAL INFORMATION

INFORMATION ON DIRECTORS AND EXECUTIVE OFFICERS

1. The name, age, address, principal occupation and business and working experience of each of our Directors and Executive Officers are set out in the section “Directors, Management and Staff” of this Prospectus.
2. The present and past directorships other than directorships held in our Company (held in the five years preceding the Latest Practicable Date) of each of our Directors, in other companies are as follows:-

Name	Present Directorships	Past Directorships
Zhang Yuankai	<u>Group Companies</u> Linyi Kaiyuan Bearing <u>Other Companies</u> China Bearing (Bermuda) Yimeng Bearing Yimeng Bearing Factory Co. Ltd.	<u>Group Companies</u> Nil <u>Other Companies</u> Nil
Zhang Anxi	<u>Group Companies</u> Linyi Kaiyuan Bearing <u>Other Companies</u> China Bearing (Bermuda) Yimeng Bearing	<u>Group Companies</u> Nil <u>Other Companies</u> Nil
Xu Yihe	<u>Group Companies</u> Linyi Kaiyuan Bearing <u>Other Companies</u> Yimeng Bearing	<u>Group Companies</u> Nil <u>Other Companies</u> Nil
Du Ruicheng	<u>Group Companies</u> Nil <u>Other Companies</u> Nil	<u>Group Companies</u> Nil <u>Other Companies</u> Nil
Chin Yew Choong David	<u>Group Companies</u> Nil <u>Other Companies</u> Drew & Napier LLC Freshfields Drew & Napier Pte Ltd Socialbite Holdings Pte Ltd	<u>Group Companies</u> Nil <u>Other Companies</u> Nil
Yap Kian Peng	<u>Group Companies</u> Nil <u>Other Companies</u> Capital Equity Holdings Pte Ltd CKG Chemicals Pte Ltd CKG Chemicals (HK) Limited Cape View Pte Ltd Intac Innovation Pte Ltd Aglow Development Pte Ltd	<u>Group Companies</u> Nil <u>Other Companies</u> You Yi Glass Contractor Pte Ltd

OTHER GENERAL INFORMATION

3. The present and past directorships (held in the five years preceding the Latest Practicable Date) of each of our Executive Officers are as follows:-

Name	Present Directorships	Past Directorships
Goh Cze Khiang	<u>Group Companies</u> Nil <u>Other Companies</u> Asia Professional Advisory Sdn Bhd Asia Professional Tax Advisory Sdn Bhd EDS Management Sdn Bhd	<u>Group Companies</u> Nil <u>Other Companies</u> Nil
Zhang Anling	<u>Group Companies</u> Linyi Kaiyuan Bearing <u>Other Companies</u> Yimeng Bearing	<u>Group Companies</u> Nil <u>Other Companies</u> Nil
Sun Bao	<u>Group Companies</u> Nil <u>Other Companies</u> Nil	<u>Group Companies</u> Nil <u>Other Companies</u> Nil
Wang Zeen	<u>Group Companies</u> Nil <u>Other Companies</u> Nil	<u>Group Companies</u> Nil <u>Other Companies</u> Nil

4. None of our Directors, Executive Officers or Controlling Shareholders is or was involved in any of the following events:-

- (a) during the last ten years, a petition under any bankruptcy laws of any jurisdiction filed against him or against a partnership of which he was a partner;
- (b) during the last ten years, a petition under any law of any jurisdiction filed against a corporation of which he was a director or key executive for the winding-up of that corporation on the ground of insolvency;
- (c) any unsatisfied judgments against him;
- (d) a conviction of any offence, in Singapore or elsewhere, involving fraud or dishonesty which is punishable with imprisonment for three months or more, or any criminal proceedings (including any pending criminal proceedings which he is aware of) for such purpose;
- (e) a conviction of any offence, in Singapore or elsewhere, involving a breach of any law or regulatory requirement that relates to the securities or futures industry in Singapore or elsewhere, or any criminal proceedings (including pending criminal proceedings which he is aware of) for such breach;
- (f) during the last ten years, judgement entered against him in any civil proceeding in Singapore or elsewhere involving a breach of any law or regulatory requirement that relates to the securities or futures industry in Singapore or elsewhere, or a finding of fraud, misrepresentation or dishonesty on his part, or any civil proceedings (including any pending civil proceedings which he is aware of) involving an allegation of fraud, misrepresentation or dishonesty on his part;
- (g) a conviction in Singapore or elsewhere of any offence in connection with the formation or management of any corporation;

OTHER GENERAL INFORMATION

- (h) disqualification from acting as a director of any corporation, or from taking part directly or indirectly in the management of any corporation;
- (i) the subject of any order, judgement or ruling of any court, tribunal or governmental body permanently or temporarily enjoining him from engaging in any type of business practice or activity; and
- (j) to his knowledge, been concerned with the management or conduct, in Singapore or elsewhere, of affairs of:-
 - (i) any corporation which has been investigated for a breach of any law or regulatory requirement governing corporations in Singapore or elsewhere; or
 - (ii) any corporation or partnership which has been investigated for a breach of any law or regulatory requirement that relates to the securities or futures industry in Singapore or elsewhere,

in connection with any matter occurring or arising during the period when he was so concerned with the corporation or partnership.

5. Save as disclosed in the section “Management – Service Agreement” of this Prospectus, there are no existing or proposed service contracts between our Executive Directors or Executive Officers and our Company or any of our subsidiary.
6. There is no shareholding qualification for Directors under the Articles of Association of our Company.
7. No option to subscribe for shares in, or debentures of, our Company or our subsidiary has been granted to, or was exercised by, any of our Directors or Executive Officers within the last financial year.
8. Save as disclosed in the sections “Restructuring Exercise” and “Interested Person Transactions and Conflicts of Interest” of this Prospectus, none of our Directors is interested, directly or indirectly, in the promotion of, or in any property or assets which have, within the two years preceding the date of this Prospectus, been acquired or disposed of by or leased to, our Company or our subsidiary, or are proposed to be acquired or disposed of by or leased to our Company or our subsidiary.
9. None of our Directors or Executive Officers or Controlling Shareholders of our Company has any substantial interest, direct or indirect, in any company carrying on a similar trade as our Company or our subsidiary.
10. No sum or benefit has been paid or is agreed to be paid to any Director or expert, or to any firm in which such Director or expert is a partner or any corporation in which such Director or expert holds shares or debentures, in cash or shares or otherwise, by any person to induce him to become, or to qualify him as, a Director, or otherwise for services rendered by him or by such firm or corporation in connection with the promotion or formation of our Company.
11. Save as disclosed in the section “Interested Person Transactions and Conflicts of Interests” of this Prospectus, none of our Directors has any interest in any existing contract or arrangement which is significant in relation to the business of our Company and our subsidiary, taken as a whole.

OTHER GENERAL INFORMATION

SHARE CAPITAL

12. As at the Latest Practicable Date, there is only one class of shares in the capital of our Company. There are no founder, management or deferred shares. The rights and privileges attached to our Shares are stated in the Articles of Association of our Company.
13. The changes in the issued and paid-up share capital of our Company and our subsidiary within the three years preceding the date of this Prospectus are set out below:-

Our Company

Date of Issue	Number of Shares Issued	Issue Price per Share/ Consideration/Purpose	Resultant Paid-up Share Capital
31 August 2005	2	S\$1/ S\$2/ Incorporation	S\$2
10 October 2006	131,172,000	–	No change in the issued and paid-up share capital as the share issue was a result of the Sub-division
10 October 2006	8,245,000	S\$0.12/S\$1,000,000/ Conversion of the Convertible Loan from Mr Tan Kim Seng	S\$5,980,002
	6,902,000	S\$0.17/S\$1,202,800 Conversion of the Convertible Loan from Legacy Partners Limited	
	6,681,000	S\$0.17/S\$1,164,000 Conversion of the Convertible Loan from Wang Yu Huei	
	5,831,000	S\$0.14/S\$800,000 Conversion of the Convertible Loan from Teo Kok Woon	
	4,352,000	S\$0.17/S\$756,600 Conversion of the Convertible Loan from Re Shan Investments Limited	
	4,352,000	S\$0.17/S\$756,600 Conversion of the Convertible Loan from Winage Limited	
	2,465,000	S\$0.12/S\$300,000 Conversion of the Convertible Loan from Power Works Pte Ltd	

OTHER GENERAL INFORMATION

Linyi Kaiyuan Bearing

Date of Payment	Increase in Paid-up Registered Capital	Resultant Paid-up Registered Capital
12 April 2006	US\$314,232/ Registered capital contribution	US\$314,232
25 April 2006	US\$1,524,028/ Registered capital contribution	US\$1,838,260
11 August 2006	US\$1,451,222/ Registered capital contribution	US\$3,289,482

14. Save as disclosed above, no shares in, or debentures of, our Company or our subsidiary has been issued, or are proposed to be issued, as fully or partly paid for cash or for a consideration other than cash, during the last three years.

MEMORANDUM AND ARTICLES OF ASSOCIATION

15. The provisions in the Articles of Association relating to, *inter alia*, the remuneration, voting rights on proposals, arrangements or contracts in which our Directors are interested, borrowing powers of our Directors, the voting rights and dividend rights of members of our Company are set out under Appendix III "Summary of Memorandum of Association and Selected Articles of Association of the Company" of this Prospectus.

MATERIAL CONTRACTS

16. The following contracts, not being contracts entered into in the ordinary course of business, have been entered into by our Company and our subsidiary within the two years preceding the date of lodgement of this Prospectus and are or may be material:-
- (a) the convertible loan agreement dated 18 November 2005 amongst our Company, Yimeng Bearing, Zhang Yuankai, Zhang Anxi and Tan Kim Seng, as amended by the supplemental convertible loan agreement dated 31 March 2006 and the 2nd supplemental convertible loan agreement dated 3 August 2006 amongst our Company, Yimeng Bearing, Zhang Yuankai, Zhang Anxi and Tan Kim Seng, pursuant to which Tan Kim Seng agreed to advance a convertible loan amounting to S\$1,000,000, which would be automatically converted into Shares on our Company delivering a conversion notice to Tan Kim Seng at any time after the date of our receipt of the eligibility-to-list letter from SGX-ST but not later than the date of registration of this Prospectus;
 - (b) the convertible loan agreement dated 21 November 2005 amongst our Company, Yimeng Bearing, Zhang Yuankai, Zhang Anxi and Power Works Pte Ltd, as amended by the supplemental convertible loan agreement dated 3 August 2006 amongst our Company, Yimeng Bearing, Zhang Yuankai, Zhang Anxi and Power Works Pte Ltd pursuant to which Power Works Pte Ltd agreed to advance a convertible loan of S\$300,000 which would be automatically converted into Shares on our Company delivering a conversion notice to Power Works Pte Ltd at any time after the date of our receipt of the eligibility-to-list letter from SGX-ST but not later than the date of registration of this Prospectus;
 - (c) the convertible loan agreement dated 21 November 2005 amongst our Company, Yimeng Bearing, Zhang Yuankai, Zhang Anxi and Teo Kok Woon, as amended by the supplemental convertible loan agreement dated 24 March 2006 and the 2nd supplemental convertible loan agreement dated 3 August 2006 amongst our Company, Yimeng Bearing, Zhang Yuankai, Zhang Anxi and Teo Kok Woon, pursuant to which Teo Kok Woon agreed to advance convertible loans amounting to S\$800,000 which would be automatically converted into Shares on our Company delivering a conversion notice to Teo Kok Woon at any time after the date of our receipt of the eligibility-to-list letter from SGX-ST but not later than the date of registration of this Prospectus;

OTHER GENERAL INFORMATION

- (d) the loan agreement dated 30 March 2006 amongst our Company, Yimeng Bearing, Zhang Yuankai, Zhang Anxi and Legacy Venture Capital Limited, and the assignment agreement dated 5 April 2006 amongst Legacy Venture Capital Limited, Re Shan Investments Limited, Winage Limited, Wang Yu Huei and Legacy Partners Limited, as amended by the supplemental loan agreement dated 3 August 2006 amongst our Company, Yimeng Bearing, Zhang Yuankai, Zhang Anxi, Re Shan Investments Limited, Winage Limited, Wang Yu Huei and Legacy Partners Limited, pursuant to which Re Shan Investments Limited, Winage Limited, Wang Yu Huei and Legacy Partners Limited (the “Lenders”) agreed to advance a non-convertible loan of S\$970,000 and a convertible loan of S\$3,880,000 which would be automatically converted into Shares on our Company delivering a conversion notice to the Lenders at any time after the date of our receipt of the eligibility-to-list letter from SGX-ST but not later than the date of registration of this Prospectus;
- (e) the escrow agreement dated 5 April 2006 amongst Yimeng Bearing, Linyi Kaiyuan Bearing, Legacy Venture Capital Limited and Drew & Napier LLC in relation to the Loan Agreement and the Asset Purchase Agreement, pursuant to which Yimeng Bearing, Linyi Kaiyuan Bearing and Legacy Venture Capital Limited appointed Drew & Napier LLC as the escrow agent to hold part of the purchase consideration in the amount equivalent to 50 per cent. of the loans under the Loan Agreement in escrow until a copy of the eligibility-to-list letter issued by SGX-ST to our Company is delivered to Drew & Napier LLC;
- (f) the escrow agreement dated 5 April 2006 amongst our Company, Tan Kim Seng and Drew & Napier LLC in relation to the convertible loan agreement with Tan Kim Seng referred to in paragraph 16(a) above, pursuant to which our Company and Tan Kim Seng appointed Drew & Napier LLC as the escrow agent to hold part of the convertible loan under the convertible loan agreement with Tan Kim Seng referred to paragraph 16(a) above in the amount of S\$500,000 in escrow until a copy of the eligibility-to-list letter issued by SGX-ST to our Company is delivered to Drew & Napier LLC;
- (g) the lease agreement dated 20 April 2006 between Yimeng Bearing and Linyi Kaiyuan Bearing, as amended by the supplemental lease agreement dated 8 June 2006, pursuant to which Linyi Kaiyuan Bearing leased the land and buildings at No. 2 Yiqing Road, Yinan County, Shandong Province, the PRC, from Yimeng Bearing for a term of 10 years, which commenced on 1 April 2006, for an annual rental of RMB944,106;
- (h) the Land Use Fee Contract dated 9 May 2006 between Yinan County Land Resource Bureau and Linyi Kaiyuan Bearing in relation to the acquisition of a piece of land of approximately 55,000 sq m at Yinan County, Shandong Province, the PRC;
- (i) the State-owned Land Use Right Grant Contract dated 13 July 2006 between Yinan County Land Resource Bureau, Shandong Province, PRC and Linyi Kaiyuan Bearing in relation to the acquisition of the said piece of land mentioned in (h) above;
- (j) the loan agreement dated 8 June 2006 between Linyi Kaiyuan Bearing and Zhang Anxi under which Zhang Anxi granted a loan of RMB11.3 million to Linyi Kaiyuan Bearing; and
- (k) the agreement dated 8 June 2006 between Yimeng Bearing and Linyi Kaiyuan Bearing for the purchase of certain assets, liabilities and business of Yimeng Bearing.

LITIGATION

- 17. As at the Latest Practicable Date, neither our Company nor our subsidiary is engaged in any legal or arbitration proceedings as plaintiff or defendant, including those which are pending or known to be contemplated which may have or have had in the last 12 months before the date of lodgement of this Prospectus, a material effect on the financial position or the profitability of our Company or our subsidiary.

OTHER GENERAL INFORMATION

MANAGEMENT, UNDERWRITING AND PLACEMENT ARRANGEMENTS

18. Pursuant to the Management and Underwriting Agreement dated 12 October 2006 (the "Management and Underwriting Agreement") entered into between our Company, the Vendor and Phillip Securities, our Company and the Vendor appointed Phillip Securities to manage the Invitation and underwrite the Offer Shares. The Manager will receive a management fee from our Company for its services rendered in connection with the Invitation.
19. Pursuant to the Management and Underwriting Agreement, Phillip Securities has agreed to underwrite the Offer Shares for an underwriting commission of 3.25% of the Issue Price for each Offer Share, payable by our Company and the Vendor in the proportion in which the number of Invitation Shares offered by them pursuant to the Invitation bears to the total number of Invitation Shares (the "Agreed Proportion"). Phillip Securities may, at its absolute discretion, appoint one or more sub-underwriters to underwrite the Offer Shares.
20. Pursuant to the Placement Agreement dated 12 October 2006 (the "Placement Agreement") entered into between our Company, the Vendor and Phillip Securities, Phillip Securities has agreed to subscribe for and/or purchase or procure subscribers and/or purchasers for the Placement Shares for a placement commission of 3.5% of the Issue Price for each Placement Share payable by our Company and the Vendor in the Agreed Proportion. Phillip Securities may, at its absolute discretion, appoint one or more sub-placement agents for the Placement Shares.
21. For Offer Shares, brokerage will be paid by our Company and the Vendor in the Agreed Proportion at the rate of 0.25% of the Issue Price for each Offer Share, to the members of the Association of Banks in Singapore, members of the SGX-ST and merchant banks in Singapore in respect of successful applications made on Application Forms bearing their respective stamps, and to the Participating Banks in respect of successful applications made through Electronic Applications at their respective ATMs or IB websites. In addition, DBS levies a minimum brokerage fee of S\$5,000 that will be paid by our Company and the Vendor in the Agreed Proportion.
22. Subscribers and/or purchasers of the Placement Shares may be required to pay a brokerage of up to 1.0% of the Issue Price to the Placement Agent (including the prevailing Goods and Services Tax, if applicable).
23. Save as aforesaid, no commission, discount or brokerage, has been paid or other special terms granted within the two years preceding the date of this Prospectus or is payable to any Director, promoter, expert, proposed Director or any other person for subscribing or agreeing to subscribe or procuring or agreeing to procure subscriptions for any shares in, or debentures of, our Company or our subsidiary.
24. The Management and Underwriting Agreement may be terminated by Phillip Securities at any time on or before the close of the Application List, if prior to the Closing Date:-
 - (A) there shall come to the knowledge of Philip Securities any breach of the warranties or undertakings in the Management and Underwriting Agreement or that any of the warranties is untrue or incorrect; or
 - (B) any event occurring after the date of the Management and Underwriting Agreement and prior to the Closing Date, which if it had occurred before the date of the Management and Underwriting Agreement, would have rendered any of the warranties or representations contained in the Management and Underwriting Agreement untrue or incorrect; or

OTHER GENERAL INFORMATION

(C) there shall have been, since the date of the Management and Underwriting Agreement:-

- (i) any material adverse change, or any development involving a prospective material adverse change, in the condition (financial or otherwise) of our Company or of our Group as a whole; or
- (ii) any introduction or prospective introduction of or any material change or prospective material change in any legislation, regulation, order, policy, rule, guideline or directive in Singapore, PRC or elsewhere (whether or not having the force of law) and including, without limitation, any directive or request issued by the Authority, the Securities Industry Council of Singapore or the SGX-ST or relevant authorities in the PRC or elsewhere, or in the interpretation or application thereof by any court, government body, regulatory authority or other competent authority; or
- (iii) any material change, or any material development involving a prospective material change, in local, national, regional or international financial (including stock market, foreign exchange market, inter-bank market or interest rates or money market), political, industrial, economic, legal or monetary conditions, taxation or exchange controls (including without limitation, the imposition of any moratorium, suspension or material restriction on trading in securities generally on the SGX-ST due to exceptional financial circumstances or otherwise material adverse changes in foreign exchange controls in Singapore or overseas, or any combination of any such changes or developments or crisis, or any material deterioration of any such conditions); or
- (iv) any imminent threat or occurrence of any local, national, regional or international outbreak or escalation of hostilities, insurrection, terrorist attacks or armed conflict (whether or not involving financial markets in any jurisdiction);
- (v) any regional or local outbreak of disease that may have an adverse effect on the financial market; or
- (vi) any other occurrence of any nature whatsoever, which event or events shall in the reasonable opinion of Phillip Securities:-
 - (1) results or is likely to result in a material adverse fluctuation or adverse conditions in the stock market in Singapore or overseas; or
 - (2) is likely to materially prejudice the success of the offer of the Invitation Shares (whether in the primary market or in respect of dealings in the secondary market); or
 - (3) makes it impracticable, inadvisable, inexpedient or uncommercial to proceed with any of the transactions contemplated in the Management and Underwriting Agreement; or
 - (4) is likely to have a material adverse effect on the business, trading position, operations or prospects of our Company and/or its subsidiary or of our Group as a whole; or
 - (5) is such that no reasonable underwriter would have entered into the underwriting obligations under the Management and Underwriting Agreement; or
 - (6) results or is likely to result in the issue of a stop order by the Authority pursuant to the SFA; or
 - (7) make it uncommercial or otherwise contrary to or outside the usual commercial practices of underwriters in Singapore for Phillip Securities to observe or perform or be obliged to observe or perform the terms of the Management and Underwriting Agreement; or

OTHER GENERAL INFORMATION

(D) Phillip Securities may also terminate the Management and Underwriting Agreement if:-

- (i) at any time up to the Closing Date, a stop order shall have been issued by the Authority in accordance with Section 242 of the SFA; or
- (ii) at any time after registration of the Prospectus with the Authority but before Closing Date, the Company fails and/or neglects to lodge a supplementary or replacement prospectus (as the case may be) if it becomes aware of:-
 - (1) a false or misleading statement or matter in the Prospectus;
 - (2) an omission from the Prospectus of any information that should have been included in it under Section 243 of the SFA; or
 - (3) a new circumstance that has arisen since the Prospectus was lodged with the Authority and would have been required by Section 243 of the SFA to be included in the Prospectus if it had arisen before the Prospectus was lodged, that is materially adverse from the point of view of an investor; or
- (iii) the Invitation Shares have not been admitted to the Official List of the SGX-ST by 20 October 2006 (or such other date as our Company, the Vendor and Phillip Securities may agree).

25. The Placement Agreement is conditional upon the Management and Underwriting Agreement not being determined or rescinded pursuant to the provisions of the Management and Underwriting Agreement, and may be terminated on the occurrence of certain events, including those specified above.

MISCELLANEOUS

- 26. The time of opening of the Application List is set out on page 22 of this Prospectus.
- 27. The amount payable on application is S\$0.32 for each Offer Share and each Placement Share.
- 28. There has been no previous issue of Shares by our Company or offer for sale of our Shares to the public.
- 29. There have been no public take-over offers by third parties in respect of our Shares or by us in respect of other companies' shares which have occurred during the last and current financial year.
- 30. No amount of cash or securities or benefit has been paid or given by our Company and/or our subsidiary to any promoter within the two years preceding the Latest Practicable Date or is proposed or intended to be paid or given to any promoter at any time.
- 31. No expert is interested, directly or indirectly, in the promotion of, or in any property or assets which have, within the two years preceding the Latest Practicable Date, been acquired or disposed of by or leased to our Company or our subsidiary or are proposed to be acquired or disposed of by or leased to our Company or our subsidiary.
- 32. Application monies received by our Company in respect of successful applications (including successful applications which are subsequently rejected) will be placed in a separate non-interest bearing account with the Receiving Bank. In the ordinary course of business, the Receiving Bank will deploy these monies in the interbank money market. All profits derived from the deployment of such monies will accrue to the Receiving Bank. Any refund of all or part of the application monies to unsuccessful or partially successful applicants will be made without any interest or any share of revenue or any other benefit arising therefrom.

OTHER GENERAL INFORMATION

33. Save as disclosed in this Prospectus, our Directors are not aware of any relevant material information including trading factors or risks which are unlikely to be known or anticipated by the general public and which could materially affect the financial position and results of our Company and our subsidiary.

Save as disclosed in the section “Trend Information” of this Prospectus, no event has occurred since 31 March 2006 to the Latest Practicable Date which may have a material effect on our financial position and results of operation.

34. We currently have no intention of changing our auditors after the listing of our Company on the SGX-ST.
35. Save as disclosed in the section “Use of Proceeds” of this Prospectus, no property has been purchased or acquired or proposed to be purchased or acquired by our Company or our subsidiary which is to be paid for wholly or partly out of the proceeds of the Invitation or the purchase or acquisition of which has not been completed at the date of the issue of this Prospectus other than property in respect of which the contract for the purchase or acquisition whereof was entered into in our ordinary course of business or in the ordinary course of business of our subsidiary, such contract not being made in contemplation of the Invitation nor the Invitation in consequence of the contract.
36. Save for Phillip Securities’ role as Manager, Underwriter and Placement Agent in connection with the Invitation, we do not have any material relationship with Phillip Securities.

CONSENTS

37. Foo Kon Tan Grant Thornton has given and has not withdrawn its written consent to the issue of this Prospectus with the inclusion herein of its name, the reports, namely (i) “Report of the Independent Auditors on the Combined Financial Statements of China Bearing (Singapore) Ltd. for the Financial Years ended 31 December 2003, 2004 and 2005”, (ii) “Review Letter by the Independent Auditors on the Combined Financial Statements of China Bearing (Singapore) Ltd. for the Three-Month Financial Period ended 31 March 2006”, (iii) Combined Unaudited Financial Statements of China Bearing (Singapore) Ltd. for the Three-Month Financial Period ended 31 March 2006”, (iv) “Unaudited Pro Forma Group Financial Statements of China Bearing (Singapore) Ltd. for the Year ended 31 December 2005 and Three Months ended 31 March 2006” and (v) “Audited Financial Statements of Shandong Yimeng Bearing Joint Stock Co., Ltd. for the Years ended 31 December 2003, 2004 and 2005”, in the form and context in which they appear in this Prospectus and references to its name and such reports and financial information in the form and context in which they appear in this Prospectus and to act in such capacity in relation to this Prospectus.
38. The independent valuers, Linyi Hengzheng Certified Public Accountants Co., Ltd. and Shandong Yitong Property Valuation Co., Ltd. have given and have not withdrawn their written consents to the issue of this Prospectus with the inclusion herein of their names and the statement which refers to the valuation reports prepared by them in the form and context in which they appear in this Prospectus and references to their names in the form and context in which they appear in this Prospectus.
39. Each of the Solicitors to the Invitation, the Share Registrar, the Receiving Bank and Principal Banker do not make, or purport to make, any statement in this Prospectus or any statement upon which a statement in this Prospectus is based and, to the maximum extent permitted by law, expressly disclaim and take no responsibility for any liability to any person which is based on, or arises out of, the statements, information or opinions in this Prospectus.

OTHER GENERAL INFORMATION

40. Jun He Law Offices, the Legal Advisers to our Company on PRC Law, has given and has not withdrawn its consent to the issue of this Prospectus with the inclusion herein of the statements which refer to its opinion in the sections “Risk Factors – Risks Relating To An Investment In A Company With Significant PRC Operations”, “Restructuring Exercise” and “Appendix II: Summary of Relevant PRC Laws and Regulations” in the form and context in which they appear in this Prospectus and the references to their names in the form and context in which they appear in this Prospectus.
41. Phillip Securities has given and has not before the registration of the Prospectus withdrawn its written consent to being named in the Prospectus as Manager, Underwriter and Placement Agent to the Invitation. Phillip Securities does not make, or purport to make, any statement in this Prospectus or any statement upon which a statement in this Prospectus is based.

RESPONSIBILITY STATEMENT BY OUR DIRECTORS AND VENDOR

42. This Prospectus has been seen and approved by our Directors and the Vendor and they collectively and individually accept full responsibility for the accuracy of the information given herein and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, the facts stated and the opinions expressed in this Prospectus are fair and accurate in all material respects as at the date of this Prospectus and that there are no other material facts the omission of which would make any statement in this Prospectus misleading, and that this Prospectus constitutes full and true disclosure of all material facts about the Invitation and our Company and our subsidiary.

DOCUMENTS AVAILABLE FOR INSPECTION

43. The following documents or copies thereof may be inspected at our registered office at 336 Smith Street #05-310, New Bridge Centre, Singapore 050336, during normal business hours for a period of six months from the date of registration by the Authority of this Prospectus:-
- (a) the Memorandum and Articles of Association of our Company;
 - (b) the material contracts referred to in paragraph 16 above;
 - (c) the letters of consent referred to in paragraphs 37 to 41 above;
 - (d) the Report of the Independent Auditors on the Combined Financial Statements of China Bearing (Singapore) Ltd. for the Financial Years ended 31 December 2003, 2004 and 2005;
 - (e) the Review Letter by the Independent Auditors on the Combined Financial Statements of China Bearing (Singapore) Ltd. for the Three-Month Financial Period ended 31 March 2006;
 - (f) the Combined Unaudited Financial Statements of China Bearing (Singapore) Ltd. for the Three-Month Financial Period ended 31 March 2006;
 - (g) the Unaudited Pro Forma Group Financial Statements of China Bearing (Singapore) Ltd. for the Year ended 31 December 2005 and Three Months ended 31 March 2006;
 - (h) the Audited Financial Statements of Shandong Yimeng Bearing Joint Stock Co., Ltd. for the Years ended 31 December 2003, 2004 and 2005;
 - (i) the valuation reports prepared by the independent professional valuers, Linyi Hengzheng Certified Public Accountants Co., Ltd. and Shandong Yitong Property Valuation Co., Ltd.; and
 - (j) the service agreement referred to on pages 104 to 105 of this Prospectus.

APPENDIX I

DESCRIPTION OF ORDINARY SHARES

The following statements are brief summaries of the rights and privileges of shareholders conferred by the laws of Singapore and the Articles of Association (the “Articles”) of our Company. These statements summarise the material provisions of the Articles but are qualified in entirety by reference to the Articles.

Ordinary Shares

All of our Shares are in registered form. We may, subject to the provisions of the Act and the rules of the SGX-ST, purchase our own Shares. However, we may not, except in circumstances permitted by the Act, grant any financial assistance for the acquisition or proposed acquisition of our Shares.

New Shares

New Shares may only be issued with the prior approval in a general meeting of the shareholders of our Company. The aggregate number of Shares (including Shares to be issued in pursuance of Instruments made or granted pursuant to such approval) to be issued pursuant to such approval may not exceed 50% (or such other limit as may be prescribed by the SGX-ST) of our issued share capital for the time being, of which the aggregate number of Shares (including Shares to be issued in pursuance of Instruments made or granted pursuant to such approval), to be issued other than on a pro rata basis to our shareholders may not exceed 20% (or such other limit as may be prescribed by the SGX-ST) of our issued share capital for the time being. The approval, if granted, will lapse at the conclusion of the annual general meeting following the date on which the approval was granted or the date by which the annual general meeting is required by law to be held, whichever is the earlier. Subject to the foregoing, the provisions of the Act and any special rights attached to any class of shares currently issued and all new Shares are under the control of the Board of Directors who may allot and issue the same with such rights and restrictions as it may think fit.

Shareholders

Only persons who are registered in the register of shareholders of our Company and, in cases in which the person so registered is CDP, the persons named as the depositors in the depository register maintained by CDP for the Shares, are recognised as shareholders of our Company. Our Company will not, except as required by law, recognise any equitable, contingent, future or partial interest in any Share or other rights for any Share other than the absolute right thereto of the registered holder of that Share. We may close the register of shareholders for any time or times if we provide the SGX-ST at least 10 clear market days’ notice. However, the register may not be closed for more than 30 days in aggregate in any calendar year. We typically close the register to determine shareholders’ entitlement to receive dividends and other distributions.

Transfer of Shares

There is no restriction on the transfer of fully paid Shares except where required by law or the listing rules or the rules or by-laws of any securities exchange on which our Company is listed. The Board of Directors may decline to register any transfer of Shares which are not fully paid Shares or Shares on which we have a lien. Shares may be transferred by a duly signed instrument of transfer in a form approved by any securities exchange on which our Company is listed. The board of Directors may also decline to register any instrument of transfer unless, among other things, it has been duly stamped and is presented for registration together with the share certificate and such other evidence of title as they may require. We will replace lost or destroyed certificates for Shares if we are properly notified and if the applicant pays a fee which will not exceed S\$2 and furnishes any evidence and indemnity that the Board of Directors may require.

General Meeting of Shareholders

We are required to hold an annual general meeting every year. The Board of Directors may convene an Extraordinary General Meeting whenever it thinks fit and must do so if shareholders holding not less than 10% of the paid-up capital of our Company request in writing that such a meeting be held. In addition, two or more shareholders holding not less than 10% of the total number of our issued Shares (excluding treasury Shares) may call a meeting. Unless otherwise required by law or by the Articles, voting at general meetings is by ordinary resolution, requiring an affirmative vote of a simple majority of the votes

APPENDIX I

DESCRIPTION OF ORDINARY SHARES

cast at the meeting. An ordinary resolution suffices, for example, for the appointment of directors. A special resolution, requiring the affirmative vote of at least 75% of the votes cast at the meeting, is necessary for certain matters under Singapore law, including voluntary winding up, amendments to the Memorandum of Association and the Articles, a change of the corporate name and a reduction in the share capital. Our Company must give at least 14 days' notice in writing for every general meeting convened for the purpose of passing an ordinary resolution. Special resolutions generally require at least 21 days' notice in writing. The notice must set forth the place, the day and the hour of the meeting and, in the case of special business, the general nature of that business.

Voting Rights

A shareholder is entitled to attend and vote at any general meeting in person or by proxy. Proxies need not be a shareholder. A person who holds Shares through the SGX-ST book-entry settlement system will only be entitled to vote at a general meeting as a shareholder if his name appears on the depository register maintained by CDP 48 hours before the general meeting. Except as otherwise provided in the Articles, two or more shareholders must be present in person or by proxy to constitute a quorum at any general meeting. Under the Articles, on a show of hands, every shareholder present in person and by proxy shall have one vote, and on a poll, every shareholder present in person or by proxy shall have one vote for each Share which he holds or represents. A poll may be demanded in certain circumstances, including by the chairman of the meeting or by any shareholder present in person or by proxy and representing not less than 10% of the total voting rights of all shareholders having the right to attend and vote at the meeting or any two shareholders present in person or by proxy and entitled to vote.

Dividends

Our Company may, by ordinary resolution of our shareholders, declare dividends at a general meeting, but we may not pay dividends in excess of the amount recommended by our Board of Directors. We must pay all dividends out of our profits. Our Board of Directors may also declare an interim dividend without the approval of our shareholders. All dividends are paid pro rata among our shareholders in proportion to the amount paid up on each shareholder's Shares, unless the rights attaching to an issue of any Share provides otherwise. Unless otherwise directed, dividends are paid by cheque or warrant sent through the post to each shareholder at his registered address. Notwithstanding the foregoing, the payment by our Company to CDP of any dividend payable to a shareholder whose name is entered in the depository register shall, to the extent of payment made to CDP, discharge us from any liability to that shareholder in respect of that payment.

Bonus and Rights Issues

The Board of Directors may, with approval of our shareholders at a general meeting, capitalise any reserves or profits (including profit or monies carried and standing to any reserve) and distribute the same as bonus shares credited as paid-up to our shareholders in proportion to their shareholdings. The Board of Directors may also issue rights to take up additional Shares to shareholders in proportion to their shareholdings. Such rights are subject to any conditions attached to such issue and the regulations of any securities exchange on which we are listed.

Takeovers

Under the Singapore Code on Take-overs and Mergers ("Take-over Code") issued by the MAS pursuant to Section 321 of the Securities and Futures Act, any person acquiring an interest, either on his own or together with persons acting in concert with him, in 30% or more of our voting shares must extend a takeover offer for the remaining voting shares in accordance with the provisions of the Revised Take-over Code. In addition, a mandatory takeover offer is also required to be made if a person holding, either on his own or together with persons acting in concert with him, between 30% and 50% of the voting shares acquires additional voting shares representing more than 1% of the voting shares in any 6-month period.

APPENDIX I

DESCRIPTION OF ORDINARY SHARES

Under the Take-over Code, the following individuals and companies will be presumed to be persons acting in concert with each other unless the contrary is established:

- (a) the following companies:
 - (i) a company;
 - (ii) the parent company of (i);
 - (iii) the subsidiaries of (i);
 - (iv) the fellow subsidiaries of (i);
 - (v) the associated companies of any of (i), (ii), (iii) or (iv); and
 - (vi) companies whose associated companies include any of (i), (ii), (iii), (iv) or (v);
- (b) a company with any of its directors (together with their close relatives, related trusts as well as companies controlled by any of the directors, their close relatives and related trusts);
- (c) a company with any of its pension funds and employee share schemes;
- (d) a person with any investment company, unit trust or other fund whose investment such person manages on a discretionary basis, but only in respect of the investment account which such person manages;
- (e) a financial or other professional adviser, including a stockbroker, with its client in respect of the shareholdings of:
 - (i) the adviser and persons controlling, controlled by or under the same control as the adviser; and
 - (ii) all the funds which the adviser manages on a discretionary basis, where the shareholdings of the adviser and any of those funds in the client total 10% or more of the client's equity share capital;
- (f) directors of a company (together with their close relatives, related trusts and companies controlled by any of such directors, their close relatives and related trusts) which is subject to an offer or where the directors have reason to believe a bona fide offer for their company may be imminent;
- (g) partners; and
- (h) the following persons and entities:
 - (i) an individual;
 - (ii) the close relatives of (i);
 - (iii) the related trusts of (i);
 - (iv) any person who is accustomed to act in accordance with the instructions of (i); and
 - (v) companies controlled by any of (i), (ii), (iii), or (iv).

Under the Take-over Code, a mandatory offer made with consideration other than cash must be accompanied by a cash alternative at not less than the highest price paid by the offeror or any person acting in concert with the offeror within the preceding 6 months.

APPENDIX I

DESCRIPTION OF ORDINARY SHARES

Liquidation or Other Return of Capital

If our Company liquidates or in the event of any other return of capital, holders of Shares will be entitled to participate in any surplus assets in proportion to their shareholdings, subject to any special rights attaching to any other class of shares.

Indemnity

As permitted by Singapore law, the Articles provide that, subject to the Act, the Board of Directors and officers shall be entitled to be indemnified by our Company against any liability incurred in defending any proceedings, whether civil or criminal, which relate to anything done or omitted to have been done as an officer, director or employee and in which judgement is given in their favour or in which they are acquitted or in connection with any application under any statute for relief from liability in respect thereof in which relief is granted by the court. We may not indemnify directors and officers against any liability which by law otherwise attach to them in respect of any negligence, default, breach of duty or breach of trust of which they may be guilty in relation to our Company.

Limitations on Rights to Hold or Vote Shares

Except as described in “Voting Rights” and “Takeovers” above, there are no limitations imposed by Singapore law or by the Articles on the rights of non-resident shareholders to hold or vote Shares.

Minority Rights

The rights of minority shareholders of Singapore-incorporated companies are protected under Section 216 of the Act, which gives the Singapore courts a general power to make any order, upon application by any of our shareholders, as they think fit to remedy any of the following situations:

- (a) the affairs of our Company are being conducted or the powers of the Board of Directors are being exercised in a manner oppressive to, or in disregard of the interests of, one or more of the shareholders; or
- (b) our Company takes an action, or threatens to take an action, or the shareholders pass a resolution, or propose to pass a resolution, which unfairly discriminates against, or is otherwise prejudicial to, one or more of the shareholders, including the applicant. Singapore courts have wide discretion as to the reliefs they may grant and those reliefs are in no way limited to those listed in the Act itself. Without prejudice to the foregoing, Singapore courts may:
 - (i) direct or prohibit any act or cancel or vary any transaction or resolution;
 - (ii) regulate the conduct of the affairs of our Company in the future;
- (c) authorise civil proceedings to be brought in our name, or on our behalf, by a person or persons and on such terms as the court may direct;
- (d) provide for the purchase of a minority shareholder's Shares by the other shareholders or by our Company and, in the case of a purchase of Shares by our Company, a corresponding reduction of our share capital;
- (e) provide that the Memorandum of Association or the Articles be amended; or
- (f) provide that our Company be wound up.

APPENDIX II

SUMMARY OF RELEVANT PRC LAWS AND REGULATIONS

1. PRC legal system

The PRC legal system is based on the PRC Constitution and is made up of written laws, regulations and directives. Decided court cases do not constitute binding precedents.

The National People's Congress of the PRC ("NPC") and the Standing Committee of the NPC are empowered by the PRC Constitution to exercise the legislative power of the state. The NPC has the power to amend the PRC Constitution and to enact and amend primary laws governing the state organs and civil and criminal matters. The Standing Committee of the NPC is empowered to interpret, enact and amend laws other than those required to be enacted by the NPC.

The State Council of the PRC is the highest organ of state administration and has the power to enact administrative rules and regulations. Ministries and commissions under the State Council of the PRC are also vested with the power to issue orders, directives and regulations within the jurisdiction of their respective departments. Administrative rules, regulations, directives and orders promulgated by the State Council and its ministries and commissions must not be in conflict with the PRC Constitution or the national laws and, in the event that any conflict arises, the Standing Committee of the NPC has the power to annul such administrative rules, regulations, directives and orders.

At the regional level, the people's congresses of provinces and municipalities and their standing committees may enact local rules and regulations and the people's government may promulgate administrative rules and directives applicable to their own administrative area. These local laws and regulations may not be in conflict with the PRC Constitution, any national laws or any administrative rules and regulations promulgated by the State Council.

Rules, regulations or directives may be enacted or issued at the provincial or municipal level or by the State Council of the PRC or its ministries and commissions in the first instance for experimental purposes. After sufficient experience has been gained, the State Council may submit legislative proposals to be considered by the NPC or the Standing Committee of the NPC for enactment at the national level.

The power to interpret laws is vested by the PRC Constitution in the Standing Committee of the NPC. According to the Decision of the Standing Committee of the NPC Regarding the Strengthening of Interpretation of Laws (全国人民代表大会常务委员会关于加强法律解释工作的决议) passed on 10th June, 1981, the Supreme People's Court has the power to give general interpretation on application of laws in judicial proceedings apart from its power to issue specific interpretation in specific cases. The State Council and its ministries and commissions are also vested with the power to give interpretation of the rules and regulations which they promulgated. At the regional level, the power to give interpretation of regional laws is vested in the regional legislative and administration organs which promulgate such laws. All such interpretations carry legal effect.

2. Judicial system

The People's Courts are the judicial organs of the PRC. Under the PRC Constitution (中华人民共和国宪法) and the Law of Organisation of the People's Courts of the People's Republic of China (中华人民共和国人民法院组织法), the People's Courts comprise the Supreme People's Court, the local people's courts, military courts and other special people's courts. The local people's courts are divided into three levels, namely, the basic people's courts, intermediate people's courts and higher people's courts. The basic people's courts are divided into civil, criminal and administrative divisions. The intermediate people's courts have divisions similar to those of the basic people's courts and, where the circumstances so warrant, may have other special divisions (such as intellectual property divisions). The judicial functions of people's courts at lower levels are subject to supervision of people's courts at higher levels. The people's procuratorates also have the right to exercise legal supervision over the proceedings of people's courts of the same and lower levels. The Supreme People's Court is the highest judicial organ of the PRC. It supervises the administration of justice by the people's courts of all levels.

APPENDIX II

SUMMARY OF RELEVANT PRC LAWS AND REGULATIONS

The people's courts adopt a two-tier final appeal system. A party may before the taking effect of a judgment or order appeal against the judgment or order of the first instance of a local people's court to the people's court at the next higher level. Judgments or orders of the second instance of the same level and at the next higher level are final and binding. Judgments or orders of the first instance of the Supreme People's Court are also final and binding if no appeals are made before they take effect. If, however, the Supreme People's Court or a people's court at a higher level finds an error in a final and binding judgment which has taken effect in any people's court at a lower level, or the presiding judge of a people's court finds an error in a final and binding judgment which has taken effect in the court over which he presides, a retrial of the case may be conducted according to the judicial supervision procedures.

The PRC civil procedures are governed by the Civil Procedure Law of the People's Republic of China (中华人民共和国民事诉讼法) (the "Civil Procedure Law") adopted on 9th April, 1991. The Civil Procedure Law contains regulations on the institution of a civil action, the jurisdiction of the people's courts, the procedures in conducting a civil action, trial procedures and procedures for the enforcement of a civil judgment or order. All parties to a civil action conducted within the territory of the PRC must comply with the Civil Procedure Law. A civil case is generally heard by a court located in the defendant's place of domicile. The jurisdiction may also be selected by express agreement by the parties to a contract provided that the jurisdiction of the people's court selected has some actual connection with the dispute, that is to say, the plaintiff or the defendant is located or domiciled, or the contract was executed or implemented in the jurisdiction selected, or the subject-matter of the proceedings is located in the jurisdiction selected. A foreign national or foreign enterprise is accorded the same litigation rights and obligations as a citizen or legal person of the PRC. If any party to a civil action refuses to comply with a judgment or order made by a people's court or an award made by an arbitration body in the PRC, the aggrieved party may apply to the people's court to enforce the judgment, order or award. There are time limits on the right to apply for such enforcement. Where at least one of the parties to the dispute is an individual, the time limit is one year. If both parties to the dispute are legal persons or other entities, the time limit is six months.

A party seeking to enforce a judgment or order of a people's court against a party who or whose property is not within the PRC may apply to a foreign court with jurisdiction over the case for recognition and enforcement of such judgment or order. A foreign judgment or ruling may also be recognised and enforced according to PRC enforcement procedures by the people's courts in accordance with the principle of reciprocity or if there exists an international or bilateral treaty with or acceded to by the foreign country that provides for such recognition and enforcement, unless the people's court considers that the recognition or enforcement of the judgment or ruling will violate fundamental legal principles of the PRC or its sovereignty, security or social or public interest.

3. Arbitration and enforcement of arbitral awards

The Arbitration Law of the PRC (中华人民共和国仲裁法) (the "Arbitration Law") was promulgated by the Standing Committee of the NPC on 31st August, 1994 and came into effect on 1st September, 1995. It is applicable to, among other matters, trade disputes involving foreign parties where the parties have entered into a written agreement to refer the matter to arbitration before an arbitration committee constituted in accordance with the Arbitration Law. Under the Arbitration Law, an arbitration committee may, before the promulgation by the PRC Arbitration Association of arbitration regulations, formulate interim arbitration rules in accordance with the Arbitration Law and the PRC Civil Procedure Law. Where the parties have by an agreement provided arbitration as a method for dispute resolution, the parties are not permitted to institute legal proceedings in a people's court.

Under the Arbitration Law, an arbitral award is final and binding on the parties and if a party fails to comply with an award, the other party to the award may apply to the people's court for enforcement. A people's court may refuse to enforce an arbitral award made by an arbitration committee if there were mistakes, an absence of material evidence or irregularities over the arbitration proceedings, or the jurisdiction or constitution of the arbitration committee.

APPENDIX II

SUMMARY OF RELEVANT PRC LAWS AND REGULATIONS

A party seeking to enforce an arbitral award of a foreign affairs arbitration body of the PRC against a party who or whose property is not within the PRC may apply to a foreign court with jurisdiction over the case for enforcement. Similarly, an arbitral award made by a foreign arbitration body may be recognised and enforced by the PRC courts in accordance with the principles of reciprocity or any international treaty concluded or acceded to by the PRC.

In respect of contractual and non-contractual commercial-law-related disputes which are recognised as such for the purposes of PRC law, the PRC has acceded to the Convention on the Recognition and Enforcement of Foreign Arbitral Award (“New York Convention”) adopted on 10th June, 1958 pursuant to a resolution of the Standing Committee of the NPC passed on 2nd December, 1986. The New York Convention provides that all arbitral awards made by a state which is a party to the New York Convention shall be recognised and enforced by other parties to the New York Convention subject to their right to refuse enforcement under certain circumstances including where the enforcement of the arbitral award is against the public policy of the state to which the application for enforcement is made. It was declared by the Standing Committee of the NPC at the time of the accession of the PRC that (1) the PRC would only recognise and enforce foreign arbitral awards on the principle of reciprocity and (2) the PRC would only apply the New York Convention in disputes considered under PRC laws to be arising from contractual and non-contractual mercantile legal relations.

4. Foreign exchange control

Major reforms have been introduced on the foreign exchange control system of the PRC since 1993.

The People's Bank of China (“PBOC”), with the authorisation of the State Council, issued on 28th December, 1993 the Notice on the Further Reform of the Foreign Exchange Control System (中国人民银行关于贯彻《国务院关于进一步改革外汇管理体制的通知》有关操作问题的通知) and on 26th March, 1994 the Provisional Regulations on the Settlement, Sale and Payment of Foreign Exchange (结汇、售汇及付汇管理暂行规定) which came into effect on 1st April, 1994 respectively. On 29th January, 1996, the State Council promulgated the PRC Foreign Exchange Administration Regulations (中华人民共和国外汇管理条例) which took effect on 1st April, 1996. On 20th June, 1996, the PBOC issued the Administration Regulations on the Settlement, Sale and Payment of Foreign Exchange (结汇、售汇及付汇管理规定), which took effect on 1st July, 1996. On 25th October, 1998, the People's Bank of China and the State Administration for Foreign Exchange issued a Joint Announcement on Abolishment of Foreign Exchange Swap Business which stated that from 1st December, 1998, all foreign exchange transactions for FIEs may only be conducted through authorised banks.

These regulations contain detailed provisions regulating the holding, sale and purchase of foreign exchange by individuals, enterprises, economic bodies and social organisations in the PRC.

On 21 July 2005, the Public Announcement of the People's Bank of China on Reforming the RMB Exchange Rate Regime (中国人民银行关于完善人民币汇率形成机制改革的公告) (the “Announcement”) was promulgated by PBOC. In accordance with the Announcement, the PRC government has reformed the RMB exchange rate regime into a managed floating exchange rate regime based on market supply and demand with reference to a basket of currencies, giving more flexibility as compared with the former system in which the RMB was pegged to the US dollar. Under such reformed system, the PBOC announces the closing price of a foreign currency traded against the RMB in the inter-bank foreign exchange market after the closing of the market on each working day, and will make it the central parity for trading against the RMB on the following working day. PRC banks licensed to engage in foreign exchange transactions use the closing price announced by the PBOC as a basis and decide a rate of their own to enter into foreign exchange sale and purchase transactions with customers, such rate shall be within a specified floating band around the central parity which may be adjusted by the PBOC from time to time according to the economic and financial condition in the PRC.

APPENDIX II

SUMMARY OF RELEVANT PRC LAWS AND REGULATIONS

In general, all organisations and individuals within the PRC, including FIEs, are required to remit their foreign exchange earnings to the PRC. In relation to PRC enterprises, their recurrent foreign exchange earnings are generally required to be sold to designated banks unless specifically approved otherwise. Foreign investment enterprises (including sino-foreign equity joint ventures, sino-foreign co-operative joint ventures and wholly foreign owned enterprises), on the other hand, are permitted to retain certain percentage of their recurrent foreign exchange earnings and the sums retained may be deposited into foreign exchange bank accounts maintained with designated banks. Capital foreign exchange earnings must be deposited into foreign exchange bank accounts maintained with designated banks and can generally be retained in such accounts.

At present, control on the purchase of foreign exchange is being relaxed. Enterprises which require foreign exchange for their current activities such as trading activities and payment of staff remuneration may purchase foreign exchange from designated banks, subject to the production of relevant supporting documents without the need for any prior approvals of the State Administration of Foreign Exchange.

In addition, where an enterprise requires any foreign exchange for the payment of dividends that are payable in foreign currencies under applicable regulations, such as the distribution of profits by a foreign investment enterprise to its foreign investment party, then, subject to the due payment of tax on such dividends the amount required may be withdrawn from funds in foreign exchange accounts maintained with designated banks, and where the amount of the funds in foreign exchange is insufficient, the enterprise may purchase additional foreign exchange from designated banks upon the presentation of the resolutions of the board of directors on the profit distribution plan of that enterprise.

Despite the relaxation of foreign exchange control over current account transaction, the approval of the foreign exchange administration authority is still required before a PRC enterprise may borrow a loan in foreign currency or provide any foreign exchange guarantee or make any investment outside of the PRC or to enter into any other capital account transaction involving the purchase of foreign exchange.

When conducting actual foreign exchange transactions, the designated banks may, based on the exchange rate published by the People's Bank of China and subject to certain limits, freely determine the applicable exchange rate.

The China Foreign Exchange Trading Centre ("CFETC") was formally established and came into operation on 1st January, 1994. CFETC has set up a computerised network with sub-centres in several major cities, thereby forming an interbank market in which designated PRC banks can trade in foreign exchange and settle their foreign currency obligations. Prior to 1st December, 1998, enterprises with foreign investment may at their own choice enter into exchange transactions through Swap Centre or through designated PRC banks. From 1st December, 1998 onwards, exchange transactions will have to be conducted through designated banks. Swap Centres became restricted to conducting foreign exchange transactions between authorised banks and inter-bank lending between PRC banks.

5. **Taxation**

The applicable income tax laws, regulations, notices and decisions (collectively referred to as "Applicable Foreign Enterprises Tax Law") related to foreign investment enterprises and their investors include the follows:

- (1) Income Tax Law of the PRC on Foreign Investment Enterprises and Foreign Enterprises (中华人民共和国外商投资企业和外国企业所得税法) adopted by the NPC on 9th April, 1991
- (2) Implementing Rules of the Income Tax Law of the PRC on Foreign Investment Enterprises and Foreign Enterprises (中华人民共和国外商投资企业和外国企业所得税法实施细则) promulgated by the State Council, which came into effect on 1st July, 1991

APPENDIX II

SUMMARY OF RELEVANT PRC LAWS AND REGULATIONS

- (3) Notice Relating to taxes Applicable to Foreign Investment Enterprises / Foreign Enterprises and Foreign Nationals in Relation to Dividends and Gains obtained from Holding and Transferring of Shares (国家税务总局关于外商投资企业、外国企业和外籍个人取得股票(股权)转让收益和股息所得税收问题的通知) promulgated by State Tax Bureau on 21 July 1993
- (4) Income Tax Law Applicable to Individuals of the PRC (中华人民共和国个人所得税法) promulgated by Standing Committee of NPC on 10 September 1980 and last amended on 30 August 1999
- (5) Notice on Relevant Policies Concerning Individual Income Tax (关于个人所得税若干政策问题的通知) issued by Ministry of Finance and the State Tax Bureau on 13 May 1994

(a) *Income tax on foreign investment enterprises*

According to the Applicable Foreign Enterprises Tax Law, foreign investment enterprises (including sino-foreign equity joint ventures, sino-foreign co-operative joint ventures and wholly foreign owned enterprises established in the territory of the PRC) is required to pay a national income tax at a rate of 30% of their taxable income and a local income tax at a rate of three per cent of their taxable income.

A foreign investment enterprise engaged in production having a period of operation of not less than ten years shall be exempted from income tax for the first two profit-making years and a 50% reduction in the income tax payable for the next three years. The income tax concession for foreign investment enterprises engaged in the exploitation of resources such as petroleum, natural gas, rare metals and precious metals are regulated separately by the State Council.

Foreign investment enterprises established in special economic zones, foreign enterprises having an establishment in special economic zones engaged in production or business operations and foreign investment enterprises engaged in production in economic and technological zones may pay income tax at a reduced rate of 15%. Foreign investment enterprises engaged in production established in coastal economic open zones or in the old urban districts of cities where the special economic zones or the economic and technological development zones are located may pay income taxes at a reduced rate of 24%. A reduced income tax rate of 15 per cent. may apply to an enterprise located in such regions which is engaged in energy, communication, harbour, wharf or other projects encouraged by the State.

Losses incurred in a tax year may be carried forward for not more than five years.

The people's governments of provinces, autonomous regions and municipalities directly under the central government may grant exemptions from or reduced local income tax for a foreign investment enterprise engaged in an industry or a project encouraged by the State.

(b) *Value added tax*

The Provisional Regulations of the People's Republic of China Concerning Value Added Tax (中华人民共和国增值税暂行条例) promulgated by the State Council came into effect on 1st January, 1994. Under these regulations and the Implementing Rules of the Provisional Regulations of the People's Republic of China Concerning Value Added Tax (中华人民共和国增值税暂行条例实施细则), value added tax is imposed on goods sold in or imported into the PRC and on processing, repair and replacement services provided within the PRC.

APPENDIX II

SUMMARY OF RELEVANT PRC LAWS AND REGULATIONS

Value added tax payable in the PRC is charged on an aggregated basis at a rate of 13 or 17% (depending on the type of goods involved) on the full price collected for the goods sold or, in the case of taxable services provided, at a rate of 17% on the charges for the taxable services provided but excluding, in respect of both goods and services, any amount paid in respect of value added tax included in the price or charges, and less any deductible value added tax already paid by the taxpayer on purchases of goods and services in the same financial year.

(c) Business tax

With effect from 1st January, 1994, business that provide services (except entertainment business), assign intangible assets or sell immovable property became liable to business tax at a rate ranging from three to five per cent. of the charges of the services provided, intangible assets assigned or immovable property sold, as the case may be.

(d) Tax on dividends from PRC enterprise with foreign investment

According to the Applicable Foreign Enterprises Tax Law, income such as dividends and profits distribution from the PRC derived from a foreign enterprise which has no establishment in the PRC is subject to a 20% withholding tax, subject to reduction as provided by any applicable double taxation treaty, unless the relevant income is specifically exempted from tax under the Applicable Foreign Enterprises Tax Law. The profit derived by a foreign investor from a PRC enterprise with foreign investment is exempted from PRC tax according to the Applicable Foreign Enterprises Tax Law.

6. Wholly foreign-owned enterprise

Wholly foreign-owned enterprises are governed by the *Law of the people's Republic of China Concerning Enterprises with Sole Foreign Investments* (中华人民共和国外资企业法), which was promulgated on 12 April 1986 and was subsequently amended on 31 October 2000, and its Implementation Regulations promulgated on 12 December 1990 and was subsequently amended on 12 April 2001 (together the "Foreign Enterprises Law"). The *Company Law, PRC*, promulgated on 1 July 1994 and amended for the first time on 25 December 1999, the second time on 28 August 2004 and the third time on 27 October 2005 and recently the fourth time on 27 October 2005 and effective from 1 January 2006 (together the "Company Law") also applies to FIEs.

(a) Procedures for establishment of a wholly foreign-owned enterprise

The establishment of a wholly foreign-owned enterprise will have to be approved by Ministry of Commerce (or its delegated authorities) (hereinafter referred to as "MOFCOM"). If two or more foreign investors jointly apply for the establishment of a wholly foreign-owned enterprise, a copy of the contract between the parties must also be submitted to MOFCOM (or its delegated authorities) for its record. A wholly foreign-owned enterprise must also obtain a business licence from SAIC before it can commence business.

(b) Nature

A wholly foreign-owned enterprise is a limited liability company under the Foreign Enterprise Law. It is a legal person which may independently assume civil obligations, enjoy civil rights and has the right to own, use and dispose of property. It is required to have a registered capital contributed by the foreign investor(s). The liability of the foreign investor(s) is limited to the amount of registered capital contributed. A foreign investor may make its contributions by installments and the registered capital must be contributed within the period as approved by MOFCOM (or its delegated authorities) in accordance with relevant regulations.

APPENDIX II

SUMMARY OF RELEVANT PRC LAWS AND REGULATIONS

(c) Profit distribution

The Foreign Enterprise Law provides that after payment of taxes, a wholly foreign-owned enterprise must make contributions to a reserve fund and an employee bonus and welfare fund. The allocation ratio for the employee bonus and welfare fund may be determined by the enterprise. However, at least 10 per cent of the after tax profits must be allocated to the reserve fund. If the cumulative total of allocated reserve funds reaches 50% of an enterprise's registered capital, the enterprise will not be required to make any additional contribution. The enterprise is prohibited from distributing dividends unless the losses (if any) of previous years have been made up.

7. Labour Law

Pursuant to the Labor Law of the PRC, companies must enter into employment contracts with their employees, based on the principles of equality, consent and agreement through consultation. Companies must establish and effectively implement system of ensuring occupational safety and health, educating employees on occupational safety and health, preventing work-related accidents and reducing occupational hazards. Companies must also pay for their employees' social insurance premium.

8. Environmental Protection Regulations

In accordance with the Environmental Protection Law of the PRC adopted by the Standing Committee of the NPC on 26th December 1989, the Administration Supervisory Department of Environmental Protection of the State Council sets the national guidelines for the discharge of pollutants. The provincial and municipal governments of provinces, autonomous regions and municipalities may also set their own guidelines for the discharge of pollutants within their own provinces or districts in the event that the national guidelines are inadequate.

A company or enterprise which causes environmental pollution and discharges other polluting materials which endanger the public should implement environmental protection methods and procedures into their business operations. This may be achieved by setting up a system of accountability within the company's business structure for environmental protection; adopting effective procedures to prevent environmental hazards such as waste gases, water and residues, dust powder, radioactive materials and noise arising from production, construction and other activities from polluting and endangering the environment. The environmental protection system and procedures should be implemented simultaneously with the commencement of and during the operation of construction, production and other activities undertaken by the company. Any company or enterprise which discharges environmental pollutants should report and register such discharge with the Administration Supervisory Department of Environmental Protection and pay any fines imposed for the discharge. A fee may also be imposed on the company for the cost of any work required to restore the environment to its original state. Companies which have cause severe pollution to the environment are required to restore the environment or remedy the effects of the pollution within a prescribed time limit.

If a company fails to report and/or register the environmental pollution caused by it, it will receive a warning or be penalised. Companies which fail to restore the environment or remedy the effects of the pollution within the prescribed time will be penalised or have their business licences terminated. Companies or enterprises which have polluted and endangered the environment must bear the responsibility for remedying the danger and effects of the pollution, as well as to compensate the any losses or damages suffered as a result of such environmental pollution.

APPENDIX II

SUMMARY OF RELEVANT PRC LAWS AND REGULATIONS

PARTICULAR LEGAL ISSUES CONCERNING OUR COMPANY

Business Licence

Under PRC law, a business license is required for the establishment of Linyi Kaiyuan Bearing and to enable our Company to commence business.

The business license of Linyi Kaiyuan Bearing is valid for a period of 50 years from 26 December 2005.

Upon the expiration of the business license, our Directors understand that the business license will be renewed if, at the time of application for renewal, Linyi Kaiyuan Bearing is in compliance with the applicable regulations governing the renewal of business licenses. Presently, our Directors believe that Linyi Kaiyuan Bearing is in compliance with such regulations, and expect to conduct the business of the company in a manner that is in accord with such regulations.

Enterprise Income Tax

As a FIE of a production nature with a term of actual operation over ten years, Linyi Kaiyuan Bearing is exempted from enterprise tax in the first two profitable years of operation, commencing from its first profit-making year. Linyi Kaiyuan Bearing is also entitled to a 50% relief from the prevailing rate of enterprise tax for the next three years.

In the event that the actual operation term of the foreign-invested company is less than 10 years when it is terminated, the above exempted part of tax treatment it has enjoyed shall be refunded to the state tax administration.

New Mergers and Acquisitions Rules

On 8 August 2006, MOC, China Security and Regulatory Commission (“CSRC”) and the other four PRC authorities at state level promulgated the Rules on the Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (the “M&A Rules”), which became effective on 8 September 2006.

The Company and its PRC subsidiary have obtained all the necessary governmental approvals from PRC authorities for their restructuring prior to 8 September 2006; and pursuant to Articles 39 and 40 of the M&A Rules, the listing of offshore special purpose vehicles (“SPVs”) which are, directly or indirectly, established or controlled by PRC entities or individuals are subject to a prior approval from the CSRC (the “CSRC Approval”). As of the Latest Practicable Date, the M&A Rules do not stipulate any substantive requirement or indication that the CSRC Approval for such listing must be retroactively obtained in the cases where the restructurings or listing procedures have substantially completed prior to 8 September 2006.

On 21 September 2006, the CSRC promulgated Guidelines on Domestic Enterprises Indirectly Issuing or Listing and Trading Their Stocks on Overseas Stock Exchanges (the “CSRC Guidelines”). The CSRC Guidelines provide that SPVs referred to in Articles 39 and 40 of the M&A Rules are subject to the CSRC Approval. However, the CSRC Guidelines do not elaborate whether SPVs who have completed their restructuring and the listing procedures for the listing and trading of their stocks on overseas stock exchanges prior to 8 September 2006 must retroactively obtain the CSRC Approval for such listing and trading. As of the Latest Practicable Date, CSRC has been silent on this regard, notwithstanding our repeated inquiries with officials of CSRC.

Jun He Law Offices, our Legal Advisers as to PRC law are of the opinion that the Company’s IPO on SGX should not be retroactively subject to the prior CSRC Approval or any other approvals from any PRC authorities or government departments, as the restructuring of the Company and its PRC subsidiary has completed and the listing procedures of the Company on SGX has been substantially completed prior to 8 September 2006.

APPENDIX II

SUMMARY OF RELEVANT PRC LAWS AND REGULATIONS

Jun He Law Offices has also advised that the CSRC may further clarify the applicability of CSRC Approval under M&A Rules and the CSRC Guidelines. Further, Jun He Law Offices do not anticipate that it is necessary for the Company to retroactively comply with the CSRC Approval for the Listing on SGX-ST. Even when the Company should be required to apply for CSRC approval, the Company would have a legally reasonable and sufficient basis to request a waiver from the CSRC, if and when procedures are established to obtain such a waiver. Please see the section “Risk Relating To An Investment In A Company With Significant PRC Operations – Introduction of new laws or changes to existing laws by the PRC government may adversely affect our business” for information regarding the risks relating to the M&A Rules.

APPENDIX III

SUMMARY OF MEMORANDUM AND SELECTED ARTICLES OF ASSOCIATION

This appendix provides information about certain provisions of our Memorandum and Articles of Association. The description below is only a summary and is qualified in its entirety by reference to our Memorandum and Articles of Association.

The instruments that constitute and define our Company are the Memorandum and Articles of Association of our Company.

1. Memorandum of Association and Registration Number

The registration number with which our Company was incorporated is 200512048E. Our Memorandum of Association states that the liability of Shareholders of our Company is limited to the amount, if any, for the time being unpaid on the Shares respectively held by them.

2. Directors

(a) Ability of interested directors to vote

A Director shall not vote in respect of any contract, proposed contract or arrangement or any other proposal in which he has any personal material interest and shall not be counted in the quorum present at the meeting relating to any resolution on which he is debarred from voting.

(b) Remuneration

Fees payable to non-executive directors shall be a fixed sum (not being a commission on or a percentage of profits or turnover of the Company) as shall from time to time be determined by the Company in general meeting. Fees payable to directors shall not be increased except at a general meeting convened by a notice specifying the intention to propose such increase.

Any director who holds any executive office, or who serves on any committee of the directors, or who perform services outside the ordinary duties of a director, may be paid extra remuneration by way of salary, commission or otherwise, as the directors may determine. The remuneration of an executive Director shall not, however, be a commission on, or percentage of, turnover of our Company.

The remuneration of a managing Director shall be fixed by the directors and may be by way of salary, commission or participation in profits or by any or all of these models, but shall not be by a commission on or a percentage of turnover.

The Directors shall have power to pay pensions or other retirement, superannuation, death or disability benefits to (or to any person in respect of) any director for the time being holding any executive office and for the purpose of providing any such pensions or other benefits to contribute to any scheme or fund or to pay premiums.

(c) Borrowing

Our directors may exercise all the powers of our Company to raise or borrow money, to mortgage or charge its undertaking, property and uncalled capital and to secure any debt, liability or obligation of our Company or of any third party.

(d) Retirement Age Limit

There is no retirement age limit for directors under our Articles of Association. Section 153 of the Act however, provides that no person of or over the age of 70 years shall be appointed as director of a public company, unless he is appointed or re-appointed as a director of the Company or authorized to continue in office as a director of the Company by way of an ordinary resolution passed at an annual general meeting of the Company.

APPENDIX III

SUMMARY OF MEMORANDUM AND SELECTED ARTICLES OF ASSOCIATION

(e) Shareholding Qualification

There is no shareholding qualification for directors in the Memorandum and Articles of Association of the Company.

3. Share rights and restrictions

Our Company currently has one class of shares, namely, ordinary shares. Only persons who are registered on our register of shareholders and in cases in which the person so registered is CDP, the persons named as the Depositors in the Depository Register maintained by CDP for the ordinary shares, are recognised as our shareholders.

(a) Dividends and distribution

We may, by ordinary resolution of our Shareholders, declare dividends at a general meeting, but we may not pay dividends in excess of the amount recommended by our Board of Directors. We must pay all dividends out of our profits in proportion to the number of shares held by a member but where shares are partly paid, all dividends must be apportioned and paid proportionately to the amounts paid or credited as paid on the partly paid shares unless the rights attaching to an issue of any ordinary share provide otherwise. Unless otherwise directed, dividends are paid by cheque or warrant sent through the post to each Shareholder at his registered address. Notwithstanding the foregoing, the payment by us to CDP of any dividend payable to a Shareholder whose name is entered in the depository register shall, to the extent of payment made to CDP, discharge us from any liability to that Shareholder in respect of that payment.

The payment by the directors of any unclaimed dividends or other monies payable on or in respect of a share into a separate accounts shall not constitute the Company a trustee in respect thereof. All dividends unclaimed after being declared may be invested or otherwise made use of by the directors for the benefit of the Company. Any dividend unclaimed after a period of six (6) years after having been declared may be forfeited and shall revert to the Company but the directors may thereafter at their discretion annul any such forfeiture and pay the dividend so forfeited to the person entitled thereto prior to the forfeiture.

The directors may retain any dividend or other monies payable on or in respect of a share on which our Company has a lien and may apply the same in or towards satisfaction of the debts, liabilities or engagements in respect of which the lien exists.

(b) Voting rights

A holder of our ordinary shares is entitled to attend, speak and vote at any general meeting, in person or by proxy. A proxy need not be a Shareholder. A person who holds ordinary shares through the SGX-ST book-entry settlement system will only be entitled to vote at a general meeting as a Shareholder if his name appears on the depository register maintained by CDP 48 hours before the general meeting. Except as otherwise provided in our Articles of Association, two or more Shareholders must be present in person or by proxy to constitute a quorum at any general meeting. Under our Articles of Association, on a show of hands, every Shareholder present in person and by proxy shall have one vote (provided that in the case of a shareholder who is represented by two proxies, only one of the two proxies as determined by that Shareholder or, failing such determination, by the chairman of the meeting in his sole discretion shall be entitled to vote on a show of hands), and on a poll, every Shareholder present in person or by proxy shall have one vote for each ordinary share which he holds or represents. A poll may be demanded in certain circumstances, including by the chairman of the meeting or by any Shareholder present in person or by proxy and right to attend and vote at the meeting or by any five Shareholders present in person or by proxy and entitled to vote. In the case of a tie vote, whether on a show of hands or a poll, the chairman of the meeting shall be entitled to a casting vote.

APPENDIX III

SUMMARY OF MEMORANDUM AND SELECTED ARTICLES OF ASSOCIATION

4. **Change in capital**

Changes in the capital structure of our Company (for example, an increase, consolidation, cancellation, sub-division or conversion of our share capital) must be approved by an ordinary resolution of our Shareholders. Ordinary resolutions generally require at least 14 days' notice in writing. The notice must be given to each of our Shareholders who have supplied us with an address in Singapore for the giving of notices and must set forth the place, the day and the hour of the meeting. However, we are required to obtain our Shareholders' approval by way of a special resolution for any reduction of our share capital or any reserve, subject to the conditions prescribed by law.

5. **Variation of rights of existing shares or classes of shares**

Subject to the Act, whenever the share capital of the Company is divided into different classes of shares, the special rights attached to any class may be varied or abrogated either with the consent in writing of the holders of three-quarters in voting rights attached to the issued shares of the class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of the class. To every such separate general meeting, all the provisions relating to general meetings of the Company and to the proceedings thereat shall *mutatis mutandis* apply, except that the necessary quorum shall be two persons at least holding or representing by proxy at least one-third in voting rights attached to the issued shares of the class and that any holder of shares of the class present in person or by proxy may demand a poll and that every such holder shall on a poll have one vote for every share of the class held by him, provided always that where the necessary majority for such a special resolution is not obtained at such general meeting, consent in writing if obtained from the holders of three-quarters in voting rights attached to the issued shares of the class concerned within two months of such general meeting shall be as valid and effectual as a special resolution carried at such general meeting. These provisions shall apply to the variation or abrogation of the special rights attached to only some of the shares of any class as if each group of shares of the class differently treated formed a separate class the special rights whereof are to be varied.

The relevant Article does not impose more significant conditions than the Act in this regard.

6. **Limitations on shareholders regarded as non-residents of Singapore**

There are no limitations imposed by Singapore law or by our Articles of Association on the rights of our shareholders who are regarded as non-residents of Singapore to hold or vote on their shares.

APPENDIX IV
REPORT OF THE INDEPENDENT AUDITORS ON THE COMBINED FINANCIAL
STATEMENTS OF CHINA BEARING (SINGAPORE) LTD. FOR THE FINANCIAL
YEARS ENDED 31 DECEMBER 2003, 2004 AND 2005

INDEPENDENT AUDITORS' REPORT

Date: 12 October 2006

The Board of Directors
China Bearing (Singapore) Ltd.
336 Smith Street #05-310
New Bridge Centre
Singapore 050336

Dear Sirs

This report has been prepared for inclusion in the prospectus dated 12 October 2006 ("Prospectus") in connection with the invitation in respect of offer of shares of China Bearing (Singapore) Ltd. ("the Company").

We have audited the combined financial statements of the Company and its subsidiary (collectively "the Group"), as set out on pages IV-3 to IV-32, comprising the combined balance sheets as at 31 December 2003, 2004 and 2005, combined income statements, combined statements of cash flows and combined statements of changes in equity for the years ended 31 December 2003, 2004 and 2005 and the notes thereto.

The combined financial statements, which have been prepared in accordance with Singapore Financial Reporting Standards ("SFRS") and the basis of preparation set out in Note 4 to the combined financial statements, are the responsibility of the directors of the Company. Our responsibility is to express an opinion on the combined financial statements based on our audit.

We conducted our audits in accordance with Singapore Standards on Auditing. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the combined financial statements. It also includes an assessment of the significant estimates and judgements made by the Company's directors in the preparation of the combined financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed. We planned and performed the audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion, we also evaluated the overall adequacy of the presentation in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

APPENDIX IV
REPORT OF THE INDEPENDENT AUDITORS ON THE COMBINED FINANCIAL
STATEMENTS OF CHINA BEARING (SINGAPORE) LTD. FOR THE FINANCIAL
YEARS ENDED 31 DECEMBER 2003, 2004 AND 2005

In our opinion, the combined financial statements present fairly, in all material respects, the financial positions of the Group as at 31 December 2003, 2004 and 2005, and of the results, changes in equity and cash flows of the Group for the years ended 31 December 2003, 2004 and 2005 and have been properly prepared in accordance with Singapore Financial Reporting Standards prescribed by the Council on Corporate Disclosure and Governance and the basis of preparation set out in Note 4 to the combined financial statements.

Yours faithfully

Foo Kon Tan Grant Thornton
Certified Public Accountants
Singapore

Yeo Boon Chye
Partner-in-charge

APPENDIX IV
REPORT OF THE INDEPENDENT AUDITORS ON THE COMBINED FINANCIAL
STATEMENTS OF CHINA BEARING (SINGAPORE) LTD. FOR THE FINANCIAL
YEARS ENDED 31 DECEMBER 2003, 2004 AND 2005

COMBINED INCOME STATEMENTS
FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2003, 2004 AND 2005
AND FINANCIAL PERIOD ENDED 31 MARCH 2006

		←----- Audited -----→			(Based on management accounts presented for comparative figures only) Financial period ended 31 March	Review of unaudited accounts Financial period ended 31 March
		Financial years ended 31 December				
	Notes	2003 RMB'000	2004 RMB'000	2005 RMB'000	2005 RMB'000	2006 RMB'000
Revenue	6	107,614	146,021	202,902	64,685	84,781
Cost of sales		(81,576)	(102,971)	(134,107)	(45,946)	(44,776)
Gross profit		26,038	43,050	68,795	18,739	40,005
Other operating income	7	3,678	6,140	3,281	822	803
Distribution costs		(1,802)	(1,469)	(1,668)	(346)	(724)
Administrative expenses		(4,784)	(5,728)	(6,759)	(1,336)	(4,318)
Other operating expenses		(1,651)	(1,862)	(2,211)	(774)	(1,207)
Finance costs	8	(337)	(186)	(3)	-	-
Profit before taxation	11	21,142	39,945	61,435	17,105	34,559
Taxation	12	(9,773)	(13,182)	(20,361)	(5,645)	(11,550)
Net profit attributable to shareholders		11,369	26,763	41,074	11,460	23,009
Earnings per share						
- basic (RMB) *		6.7	15.7	24.2	6.7	13.5

* These earnings per share were computed based on the pre-Invitation (as defined in Note 1 to the combined financial statements) number of shares of 170,000,000 (Note 2).

APPENDIX IV
REPORT OF THE INDEPENDENT AUDITORS ON THE COMBINED FINANCIAL
STATEMENTS OF CHINA BEARING (SINGAPORE) LTD. FOR THE FINANCIAL
YEARS ENDED 31 DECEMBER 2003, 2004 AND 2005

COMBINED BALANCE SHEETS
AS AT 31 DECEMBER 2003, 2004 AND 2005 AND 31 MARCH 2006

		←----- Audited -----→			Review of unaudited accounts
		Financial years ended 31 December			Financial period ended 31 March
	Notes	2003 RMB'000	2004 RMB'000	2005 RMB'000	2006 RMB'000
ASSETS					
Non-current					
Property, plant and equipment	13	55,756	51,413	48,669	44,711
Intangible assets	14	4,150	3,550	2,950	2,800
		59,906	54,963	51,619	47,511
Current					
Inventories	15	42,207	38,806	16,392	19,194
Trade and other receivables	16	44,592	39,276	25,606	30,256
Cash and cash equivalents	17	28,922	38,911	65,708	78,755
		115,721	116,993	107,706	128,205
TOTAL ASSETS		175,627	171,956	159,325	175,716
EQUITY					
Capital and reserves					
Share capital	18	37,000	37,000	25,106	25,106
Reserves	19	55,805	51,096	75,598	98,708
Share capital that will arise from conversion of the Convertible Loans	20	-	-	5,263	5,263
		92,805	88,096	105,967	129,077
LIABILITIES					
Current					
Trade and other payables	21	66,859	40,897	40,544	32,908
Dividend payable		5,528	37,000	-	-
Provision for taxation	22	5,215	5,963	12,814	13,731
Bank borrowings	23	5,220	-	-	-
		82,822	83,860	53,358	46,639
TOTAL EQUITY AND LIABILITIES		175,627	171,956	159,325	175,716

APPENDIX IV
REPORT OF THE INDEPENDENT AUDITORS ON THE COMBINED FINANCIAL
STATEMENTS OF CHINA BEARING (SINGAPORE) LTD. FOR THE FINANCIAL
YEARS ENDED 31 DECEMBER 2003, 2004 AND 2005

COMBINED STATEMENTS OF CHANGES IN EQUITY
AS AT 31 DECEMBER 2003, 2004 AND 2005 AND 31 MARCH 2006

	←----- Audited -----→			Review of unaudited accounts
	Financial years ended 31 December			Financial period ended 31 March
	2003 RMB'000	2004 RMB'000	2005 RMB'000	2006 RMB'000
Balance at beginning of financial year/period	84,372	92,805	88,096	105,967
Issuance of Convertible Loans	-	-	5,263	-
Dividends	(2,936)	(31,472)	-	-
Capital reduction during the year/period	-	-	(11,894)	-
Statutory reserves utilised towards and applied for capital reduction	-	-	(16,646)	-
Exchange difference on translation	-	-	74	101
Net profit for the year/period	11,369	26,763	41,074	23,009
Balance at end of financial year/period	92,805	88,096	105,967	129,077

APPENDIX IV
REPORT OF THE INDEPENDENT AUDITORS ON THE COMBINED FINANCIAL
STATEMENTS OF CHINA BEARING (SINGAPORE) LTD. FOR THE FINANCIAL
YEARS ENDED 31 DECEMBER 2003, 2004 AND 2005

COMBINED CASH FLOW STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2003, 2004 AND 2005
AND PERIOD ENDED 31 MARCH 2006

	←----- Audited -----→			Review of unaudited accounts
	Financial years ended 31 December			Financial period ended 31 March 2006
	2003 RMB'000	2004 RMB'000	2005 RMB'000	RMB'000
Cash Flows from Operating Activities				
Profit before taxation	21,142	39,945	61,435	34,559
Adjustments for:				
Depreciation of property, plant and equipment	6,607	6,256	6,083	1,448
Amortisation of intangible assets	600	600	600	150
Impairment on trade receivables	-	-	11	-
Interest expense	337	186	3	-
Interest income	(168)	(189)	(203)	(122)
Exchange loss on translation	-	-	74	101
(Gain)/loss on disposal of property, plant and equipment	(552)	515	32	229
Operating profit before working capital changes	27,966	47,313	68,035	36,365
(Increase)/decrease in inventories	(4,015)	3,401	22,414	(2,802)
(Increase)/decrease in operating receivables	(18,317)	5,316	13,659	(4,650)
Increase/(decrease) in operating payables	20,514	(25,962)	(353)	(5,326)
Cash generated from operations	26,148	30,068	103,755	23,587
Income tax paid	(6,228)	(12,434)	(13,510)	(10,633)
Net cash generated from operating activities	19,920	17,634	90,245	12,954
Cash Flows from Investing Activities				
Acquisition of property, plant and equipment	(5,879)	(2,756)	(3,980)	(29)
Interest received	168	189	203	122
Proceeds from disposals of property, plant and equipment	4,006	328	609	-
Net cash (used in)/generated from investing activities	(1,705)	(2,239)	(3,168)	93
Cash Flows from Financing Activities				
Bank loans obtained	1,220	-	-	-
Repayment of bank borrowings	(2,370)	(5,220)	-	-
Issuance of Convertible Loans	-	-	5,263	-
Payment for cancellation of shares	-	-	(28,540)	-
Dividends paid	-	-	(37,000)	-
Interest paid	(337)	(186)	(3)	-
Net cash used in financing activities	(1,487)	(5,406)	(60,280)	-
Net increase in cash and cash equivalents	16,728	9,989	26,797	13,047
Cash and cash equivalents at beginning of year/period	12,194	28,922	38,911	65,708
Cash and cash equivalents at end of year/period (Note 17)	28,922	38,911	65,708	78,755
Analysis of cash and cash equivalents				
	RMB'000	RMB'000	RMB'000	RMB'000
Cash on hand	70	19	13	62
Cash at bank	28,852	38,892	65,695	78,693
	28,922	38,911	65,708	78,755

APPENDIX IV
REPORT OF THE INDEPENDENT AUDITORS ON THE COMBINED FINANCIAL
STATEMENTS OF CHINA BEARING (SINGAPORE) LTD. FOR THE FINANCIAL
YEARS ENDED 31 DECEMBER 2003, 2004 AND 2005

NOTES TO THE COMBINED FINANCIAL STATEMENTS

1. INTRODUCTION

These combined financial statements have been prepared for inclusion in the Prospectus of China Bearing (Singapore) Ltd. ("the Company") dated 12 October 2006 in connection with the invitation (the "Invitation") by the Company in respect of the issue of 60,000,000 ordinary shares in the capital of the Company.

2. THE COMPANY

The Company was incorporated under the laws of Singapore on 31 August 2005 as a limited exempt private company under the name of China Bearing (Singapore) Pte. Ltd. On 4 September 2006, China Bearing (Singapore) Pte. Ltd. was converted to a public company and assumed the present name China Bearing (Singapore) Ltd. As part of a restructuring exercise on 31 March 2006, the sole operating subsidiary, Linyi Kaiyuan Bearing Co., Ltd. acquired the business, assets (save and except for assets in the form of land and buildings) and certain liabilities of Yimeng Bearing.

3. RESTRUCTURING EXERCISE

A Restructuring Exercise as described below was undertaken in connection with the Invitation:

To rationalise the corporate structure and streamline the operations, a restructuring exercise was carried out as described below (the "Restructuring Exercise").

The details of the Restructuring Exercise comprise the following:-

(a) Incorporation of the Company

In preparation of the listing on the SGX-ST, the Company was incorporated on 31 August 2005 under the name of "China Bearing (Singapore) Pte. Ltd." in accordance with the Act as a private limited company with an authorised share capital of S\$10,000,000 and initial paid-up capital of S\$2.00 comprising two ordinary shares allotted and issued to the initial subscriber, Khor Kee Lin. The principal activity of the Company is that of an investment holding company. On 4 September 2006, the Company was converted into a public company and changed its name to "China Bearing (Singapore) Ltd."

(b) Establishment of Linyi Kaiyuan Bearing

Linyi Kaiyuan Bearing was established in the PRC as a wholly foreign-owned enterprise on 26 December 2005 under the laws of the PRC with a registered capital of US\$4.5 million. The equity interest in Linyi Kaiyuan Bearing is wholly-owned by the Company.

(c) Acquisition of Shares in the Company by China Bearing (Bermuda)

On 25 March 2006, China Bearing (Bermuda) acquired 2 Shares being the entire issued and paid-up capital of the Company (being the subscriber shares) from the initial subscriber, Khor Kee Lin, for a cash consideration of S\$1.00 per Share.

Pursuant to the Sub-division, China Bearing (Bermuda) holds 131,172,000 Shares. On 11 October 2006, China Bearing (Bermuda) transferred 3,400,000 Shares to Strategic Advisory Services Pte Ltd as partial consideration for consultancy services rendered to the Company in connection with the Invitation. In addition, China Bearing (Bermuda) also transferred 1,360,000 Shares to Legacy Venture Capital Limited as consideration for consultancy services rendered to China Bearing (Bermuda) in connection with the Invitation.

APPENDIX IV
REPORT OF THE INDEPENDENT AUDITORS ON THE COMBINED FINANCIAL
STATEMENTS OF CHINA BEARING (SINGAPORE) LTD. FOR THE FINANCIAL
YEARS ENDED 31 DECEMBER 2003, 2004 AND 2005

NOTES TO THE COMBINED FINANCIAL STATEMENTS

(d) Acquisition of the Relevant Assets, Liabilities and Business

Pursuant to the Asset Purchase Agreement, Linyi Kaiyuan Bearing acquired the Relevant Assets, Liabilities and Business from Yimeng Bearing with effect from 1 April 2006 for a purchase consideration of approximately RMB25,980,000. The Relevant Assets, Liabilities and Business comprise (i) fixed assets (excluding land and buildings where the current operations of the Group is based), current assets such as trade and other receivables, inventories (excluding raw materials, consumables and work-in-progress), cash and intangible assets; and (ii) certain liabilities such as trade payables and other indebtedness. The purchase consideration was based on the unaudited net book value of such assets and liabilities as at 31 March 2006, and was fully satisfied in cash. Yimeng Bearing has no intention to carry out any business that will be in competition with the Group, after the Restructuring Exercise. If any part of the business which is subject of the Relevant Assets, Liabilities and Business has to continue to be performed through Yimeng Bearing after 1 April 2006, Yimeng Bearing shall continue to conduct such business on behalf of Linyi Kaiyuan Bearing, and all rights and obligations in respect of such business shall accrue and be borne by Linyi Kaiyuan Bearing.

(e) Conversion of Convertible Loans from Pre-IPO Investors

The Company entered into the following loan agreements:-

- (i) the convertible loan agreement dated 18 November 2005 amongst the Company, Yimeng Bearing, Zhang Yuankai, Zhang Anxi and Tan Kim Seng, as amended by the supplemental convertible loan agreement dated 31 March 2006 and the 2nd supplemental convertible loan agreement dated 3 August 2006 amongst the Company, Yimeng Bearing, Zhang Yuankai, Zhang Anxi and Tan Kim Seng, pursuant to which Tan Kim Seng agreed to advance a convertible loans amounting to S\$1,000,000, which would be automatically converted into Shares on the Company delivering a conversion notice to Tan Kim Seng at any time after the date of the receipt of the eligibility-to-list letter from SGX-ST but not later than the date of registration of this Prospectus;
- (ii) the convertible loan agreement dated 21 November 2005 amongst the Company, Yimeng Bearing, Zhang Yuankai, Zhang Anxi and Power Works Pte Ltd, as amended by the supplemental convertible loan agreement dated 3 August 2006 amongst the Company, Yimeng Bearing, Zhang Yuankai, Zhang Anxi and Power Works Pte Ltd pursuant to which Power Works Pte Ltd agreed to advance a convertible loan of S\$300,000 which would be automatically converted into Shares on the Company delivering a conversion notice to Power Works Pte Ltd at any time after the date of the receipt of the eligibility-to-list letter from SGX-ST but not later than the date of registration of this Prospectus;
- (iii) the convertible loan agreement dated 21 November 2005 amongst the Company, Yimeng Bearing, Zhang Yuankai, Zhang Anxi and Teo Kok Woon, as amended by the supplemental convertible loan agreement dated 24 March 2006 and the 2nd supplemental convertible loan agreement dated 3 August 2006 amongst the Company, Yimeng Bearing, Zhang Yuankai, Zhang Anxi and Teo Kok Woon, pursuant to which Teo Kok Woon agreed to advance convertible loans amounting to S\$800,000 which would be automatically converted into Shares on the Company delivering a conversion notice to Teo Kok Woon at any time after the date of the receipt of the eligibility-to-list letter from SGX-ST but not later than the date of registration of this Prospectus;

APPENDIX IV
REPORT OF THE INDEPENDENT AUDITORS ON THE COMBINED FINANCIAL
STATEMENTS OF CHINA BEARING (SINGAPORE) LTD. FOR THE FINANCIAL
YEARS ENDED 31 DECEMBER 2003, 2004 AND 2005

NOTES TO THE COMBINED FINANCIAL STATEMENTS

(e) Conversion of Convertible Loans from Pre-IPO Investors (cont'd)

- (iv) the loan agreement dated 30 March 2006 amongst the Company, Yimeng Bearing, Zhang Yuankai, Zhang Anxi and Legacy Venture Capital Limited, and the assignment agreement dated 5 April 2006 amongst Legacy Venture Capital Limited, Re Shan Investments Limited, Winage Limited, Wang Yu Huei and Legacy Partners Limited, as amended by the supplemental loan agreement dated 3 August 2006 amongst the Company, Yimeng Bearing, Zhang Yuankai, Zhang Anxi, Re Shan Investments Limited, Winage Limited, Wang Yu Huei and Legacy Partners Limited, pursuant to which Re Shan Investments Limited, Winage Limited, Wang Yu Huei and Legacy Partners Limited (the "Lenders") agreed to advance a non-convertible loan of S\$970,000 and a convertible loan of S\$3,880,000 which would be automatically converted into Shares on the Company delivering a conversion notice to the Lenders at any time after the date of the receipt of the eligibility-to-list letter from SGX-ST but not later than the date of registration of this Prospectus.

On 10 October 2006, the Company allotted and issued the number of Shares as set out below to the Pre-IPO Investors pursuant to the conversion of the Convertible Loans:-

Pre-IPO Investor	Issue Price per Share (S\$)	Number of Shares
Tan Kim Seng	0.12	8,245,000
Legacy Partners Limited	0.17	6,902,000
Wang Yu Huei	0.17	6,681,000
Teo Kok Woon	0.14	5,831,000
Re Shan Investments Limited	0.17	4,352,000
Winage Limited	0.17	4,352,000
Power Works Pte Ltd	0.14	2,465,000
TOTAL		38,828,000

4. BASIS OF PREPARATION

The combined financial statements of the Group for the financial years ended 31 December 2003, 2004 and 2005 and financial period ended 31 March 2006 ("the relevant period") were prepared in a manner similar to the "pooling of interest" method as if the Restructuring Exercise had been completed on 1 January 2003. Such manner of presentation reflects the economic substance of the combining companies, which were under common control throughout the relevant period, as a single economic enterprise, although the legal parent-subsidiary relationships were not established.

These combined financial statements of the Group are the combination or aggregation of all the financial statements of the companies in the Group.

These combined financial statements for the financial years ended 31 December 2003, 2004 and 2005 were prepared based on the audited statutory financial statements and the three-month financial period ended 31 March 2006 were based on the unaudited financial statements of the Company and Yimeng Bearing.

APPENDIX IV
REPORT OF THE INDEPENDENT AUDITORS ON THE COMBINED FINANCIAL
STATEMENTS OF CHINA BEARING (SINGAPORE) LTD. FOR THE FINANCIAL
YEARS ENDED 31 DECEMBER 2003, 2004 AND 2005

NOTES TO THE COMBINED FINANCIAL STATEMENTS

4. BASIS OF PREPARATION (CONT'D)

The statutory audited financial statements of the Company were prepared in accordance with the provisions of the Companies Act, Chapter 50 and Singapore Financial Reporting Standards ("SFRS"). The statutory audited financial statements of Yimeng Bearing were prepared in accordance with the relevant PRC generally accepted accounting policies ("PRC GAAP"). For the purpose of this report, the financial statements of Yimeng Bearing for the relevant period have been prepared in accordance with SFRS and audited by Foo Kon Tan Grant Thornton in accordance with Singapore Standards on Auditing.

The statutory audited financial statements of the Company for the period from 31 August 2005 (date of incorporation) to 31 December 2005 were audited by Foo Kon Tan Grant Thornton, a member of the Institute of Certified Public Accountants of Singapore registered in accordance with the Accountants Act. The statutory audited financial statements of Yimeng Bearing for the financial years ended 31 December 2003, 2004 and 2005 were audited by Hubei Zhongzheng Certified Public Accountants Co., Ltd., a member of the Chinese Institute of Certified Public Accountants. These statutory audited financial statements were not subject to any audit qualifications, modifications or disclaimers.

The interim unaudited combined financial statements for the three-month financial period ended 31 March 2006 were prepared in accordance with SFRS.

In arriving at the combined financial statements, the directors of the Company are of the view that no material adjustment was required to be made to the information used in the above preparation.

These combined financial statements were authorised for issue by the directors of the Company on 12 October 2006.

Significant accounting estimates and judgements

The preparation of the financial statements in conformity with FRS requires the use of judgements, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the financial year. Although these estimates are based on management's best knowledge of current events and actions, actual results may differ from those estimates.

APPENDIX IV
REPORT OF THE INDEPENDENT AUDITORS ON THE COMBINED FINANCIAL
STATEMENTS OF CHINA BEARING (SINGAPORE) LTD. FOR THE FINANCIAL
YEARS ENDED 31 DECEMBER 2003, 2004 AND 2005

NOTES TO THE COMBINED FINANCIAL STATEMENTS

4. BASIS OF PREPARATION (CONT'D)

Changes in accounting policies

In respect of the financial year ended 31 December 2004, the Group has applied the same accounting policies and methods of computation in the financial statements for the current year as compared to the audited financial statements for the year ended 31 December 2003, except for the adoption of new and revised SFRSs which became effective from 1 January 2004. The adoption of these SFRSs did not result in significant changes to the Group's accounting policies.

In respect of the financial year 2005, the Council on Corporate Disclosure and Governance ("CCDG") issued a series of new and revised FRSs for which the Group applies these new and revised standards from 1 January 2005. This includes the following new and revised standards:

FRS 1 (revised 2004)	Presentation of Financial Statements
FRS 2 (revised 2004)	Inventories
FRS 8 (revised 2004)	Accounting Policies, Changes in Accounting Estimates and Errors
FRS 10 (revised 2004)	Events after Balance Sheet Date
FRS 16 (revised 2004)	Property, Plant and Equipment
FRS 21 (revised 2004)	The Effects of Changes in Foreign Exchange Rates
FRS 24 (revised 2004)	Related Party Disclosures
FRS 27 (revised 2004)	Consolidated and Separate Financial Statements
FRS 32 (revised 2004)	Financial Instruments: Disclosure and Presentation
FRS 36 (revised 2004)	Impairment of Assets
FRS 38 (revised 2004)	Intangible Assets
FRS 39 (revised 2004)	Financial Instruments: Recognition and Measurement
Interpretation ("INT") of FRS 101	Changes in Existing Decommissioning, Restoration and Similar Liabilities

The adoption of the above FRS and INT FRS did not result in substantial changes to the Group's accounting policies.

At the date of authorisation of these financial statements, the following Standards and Interpretations were in issue but not yet effective:

FRS 40	Investment Property
FRS 106	Exploration for and Evaluation of Mineral Resources
FRS 107	Financial Instruments: Disclosures
INT FRS 104	Determining whether an Arrangement contains a Lease
INT FRS 105	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
INT FRS 106	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment
INT FRS 107	Applying the Restatement Approach under FRS 29 Financial Reporting in Hyperinflationary Economies

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group.

APPENDIX IV
REPORT OF THE INDEPENDENT AUDITORS ON THE COMBINED FINANCIAL
STATEMENTS OF CHINA BEARING (SINGAPORE) LTD. FOR THE FINANCIAL
YEARS ENDED 31 DECEMBER 2003, 2004 AND 2005

NOTES TO THE COMBINED FINANCIAL STATEMENTS

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of combination

Subsidiary is that enterprise controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of the subsidiary are included in the combined financial statements from the date that control commences until the date that control ceases.

Any intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the combined financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses, if any. Depreciation is computed utilising the straight-line method to write off the cost of the assets after deducting the residual value over their estimated useful lives as follows:

Buildings on leasehold land	Over the remaining period of lease, which is originally 40 years
Factory facilities	30 years
Motor vehicles	6 years
Plant and machinery	12 years
Electrical fittings	10 years

The cost of property, plant and equipment includes expenditure that is directly attributable to the acquisition of the items. Dismantlement, removal or restoration costs are included as part of the cost of property, plant and equipment if the obligation for dismantlement, removal or restoration is incurred as a consequence of acquiring or using the asset. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

For acquisitions and disposals during the financial year, depreciation is provided from the month after acquisition and to the month of disposal respectively.

Fully depreciated property, plant and equipment, if any, are retained in the books of accounts until they are no longer in use.

Land use rights are stated at cost less accumulated depreciation. Depreciation is charged so as to write off the value of land use rights, using the straight-line method, over the period of the grant of originally 50 years.

APPENDIX IV
REPORT OF THE INDEPENDENT AUDITORS ON THE COMBINED FINANCIAL
STATEMENTS OF CHINA BEARING (SINGAPORE) LTD. FOR THE FINANCIAL
YEARS ENDED 31 DECEMBER 2003, 2004 AND 2005

NOTES TO THE COMBINED FINANCIAL STATEMENTS

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Intangible assets

Intangible assets are accounted for using the cost model. Capitalised costs are amortised on a straight-line basis over their estimated useful lives as they are considered finite. After initial recognition, they are carried at cost less accumulated amortisation and accumulated impairment losses, if any. In addition, they are subject to impairment testing.

Intangible assets are written off where, in the opinion of the directors, no further future economic benefits are expected to arise.

Patents and licenses

Costs relating to patents and licenses which are acquired are capitalised and amortised on straight-line basis over their useful life of ten years, commencing in the year of operations.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a weighted-average basis. In the case of manufactured inventories, cost consists of cost of raw materials, direct labour and an appropriate proportion of production overheads.

Allowance is made, where necessary, for obsolete, slow-moving and defective inventories in arriving at the net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

Financial assets

Financial assets include cash and financial instruments. Financial assets, other than hedging instruments, can be divided into the following categories: financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables and available-for-sale financial assets. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the investments were acquired. The designation of financial assets is re-evaluated and classification may be changed at the reporting date with the exception that the designation of financial assets at fair value through profit or loss is not revocable.

All financial assets are recognised on their trade date - the date on which the Group commits to purchase or sell the asset. Financial assets are initially recognised at fair value, plus directly attributable transaction costs except for financial assets at fair value through profit or loss, which are recognised at fair value.

Derecognition of financial instruments occurs when the rights to receive cash flows from the investments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred. An assessment for impairment is undertaken at least at each balance sheet date whether or not there is objective evidence that a financial asset or a group of financial assets is impaired.

The Group does not have any investments and accordingly, there is no investment to be classified as assets held-to-maturity or available-for-sale.

APPENDIX IV
REPORT OF THE INDEPENDENT AUDITORS ON THE COMBINED FINANCIAL
STATEMENTS OF CHINA BEARING (SINGAPORE) LTD. FOR THE FINANCIAL
YEARS ENDED 31 DECEMBER 2003, 2004 AND 2005

NOTES TO THE COMBINED FINANCIAL STATEMENTS

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Financial assets (cont'd)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivables. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets, if any.

Loans and receivables are subsequently measured at amortised cost using the effective interest method less allowance for impairment. Any change in their value is recognised in the combined income statement. Any reversal shall not result in a carrying amount that exceeds what the amortised cost would have been had any impairment loss not been recognised at the date the impairment is reversed. Any reversal is recognised in the combined income statement.

Receivables are provided against when objective evidence is received that the Group will not be able to collect all amounts due to it in accordance with the original terms of the receivables. The amount of the write-down is determined as the difference between the asset's carrying amount and the present value of estimated future cash flows.

Loans and receivables include trade and other receivables.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and bank deposits with a short maturity of three months or less.

Financial liabilities

The Group's financial liabilities include bank borrowings, trade and other payables and dividend payable.

Financial liability is recognised when the Group becomes a party to the contractual agreements of the instrument. All interest related charges is recognised as an expense in "finance costs" in the combined income statement.

Borrowings are recognised initially at fair value of proceeds received less attributable transaction costs, if any. Borrowings are subsequently stated at amortised cost which is the initial fair value less any principal repayments. Any difference between the proceeds (net of transaction costs) and the redemption value is taken to the combined income statement over the period of the borrowings using the effective interest method.

Dividend distributions to shareholders are included in "current financial liabilities" when the dividends are payable.

Employee benefits

Pension obligations

The Group participates in the defined contribution national pension and other welfare schemes as provided by the laws in the PRC. The contributions to these schemes are charged to the combined income statement in the period to which the contributions relate.

APPENDIX IV
REPORT OF THE INDEPENDENT AUDITORS ON THE COMBINED FINANCIAL
STATEMENTS OF CHINA BEARING (SINGAPORE) LTD. FOR THE FINANCIAL
YEARS ENDED 31 DECEMBER 2003, 2004 AND 2005

NOTES TO THE COMBINED FINANCIAL STATEMENTS

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Leases

Operating lease

Leases of assets in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

Rentals on operating leases are charged to the income statement on a straight-line basis over the lease term. Lease incentives, if any, are recognised as an integral part of the net consideration agreed for the use of the leased asset. Penalty payments on early termination, if any, are recognised in the income statement when incurred.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The directors review the provisions annually and where in their opinion, the provision is inadequate or excessive, due adjustment is made.

Government grant

The Government grant is recognised on receipt basis to which they are intended to compensate for the costs incurred. Government grant is not recognised as income until there is a reasonable assurance that the Group will comply with the conditions attaching to it.

Income taxes

The liability method of tax effect accounting is adopted by the Group. Current taxation is provided at the current taxation rate based on the tax payable on the income for the financial period that is chargeable to tax. Deferred taxation is provided at the current taxation rate on all temporary differences existing at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts in the combined financial statements.

Deferred tax liabilities are recognised for all taxable temporary differences.

Deferred tax assets are recognised for all deductible temporary differences to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilised.

The statutory tax rates enacted at the balance sheet date are used to determine deferred income tax.

APPENDIX IV
REPORT OF THE INDEPENDENT AUDITORS ON THE COMBINED FINANCIAL
STATEMENTS OF CHINA BEARING (SINGAPORE) LTD. FOR THE FINANCIAL
YEARS ENDED 31 DECEMBER 2003, 2004 AND 2005

NOTES TO THE COMBINED FINANCIAL STATEMENTS

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Impairment of assets

The carrying amounts of the Group's assets subject to impairment are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

If it is not possible to estimate the recoverable amount of the individual asset, then the recoverable amount of the cash-generating unit to which the asset belongs will be identified.

For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

Individual assets or cash-generating units that include intangible assets, if any, with an indefinite useful life or those not yet available for use are tested for impairment at least annually. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss, if any, is recognised for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell and value in use, based on an internal discounted cash flow evaluation.

Any impairment loss is charged to the combined income statement.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount or when there is an indication that the impairment loss recognised for the asset no longer exists or decreases.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined if no impairment loss had been recognised.

A reversal of an impairment loss is credited as income in the combined income statement.

Functional currency

Items included in the combined financial statements of the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity ("the functional currency"). The combined financial statements of the Group are presented in Renminbi ("RMB") which is also the functional currency of the Group.

Conversion of foreign currencies

Monetary assets and liabilities in foreign currencies are translated into RMB at rates of exchange closely approximating those ruling at balance sheet date. Transactions in foreign currencies are converted at rates closely approximating those ruling at transaction dates. Exchange differences arising from such transactions are recorded in the combined income statement in the period in which they arise.

APPENDIX IV
REPORT OF THE INDEPENDENT AUDITORS ON THE COMBINED FINANCIAL
STATEMENTS OF CHINA BEARING (SINGAPORE) LTD. FOR THE FINANCIAL
YEARS ENDED 31 DECEMBER 2003, 2004 AND 2005

NOTES TO THE COMBINED FINANCIAL STATEMENTS

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Financial instruments

Financial instruments carried on the combined balance sheet include cash and cash equivalents, financial assets and financial liabilities. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

Disclosures on financial risk management objectives and policies are provided in Note 25.

Segment reporting

A segment is a distinguishable component of the Group to a particular industry (business segment) and within a particular economic environment (geographical segment) which is subject to risks and rewards that are different from those of other segments.

For the periods presented, the Group has one operating segment which is the sale of bearing products and raw materials. The Group's manufacturing activities operate predominantly in PRC. However, revenue is based on where the customers are located.

6. REVENUE

Revenue from the sale of bearing products and raw materials is recognised when goods are sold to customers, which generally coincides with their delivery and acceptance.

7. OTHER OPERATING INCOME

	←----- Audited -----→			(Based on management accounts presented for comparative figures only)	Review of Unaudited accounts
	Financial years ended 31 December			Financial period ended 31 March 2005	Financial period ended 31 March 2006
	2003 RMB'000	2004 RMB'000	2005 RMB'000	RMB'000	RMB'000
Sale of scrap materials	2,550	3,128	2,866	619	681
Interest income – bank deposits	168	189	203	83	122
Processing fee	-	2,799	-	-	-
Gain on disposal of property, plant and equipment	552	-	-	-	-
Miscellaneous income	408	24	92	-	-
Government grant	-	-	120	120	-
	3,678	6,140	3,281	822	803

APPENDIX IV
REPORT OF THE INDEPENDENT AUDITORS ON THE COMBINED FINANCIAL
STATEMENTS OF CHINA BEARING (SINGAPORE) LTD. FOR THE FINANCIAL
YEARS ENDED 31 DECEMBER 2003, 2004 AND 2005

NOTES TO THE COMBINED FINANCIAL STATEMENTS

8. FINANCE COSTS

	←----- Audited -----→			(Based on management accounts presented for comparative figures only) Financial period ended 31 March 2005	Review of Unaudited accounts Financial period ended 31 March 2006
	Financial years ended 31 December 2003 RMB'000	2004 RMB'000	2005 RMB'000	2005 RMB'000	2006 RMB'000
Interest on bank loans	329	157	-	-	-
Interest on bond	-	-	*	-	-
Discount on bank notes	8	29	3	-	-
	<u>337</u>	<u>186</u>	<u>3</u>	<u>-</u>	<u>-</u>
Interest rate	5.6%	6.0%	-	-	-

* represents amount less than RMB1,000

9. EMPLOYEE BENEFIT COSTS

	←----- Audited -----→			(Based on management accounts presented for comparative figures only) Financial period ended 31 March 2005	Review of Unaudited accounts Financial period ended 31 March 2006
	Financial years ended 31 December 2003 RMB'000	2004 RMB'000	2005 RMB'000	2005 RMB'000	2006 RMB'000
Directors' remuneration					
- salaries and related costs	98	154	173	38	56
- bonus	-	-	-	-	700
- defined contributions	20	31	28	35	44
Other than directors and key management personnel					
- salaries and related costs	937	1,087	1,221	278	402
- bonus	-	-	-	-	118
- defined contributions*	765	1,057	1,282	255	316
	<u>1,820</u>	<u>2,329</u>	<u>2,704</u>	<u>606</u>	<u>1,636</u>

* Includes contributions under the retirement benefit plans (Note 10).

APPENDIX IV
REPORT OF THE INDEPENDENT AUDITORS ON THE COMBINED FINANCIAL
STATEMENTS OF CHINA BEARING (SINGAPORE) LTD. FOR THE FINANCIAL
YEARS ENDED 31 DECEMBER 2003, 2004 AND 2005

NOTES TO THE COMBINED FINANCIAL STATEMENTS

10. RETIREMENT BENEFIT PLANS

The eligible employees of the Group, who are citizens of the PRC, are members of a state-managed retirement benefit scheme operated by the local government. The Group is required to contribute a certain percentage of their payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

The total cost charged to the combined income statements for the financial years ended 31 December 2003, 2004 and 2005 and for the financial periods ended 31 March 2005 and 2006 were approximately RMB785,000, RMB1,088,000, RMB1,310,000, RMB360,000 and RMB290,000 respectively, representing contributions payable to the scheme for the respective years/periods.

11. PROFIT BEFORE TAXATION

	←----- Audited -----→			(Based on management accounts presented for comparative figures only)	Review of Unaudited accounts
	Financial years ended 31 December			Financial period ended 31 March 2005	Financial period ended 31 March 2006
	2003 RMB'000	2004 RMB'000	2005 RMB'000	RMB'000	RMB'000
Amortisation of intangible assets	600	600	600	150	150
Depreciation of property, plant and equipment	6,607	6,256	6,083	1,536	1,448
Loss on disposal of property, plant and equipment	-	515	32	45	229
Directors' fee	-	-	-	-	1,400

The one-off directors' fee are payable to the following directors for their past services rendered:

	RMB'000
张元开	200
张安喜	200
徐以合	200
尹作鹏	200
张安玲	200
徐以海	200
赵遵涛	200
	1,400

APPENDIX IV
REPORT OF THE INDEPENDENT AUDITORS ON THE COMBINED FINANCIAL
STATEMENTS OF CHINA BEARING (SINGAPORE) LTD. FOR THE FINANCIAL
YEARS ENDED 31 DECEMBER 2003, 2004 AND 2005

NOTES TO THE COMBINED FINANCIAL STATEMENTS

12. TAXATION

	←----- Audited -----→			(Based on management accounts presented for comparative figures only) Financial period ended 31 March 2005	Review of Unaudited accounts Financial period ended 31 March 2006
	Financial years ended 31 December 2003 RMB'000	2004 RMB'000	2005 RMB'000	RMB'000	RMB'000
Current taxation	6,977	13,182	20,361	5,645	11,550
Underprovision in respect of prior years	2,796	-	-	-	-
	<u>9,773</u>	<u>13,182</u>	<u>20,361</u>	<u>5,645</u>	<u>11,550</u>

The tax expense on the results of the financial years/period varies from the amount of income tax determined by applying the PRC's statutory rate of income tax on the Group's combined profits as a result of the following:

	←----- Audited -----→			(Based on management accounts presented for comparative figures only) Financial period ended 31 March 2005	Review of Unaudited accounts Financial period ended 31 March 2006
	Financial years ended 31 December 2003 RMB'000	2004 RMB'000	2005 RMB'000	RMB'000	RMB'000
Profit before taxation	21,142	39,945	61,435	17,105	34,559
Tax at statutory rate of 33%	6,977	13,182	20,274	5,645	11,405
Tax effect on non-deductible expenses	-	-	87	-	145
	<u>6,977</u>	<u>13,182</u>	<u>20,361</u>	<u>5,645</u>	<u>11,550</u>

Pursuant to relevant laws and regulations in the PRC, Linyi Kaiyuan Bearing which commenced business on 1 May 2006, is exempted from PRC national income tax, upon approval from the tax authorities, for two years from the first profit making profit year and thereafter is entitled to a 50% reduction in PRC national income tax for the following three years.

APPENDIX IV
REPORT OF THE INDEPENDENT AUDITORS ON THE COMBINED FINANCIAL
STATEMENTS OF CHINA BEARING (SINGAPORE) LTD. FOR THE FINANCIAL
YEARS ENDED 31 DECEMBER 2003, 2004 AND 2005

NOTES TO THE COMBINED FINANCIAL STATEMENTS

13. PROPERTY, PLANT AND EQUIPMENT

Cost	Buildings on leasehold land RMB'000	Land use rights RMB'000	Factory facilities RMB'000	Motor vehicles RMB'000	Plant and machinery RMB'000	Electrical fittings RMB'000	Total RMB'000
At 1 January 2003	3,530	4,006	9,424	3,226	68,224	720	89,130
Additions	-	-	740	557	4,582	-	5,879
Disposals	(422)	-	(264)	(520)	(6,095)	-	(7,301)
At 31 December 2003	3,108	4,006	9,900	3,263	66,711	720	87,708
Additions	-	-	-	572	2,147	37	2,756
Disposals	-	-	-	(962)	(2,707)	-	(3,669)
At 31 December 2004	3,108	4,006	9,900	2,873	66,151	757	86,795
Additions	-	-	258	112	3,610	-	3,980
Disposals	-	(220)	-	(328)	(1,920)	-	(2,468)
At 31 December 2005	3,108	3,786	10,158	2,657	67,841	757	88,307
Additions	-	-	-	-	29	-	29
Disposals	-	-	-	(43)	(3,400)	-	(3,443)
At 31 March 2006	3,108	3,786	10,158	2,614	64,470	757	84,893
Accumulated depreciation							
Balance at 1 January 2003	705	822	2,115	1,469	23,727	354	29,192
Depreciation for the year	85	173	328	448	5,501	72	6,607
Disposals	(39)	-	(32)	(504)	(3,272)	-	(3,847)
At 31 December 2003	751	995	2,411	1,413	25,956	426	31,952
Depreciation for the year	78	173	327	457	5,148	73	6,256
Disposals	-	-	-	(681)	(2,145)	-	(2,826)
At 31 December 2004	829	1,168	2,738	1,189	28,959	499	35,382
Depreciation for the year	78	172	330	411	5,016	76	6,083
Disposals	-	(58)	-	(237)	(1,532)	-	(1,827)
Balance at 31 December 2005	907	1,282	3,068	1,363	32,443	575	39,638
Depreciation for the period	19	40	85	103	1,182	19	1,448
Disposals	-	-	-	(18)	(886)	-	(904)
At 31 March 2006	926	1,322	3,153	1,448	32,739	594	40,182

APPENDIX IV
REPORT OF THE INDEPENDENT AUDITORS ON THE COMBINED FINANCIAL
STATEMENTS OF CHINA BEARING (SINGAPORE) LTD. FOR THE FINANCIAL
YEARS ENDED 31 DECEMBER 2003, 2004 AND 2005

NOTES TO THE COMBINED FINANCIAL STATEMENTS

13. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

	Buildings on leasehold land RMB'000	Land use rights RMB'000	Factory facilities RMB'000	Motor vehicles RMB'000	Plant and machinery RMB'000	Electrical fittings RMB'000	Total RMB'000
Net book value							
At 31 March 2006	2,182	2,464	7,005	1,166	31,731	163	44,711
At 31 December 2005	2,201	2,504	7,090	1,294	35,398	182	48,669
At 31 December 2004	2,279	2,838	7,162	1,684	37,192	258	51,413
At 31 December 2003	2,357	3,011	7,489	1,850	40,755	294	55,756

APPENDIX IV
REPORT OF THE INDEPENDENT AUDITORS ON THE COMBINED FINANCIAL
STATEMENTS OF CHINA BEARING (SINGAPORE) LTD. FOR THE FINANCIAL
YEARS ENDED 31 DECEMBER 2003, 2004 AND 2005

NOTES TO THE COMBINED FINANCIAL STATEMENTS

13. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

	←----- Audited -----→			(Based on management accounts presented for comparative figures only) Financial period ended 31 March 2005 RMB'000	Review of Unaudited accounts Financial period ended 31 March 2006 RMB'000
	Financial years ended 31 December 2003 RMB'000	2004 RMB'000	2005 RMB'000		
Depreciation is charged to:					
Cost of sales	5,703	5,486	5,415	1,364	1,287
Administrative expenses	904	770	668	172	161
	<u>6,607</u>	<u>6,256</u>	<u>6,083</u>	<u>1,536</u>	<u>1,448</u>

Pursuant to a sale and purchase agreement entered on 15 April 2006, Linyi Kaiyuan Bearing did not acquire the land and buildings including the land use rights. Instead, Yimeng Bearing entered into a lease agreement with Linyi Kaiyuan Bearing whereby Yimeng Bearing will grant the lease of land and use of buildings and factory facilities.

14. INTANGIBLE ASSETS

	←----- Audited -----→			Review of unaudited accounts Financial period ended 31 March 2006 RMB'000
	Financial years ended 31 December 2003 RMB'000	2004 RMB'000	2005 RMB'000	
Cost	6,000	6,000	6,000	6,000
Accumulated amortisation				
Balance at 1 January 2003				1,250
Amortisation for the year				600
At 31 December 2003				1,850
Amortisation for the year				600
At 31 December 2004				2,450
Amortisation for the year				600
Balance at 31 December 2005				3,050
Amortisation for the period				150
At 31 March 2006				<u>3,200</u>
	Financial years ended 31 December 2003 RMB'000	2004 RMB'000	2005 RMB'000	Financial period ended 31 March 2006 RMB'000
Net book value	4,150	3,550	2,950	2,800

APPENDIX IV
REPORT OF THE INDEPENDENT AUDITORS ON THE COMBINED FINANCIAL
STATEMENTS OF CHINA BEARING (SINGAPORE) LTD. FOR THE FINANCIAL
YEARS ENDED 31 DECEMBER 2003, 2004 AND 2005

NOTES TO THE COMBINED FINANCIAL STATEMENTS

15. INVENTORIES

	←----- Audited -----→			Review of unaudited accounts Financial period ended 31 March 2006
	Financial years ended 31 December 2003 RMB'000	2004 RMB'000	2005 RMB'000	RMB'000
At cost:				
Raw materials	11,193	9,932	1,477	3,692
Consumables	3,352	3,749	2,973	3,077
Finished goods	22,275	21,337	8,727	7,932
Work-in-progress	5,387	3,788	3,215	4,493
	42,207	38,806	16,392	19,194
Included in cost of sales are inventories charged of:	50,899	68,369	93,021	37,822

16. TRADE AND OTHER RECEIVABLES

	←----- Audited -----→			Review of unaudited accounts Financial period ended 31 March 2006
	Financial years ended 31 December 2003 RMB'000	2004 RMB'000	2005 RMB'000	RMB'000
Trade receivables	35,422	31,988	19,190	23,095
Note receivables	1,100	382	-	-
	36,522	32,370	19,190	23,095
Impairment on trade receivables	-	-	(11)	(11)
	36,522	32,370	19,179	23,084
<u>Other receivables</u>				
Advances to - suppliers	1,403	4,302	4,484	4,416
- sales personnel	147	213	380	177
- third parties	3,778	919	-	-
Deposits	33	16	-	-
Downpayment for purchase of land	570	570	-	-
Payments made in advance for purchases of inventories	902	311	166	224
Prepayments	-	-	1,277	2,004
Reimbursable expenses	-	-	50	84
Sundry receivables	1,237	575	70	267
	8,070	6,906	6,427	7,172
	44,592	39,276	25,606	30,256

Trade receivables are usually due within 30-90 days and do not bear any effective interest rate. All trade receivables are subject to credit risk exposure. However, the Group does not identify specific concentrations of credit risk with regards to trade and other receivables, as the amounts recognised resemble a large number of receivables from various customers.

APPENDIX IV
REPORT OF THE INDEPENDENT AUDITORS ON THE COMBINED FINANCIAL
STATEMENTS OF CHINA BEARING (SINGAPORE) LTD. FOR THE FINANCIAL
YEARS ENDED 31 DECEMBER 2003, 2004 AND 2005

NOTES TO THE COMBINED FINANCIAL STATEMENTS

16. TRADE AND OTHER RECEIVABLES (CONT'D)

The advances made to third parties are unsecured, interest-free and receivable on demand. The carrying value approximates the fair value of the advances. As at 31 March 2006, these advances were repaid.

The advances made to sales personnel are for business purposes.

Prepayments relate to the capitalisation of IPO and related expenses.

The reimbursable expenses are payments on behalf relating to the incorporation of China Bearing (Bermuda). The payments on behalf are unsecured and interest-free and are repaid by May 2006.

17. CASH AND CASH EQUIVALENTS

	←----- Audited -----→			Review of unaudited accounts Financial period ended
	Financial years ended 31 December 2003	2004	2005	31 March 2006
	RMB'000	RMB'000	RMB'000	RMB'000
Cash on hand	70	19	13	62
Bank balances	28,852	38,892	65,695	* 78,693
	<u>28,922</u>	<u>38,911</u>	<u>65,708</u>	<u>78,755</u>

* These bank balances are arrived at after deducting the liabilities owing to certain creditors deemed settled pursuant to the Transfer Agreement (see Note 21).

APPENDIX IV
REPORT OF THE INDEPENDENT AUDITORS ON THE COMBINED FINANCIAL
STATEMENTS OF CHINA BEARING (SINGAPORE) LTD. FOR THE FINANCIAL
YEARS ENDED 31 DECEMBER 2003, 2004 AND 2005

NOTES TO THE COMBINED FINANCIAL STATEMENTS

18. SHARE CAPITAL

	←----- Audited -----→			Review of unaudited accounts Financial period ended 31 March 2006
	Financial years ended 31 December 2003 RMB'000	2004 RMB'000	2005 RMB'000	RMB'000
Issued and fully paid up				
The Company				
2 shares (S\$2)	-	-	*	*
Yimeng Bearing				
Paid in capital: -				
山东沂蒙轴承厂职工持股管理委员会	13,280	13,280	-	-
洛阳轴承研究所	6,000	^ 6,000	-	-
山东省沂南县玉鸟内燃机有限责任公司	5,000	5,000	-	-
沂南县阳都资产运营公司	5,894	^ 5,894	-	-
张元开	-	-	8,000	8,000
张安喜	-	-	5,000	5,000
徐以合	-	-	3,000	3,000
张安玲	-	-	2,280	2,280
山东沂蒙轴承厂有限公司	6,826	6,826	6,826	6,826
	37,000	37,000	25,106	25,106
	37,000	37,000	25,106	25,106

^ In financial year 2005, Yimeng Bearing acquired its own shares by way of buy-back scheme to the extent of RMB11,893,988.

For the purposes of this report, the capital represents the aggregate amount of paid-in capital of the Company and Yimeng Bearing.

* represents amount less than RMB1,000

APPENDIX IV
REPORT OF THE INDEPENDENT AUDITORS ON THE COMBINED FINANCIAL
STATEMENTS OF CHINA BEARING (SINGAPORE) LTD. FOR THE FINANCIAL
YEARS ENDED 31 DECEMBER 2003, 2004 AND 2005

NOTES TO THE COMBINED FINANCIAL STATEMENTS

19. RESERVES

	←----- Audited -----→			Review of unaudited accounts Financial period ended 31 March 2006
	Financial years ended 31 December 2003 RMB'000	2004 RMB'000	2005 RMB'000	RMB'000
Statutory common reserve fund	7,654	10,224	13,088	13,088
Statutory common welfare fund	3,827	5,112	7,312	7,312
Voluntary common reserve fund	12,451	15,022	4	4
	23,932	30,358	20,404	20,404
Transfer to retained profits on combined basis	(23,932)	(30,358)	(20,404)	(20,404)
Retained profits as reported	31,873	20,738	55,120	78,129
Transfer from statutory reserves on combined basis	23,932	30,358	20,404	20,404
Exchange fluctuation reserve	-	-	74	175
	55,805	51,096	75,598	98,708

According to the Company Law of PRC and Articles of Association of Yimeng Bearing and Linyi Kaiyuan Bearing thereafter, the companies are required to provide the following statutory reserves which are appropriated from the net profit as reported in the PRC statutory financial statements:

- (a) **Statutory common reserve fund**
A company is required each year to transfer 10% of the profit after tax as reported in its PRC statutory financial statements to the statutory common reserve fund, except where the fund has reached 50% of the company's registered capital. This fund can be used to make up for any losses incurred or be converted into paid-up capital, provided that the fund does not fall below 25% of the registered capital.
- (b) **Statutory common welfare fund**
A company is required each year to transfer 5% to 10% of the profit after tax as reported in its PRC statutory financial statements to the statutory common welfare fund. This fund is used for the collective welfare of the staff and workers of the company. The common welfare fund is not available for distribution to owners (except on liquidation).

The combined financial statements of the Group are prepared on the assumption that the Group is subjected to the same statutory common reserve fund and statutory common welfare fund requirements as the PRC company.

- (c) **Voluntary common reserve fund**
The voluntary common reserve fund is a discretionary sum set aside for the company's needs as and when required.

APPENDIX IV
REPORT OF THE INDEPENDENT AUDITORS ON THE COMBINED FINANCIAL
STATEMENTS OF CHINA BEARING (SINGAPORE) LTD. FOR THE FINANCIAL
YEARS ENDED 31 DECEMBER 2003, 2004 AND 2005

NOTES TO THE COMBINED FINANCIAL STATEMENTS

20. CONVERTIBLE LOANS

		←----- Audited -----→			Review of unaudited accounts Financial period ended 31 March 2006
		Financial years ended 31 December 2003	2004	2005	
		RMB'000	RMB'000	RMB'000	RMB'000
Convertible loan	#1 (S\$500,000)	-	-	2,393	2,393
	#2 (S\$300,000)	-	-	1,435	1,435
	#3 (S\$300,000)	-	-	1,435	1,435
		-	-	5,263	5,263

Convertible Loan #1 refers to a convertible loan agreement dated 18 November 2005 with Tan Kim Seng for the granting of a convertible loan of S\$1.0 million to the Company.

Convertible Loan #2 refers to a convertible loan agreement dated 21 November 2005 with Teo Kok Woon for the granting of a convertible loan of S\$0.8 million to the Company.

Convertible Loan #3 refers to a convertible loan agreement dated 21 November 2005 with Power Works Pte Ltd for the granting of a convertible loan of S\$0.3 million to the Company.

The convertible loans were issued at varying dates, the earliest falling on 18 November 2005 and the latest falling on 21 November 2005, and are jointly guaranteed by Zhang Anxi and Shandong Yimeng Bearing Joint Stock Co., Ltd. These loans are convertible into ordinary shares of the Company on the basis as disclosed below at any time between the date of issue of the loans and the settlement date:

$$A1 = (B/C1) \div D \times 100\%$$

where "A1" = The Conversion Shareholding;
 "B" = The amount of the outstanding convertible loan;
 "C1" = 55% discount on historical price Earning Ratio as stated in the Prospectus;
 and "D" = FY2005 PAT (profit after tax) or RMB 35 million, whichever is the lower

The convertible loans are regarded as equity in nature as they are expected to be converted to shares upon successful application of the Company going for listing with Singapore Exchange Securities Trading Limited.

APPENDIX IV
REPORT OF THE INDEPENDENT AUDITORS ON THE COMBINED FINANCIAL
STATEMENTS OF CHINA BEARING (SINGAPORE) LTD. FOR THE FINANCIAL
YEARS ENDED 31 DECEMBER 2003, 2004 AND 2005

NOTES TO THE COMBINED FINANCIAL STATEMENTS

21. TRADE AND OTHER PAYABLES

	←----- Audited -----→			Review of unaudited accounts Financial period ended 31 March 2006
	Financial years ended 31 December 2003 RMB'000	2004 RMB'000	2005 RMB'000	RMB'000
Trade payables - external parties	40,029	21,637	21,336	17,503
Bill payables	10,910	1,382	-	-
Accruals for salaries and related costs	740	868	1,048	*
Staff welfare payable	5,391	6,149	7,178	7,498
VAT payable	1,232	1,717	2,440	*
Other governmental taxes payable	80	79	199	*
	58,382	31,832	32,201	25,001
Advances from				
- customers	249	1,801	160	62
- third parties	1,724	330	330	330
Deposits received	57	17	461	461
Staff salaries withheld	1,855	1,855	1,819	1,813
Staff benefit payables	400	677	1,600	2,055
Sundry payables	4,192	4,385	3,973	3,186
	8,477	9,065	8,343	7,907
	66,859	40,897	40,544	32,908

* These liabilities of RMB4,237,000 owing to the relevant tax authorities were not transferred from Yimeng Bearing to Linyi Kaiyuan Bearing pursuant to the Transfer Agreement as well as salary payable of RMB4,264,000 to employees. Accordingly, the combined financial statements deemed that the indebtedness owing for these liabilities as settled by Yimeng Bearing before 1 April 2006 (see Note 17).

The fair value of trade and other payables have not been disclosed as, due to their short duration, management considers the carrying amounts recognised in the balance sheet to be reasonable approximation of their fair value.

The advances from third parties are unsecured, interest-free and repayable on demand.

22. PROVISION FOR TAXATION

The income tax payable is repaid in April 2006. This income tax liability was not transferred under the Transfer Agreement.

APPENDIX IV
REPORT OF THE INDEPENDENT AUDITORS ON THE COMBINED FINANCIAL
STATEMENTS OF CHINA BEARING (SINGAPORE) LTD. FOR THE FINANCIAL
YEARS ENDED 31 DECEMBER 2003, 2004 AND 2005

NOTES TO THE COMBINED FINANCIAL STATEMENTS

23. BANK BORROWINGS

		←----- Audited -----→			Review of unaudited accounts Financial period ended 31 March 2006
		Financial years ended 31 December 2003	2004	2005	
		RMB'000	RMB'000	RMB'000	RMB'000
Bank loan					
- # 1	(a)	2,000	-	-	-
- # 2	(b)	2,000	-	-	-
- # 3	(c)	220	-	-	-
- # 4	(d)	1,000	-	-	-
		<u>5,220</u>	<u>-</u>	<u>-</u>	<u>-</u>

- (a) The one-year unsecured bank loan facility # 1 of RMB2,000,000 granted to Yimeng Bearing was fully repaid on 28 June 2004.

Interest was charged at 5.310% per annum.

The bank loan was secured by personal guarantees from certain shareholders of Yimeng Bearing.

- (b) The one-year bank loan facility # 2 of RMB2,000,000 granted to Yimeng Bearing was fully repaid on 28 June 2004.

Interest was charged at 5.310% per annum.

The bank loan was secured by personal guarantees from certain shareholders of Yimeng Bearing.

- (c) The one-year unsecured bank loan facility # 3 of RMB220,000 granted to Yimeng Bearing was fully repaid on 2 December 2004.

Interest was charged at 4.425% per annum.

The bank loan was secured by personal guarantees from certain shareholders of Yimeng Bearing.

- (d) The one-year bank loan facility # 4 of RMB1,000,000 granted to Yimeng Bearing was fully repaid on 30 July 2004.

Interest was charged at 5.310% per annum.

The bank loan was secured by personal guarantees from certain shareholders of Yimeng Bearing.

The bank loans are classified as current liabilities as they are expected to be settled in the normal course of the Group's operating cycle. The carrying amounts of current bank loans approximate their fair values.

APPENDIX IV
REPORT OF THE INDEPENDENT AUDITORS ON THE COMBINED FINANCIAL
STATEMENTS OF CHINA BEARING (SINGAPORE) LTD. FOR THE FINANCIAL
YEARS ENDED 31 DECEMBER 2003, 2004 AND 2005

NOTES TO THE COMBINED FINANCIAL STATEMENTS

24. OPERATING LEASE COMMITMENTS

At the balance sheet date, the Group was committed to making the following lease rental payments under non-cancellable operating leases for land and buildings.

	←----- Audited -----→			Review of unaudited accounts Financial period ended 31 March 2006
	Financial years ended 31 December 2003 RMB'000	2004 RMB'000	2005 RMB'000	RMB'000
Not later than one year	-	-	-	944
Later than one year and not later than five years	-	-	-	3,776
Later than five years	-	-	-	4,720

The leases on the Company's buildings and factory facilities cover an area of 41,475 sq m commencing 1 April 2006. The rentals which are payable will expire on 31 March 2016, subject to an option to renew for another period of not less than 2 years. The current rent payable on the lease is RMB236,026 per quarter which are subject to revision on renewal.

25. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's financial instruments carried on the combined balance sheet include cash and cash equivalents, receivables, payables and bank borrowings.

The Group does not hold or issue derivative financial instruments for trading purposes or to hedge against fluctuations, if any, in interest rates and foreign exchange.

(a) Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

The business of the Group is mainly carried out in the PRC. Accordingly, the exposure to foreign exchange risk is minimal.

(b) Cash flow and fair value interest rate risk

Cash flow interest rate risk is the risk that future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates.

The Group's exposure to interest rate risk is minimal as the Group has no exposure to variable interest instruments.

APPENDIX IV
REPORT OF THE INDEPENDENT AUDITORS ON THE COMBINED FINANCIAL
STATEMENTS OF CHINA BEARING (SINGAPORE) LTD. FOR THE FINANCIAL
YEARS ENDED 31 DECEMBER 2003, 2004 AND 2005

NOTES TO THE COMBINED FINANCIAL STATEMENTS

25. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D)

(c) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

Management has a credit control policy in place. Credit evaluations are performed on all customers requiring credit over a certain amount. Transactions are conducted with customers with appropriate credit histories. The credit risk and amount outstanding is monitored on an ongoing basis. With this credit evaluation processes, credit control policies and collection procedures in place, the credit risk is mitigated substantially. The Group does not require collateral in respect of financial assets.

The Group performs ongoing credit evaluation of its customers' financial condition and requires no collateral from its customers. The allowance for doubtful debts is based upon a review of the expected collectibility of all trade and other receivables.

(d) Liquidity risk

Liquidity or funding risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value.

The Group manages its liquidity risk by ensuring the availability of adequate funds to meet all its obligations in a timely and cost-effective manner.

26. POST BALANCE SHEET EVENTS

(a) On 30 January 2006, in line with the amendments to the Companies Act, Cap. 50, the concepts of par value of shares and authorised share capital have been abolished and on that date, the shares of the Company ceased to have a par value.

(b) **Transfer Agreement**
Pursuant to a Transfer Agreement dated 8 June 2006, Yimeng Bearing agreed to transfer certain of its assets, liabilities and businesses to Linyi Kaiyuan Bearing for a total consideration of RMB25,980,000. Linyi Kaiyuan Bearing began to acquire and continue to carry out all the business operations of Yimeng Bearing effective from 1 April 2006.

27. SEGMENT INFORMATION

The Group's main businesses are those relating to the sale of bearing products. Accordingly, the directors are of the opinion that there is no benefit to be gained by disclosing the information required by SFRS 14 Segment Reporting as the Group is not subject to different risks and returns in its activities.

28. APPROVAL OF THE FINANCIAL STATEMENTS

The combined financial statements are approved by the Board of Directors on 12 October 2006.

APPENDIX V
REVIEW LETTER BY THE INDEPENDENT AUDITORS ON THE COMBINED
FINANCIAL STATEMENTS OF CHINA BEARING (SINGAPORE) LTD. FOR THE
THREE-MONTH FINANCIAL PERIOD ENDED 31 MARCH 2006

Date: 12 October 2006

The Board of Directors
China Bearing (Singapore) Ltd.
336 Smith Street #05-310
New Bridge Centre
Singapore 050336

Dear Sirs

REVIEW BY THE AUDITORS IN RELATION TO THE UNAUDITED COMBINED FINANCIAL
INFORMATION OF CHINA BEARING (SINGAPORE) LTD. AND SHANDONG YIMENG BEARING
JOINT STOCK CO., LTD. FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2006

We have reviewed the unaudited combined financial information of China Bearing (Singapore) Ltd. ("the Company") and Shandong Yimeng Bearing Joint Stock Co., Ltd. (collectively "the Group") for the three-month financial period ended 31 March 2006.

The unaudited combined financial information of the Group are the responsibility of the Company's directors. Our responsibility is to issue a letter on these unaudited combined financial information based on our review.

The summary of significant accounting policies has been described in Note 5, in the Independent Auditors' Report on the Combined Financial Statements of the Group as set out in Appendix IV of the Prospectus in connection with the invitation in respect of New Shares in the capital of the Company.

We conducted our review in accordance with the Singapore Standards on Auditing applicable to review engagements. This standard requires that we plan and perform the review to obtain moderate assurance as to whether the unaudited combined financial information of the Group are free of material misstatement. A review is limited primarily to inquiries of company personnel and analytical procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that any material modifications should be made to the unaudited combined financial information of the Group prepared in accordance with accounting policies normally adopted by the Group as described in Note 5 in the Independent Auditors' Report on the Combined Financial Statements of the Group as set out in Appendix IV of this Prospectus.

Yours faithfully

Foo Kon Tan Grant Thornton
Certified Public Accountants
Singapore

Yeo Boon Chye
Partner-in-charge

APPENDIX VI
COMBINED UNAUDITED FINANCIAL STATEMENTS OF CHINA BEARING
(SINGAPORE) LTD. FOR THE THREE-MONTH FINANCIAL PERIOD ENDED
31 MARCH 2006

Combined financial statements
China Bearing (Singapore) Ltd. and
Shandong Yimeng Bearing Joint Stock Co., Ltd.
For the three months ended 31 March 2006

APPENDIX VI
COMBINED UNAUDITED FINANCIAL STATEMENTS OF CHINA BEARING
(SINGAPORE) LTD. FOR THE THREE-MONTH FINANCIAL PERIOD ENDED
31 MARCH 2006

China Bearing (Singapore) Ltd. and
Shandong Yimeng Bearing Joint Stock Co., Ltd.

Contents

	Page
Review report	1
Combined balance sheet	2
Combined income statement	3
Combined statement of changes in equity	4
Combined cash flow statement	5
Notes to the combined financial statements	6

APPENDIX VI
COMBINED UNAUDITED FINANCIAL STATEMENTS OF CHINA BEARING
(SINGAPORE) LTD. FOR THE THREE-MONTH FINANCIAL PERIOD ENDED
31 MARCH 2006

1

Review report to the members of China Bearing (Singapore) Ltd.

We have reviewed the accompanying combined balance sheet of China Bearing (Singapore) Ltd. (“the Company”) as at 31 March 2006, and the related combined statement of income for the three months ended on that date. These combined financial statements are the responsibility of the Company's management. Our responsibility is to issue a report on these combined financial statements based on our review.

We conducted our review in accordance with the Singapore Standard on Review Engagements 2400. This Standard requires that we plan and perform the review to obtain moderate assurance as to whether the combined financial statements are free of material misstatement. A review is limited primarily to inquiries of company personnel and analytical procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying combined financial statements are not presented fairly, in all material respects, in accordance with Singapore Financial Reporting Standards.

Foo Kon Tan Grant Thornton
Certified Public Accountants

Yeo Boon Chye
Partner-in-charge
Singapore, 12 October 2006

APPENDIX VI
COMBINED UNAUDITED FINANCIAL STATEMENTS OF CHINA BEARING
(SINGAPORE) LTD. FOR THE THREE-MONTH FINANCIAL PERIOD ENDED
31 MARCH 2006

China Bearing (Singapore) Ltd. and
Shandong Yimeng Bearing Joint Stock Co., Ltd.
Combined financial statements for the three months ended 31 March 2006

2

Combined balance sheet

	Notes	31 March 2006 RMB	31 March 2005 RMB
Assets			
Non-Current			
Property, plant and equipment	5	44,711,457	49,931,103
Intangible assets	6	2,800,000	3,400,000
		47,511,457	53,331,103
Current			
Inventories	7	19,194,402	24,145,095
Trade and other receivables	8	30,255,716	50,237,418
Cash and cash equivalents	9	78,754,166	23,832,697
		128,204,284	98,215,210
Total assets		175,715,741	151,546,313
Equity			
Capital and Reserves			
Capital contribution	10	25,106,022	37,000,000
Share capital that will arise from conversion of the Convertible Loans	11	5,263,158	-
Retained profits		78,128,782	32,198,401
Other reserves	12	20,579,341	30,358,516
		129,077,303	99,556,917
Liabilities			
Current			
Trade and other payables	13	32,907,334	43,295,776
Provision for taxation	14	13,731,104	8,693,620
		46,638,438	51,989,396
Total equity and liabilities		175,715,741	151,546,313

.....
Director

.....
Director

12 October 2006

The annexed notes form an integral part of and should be read in conjunction with these combined financial statements.

APPENDIX VI
COMBINED UNAUDITED FINANCIAL STATEMENTS OF CHINA BEARING
(SINGAPORE) LTD. FOR THE THREE-MONTH FINANCIAL PERIOD ENDED
31 MARCH 2006

China Bearing (Singapore) Ltd. and
Shandong Yimeng Bearing Joint Stock Co., Ltd.
Combined financial statements for the three months ended 31 March 2006

3

Combined income statement

	Notes	Three months ended 31 March 2006 RMB	Three months ended 31 March 2005 RMB
Revenue	4	84,781,895	64,685,340
Cost of sales		(44,776,411)	(45,945,852)
Gross profit		40,005,484	18,739,488
Other operating income	15(a)	802,788	822,336
Distribution costs		(724,234)	(346,328)
Administrative expenses		(4,318,218)	(1,335,923)
Other operating expenses		(1,206,794)	(774,077)
Profit before taxation	16	34,559,026	17,105,496
Taxation	17	(11,549,930)	(5,644,814)
Profit after taxation for the period attributable to shareholders		23,009,096	11,460,682

The annexed notes form an integral part of and should be read in conjunction with these combined financial statements.

APPENDIX VI
COMBINED UNAUDITED FINANCIAL STATEMENTS OF CHINA BEARING
(SINGAPORE) LTD. FOR THE THREE-MONTH FINANCIAL PERIOD ENDED
31 MARCH 2006

Combined statement of changes in equity

	Capital contribution RMB	Convertible Loans RMB	Retained profits RMB	Exchange fluctuation reserve RMB	Statutory common reserve RMB	Statutory common welfare fund RMB	Voluntary common reserve RMB	Sub-total RMB	Total RMB
Balance as at 1 January 2005	37,000,000	-	20,737,719	-	10,224,273	5,112,134	15,022,109	30,358,516	88,096,235
Net profit for the period	-	-	1,460,682	-	-	-	-	-	11,460,682
Balance as at 31 March 2005	37,000,000	-	32,198,401	-	10,224,273	5,112,134	15,022,109	30,358,516	99,556,917
Balance as at 1 January 2006	25,106,022	5,263,158	55,119,686	73,752	13,088,261	7,312,134	4,034	20,478,181	105,967,047
Exchange difference arising from translation of Convertible Loans not recognised in the combined income statement	-	-	-	101,160	-	-	-	101,160	101,160
Net profit for the period	-	-	23,009,096	-	-	-	-	-	23,009,096
Balance as at 31 March 2006	25,106,022	5,263,158	78,128,782	174,912	13,088,261	7,312,134	4,034	20,579,341	129,077,303

The annexed notes form an integral part of and should be read in conjunction with these combined financial statements.

APPENDIX VI
COMBINED UNAUDITED FINANCIAL STATEMENTS OF CHINA BEARING
(SINGAPORE) LTD. FOR THE THREE-MONTH FINANCIAL PERIOD ENDED
31 MARCH 2006

China Bearing (Singapore) Ltd. and
Shandong Yimeng Bearing Joint Stock Co., Ltd.
Combined financial statements for the three months ended 31 March 2006

5

Combined cash flow statement

	3 months ended 31 March 2006 RMB	3 months ended 31 March 2005 RMB
Cash Flows from Operating Activities		
Profit before taxation	34,559,026	17,105,496
Adjustments for:		
Amortisation of intangible assets	150,000	150,000
Exchange loss on translation	101,160	-
Depreciation of property, plant and equipment	1,448,211	1,536,053
Loss on disposal of property, plant and equipment	228,409	45,146
Interest income	(121,953)	(83,001)
Operating profit before working capital changes	36,364,853	18,753,694
(Increase)/decrease in inventories	(2,802,192)	14,660,535
Increase in operating receivables	(4,649,543)	(10,960,788)
(Decrease)/increase in operating payables	(5,326,275)	2,398,775
Cash generated from operations	23,586,843	24,852,216
Income tax paid	(10,632,653)	(2,914,354)
Net cash generated from operating activities	12,954,190	21,937,862
Cash Flows from Investing Activities		
Acquisition of property, plant and equipment	(29,325)	(109,020)
Proceeds from disposal of property, plant and equipment	-	10,000
Interest received	121,953	83,001
Net cash generated from/(used in) investing activities	92,628	(16,019)
Cash Flows from Financing Activity		
Dividends paid	-	(37,000,000)
Net cash used in financing activity	-	(37,000,000)
Net increase/(decrease) in cash and cash equivalents	13,046,818	(15,078,157)
Cash and cash equivalents at beginning of period	65,707,348	38,910,854
Cash and cash equivalents at end of period (Note 9)	78,754,166	23,832,697

The annexed notes form an integral part of and should be read in conjunction with these combined financial statements.

APPENDIX VI
COMBINED UNAUDITED FINANCIAL STATEMENTS OF CHINA BEARING
(SINGAPORE) LTD. FOR THE THREE-MONTH FINANCIAL PERIOD ENDED
31 MARCH 2006

China Bearing (Singapore) Ltd. and
Shandong Yimeng Bearing Joint Stock Co., Ltd.
Combined financial statements for the three months ended 31 March 2006

6

Notes to the combined financial statements

1 General information

The combined financial statements of the Company and Shandong Yimeng Bearing Joint Stock Co., Ltd. ("Yimeng Bearing") (collectively referred as "the Group") are prepared for the three months ended 31 March 2005 and 2006.

The Company was incorporated under the laws of Singapore on 31 August 2005 as a limited exempt private company under the name of China Bearing (Singapore) Pte. Ltd. On 4 September 2006, China Bearing (Singapore) Pte. Ltd. was converted to a public company and assumed the present name China Bearing (Singapore) Ltd.

The combined financial statements for the three months ended 31 March 2006 were prepared based on the unaudited financial statements of the Company and Yimeng Bearing. These combined financial statements are the combination or aggregation of all the financial statements of the companies in the Group.

The registered office is located at 336 Smith Street #05-310, New Bridge Centre, Singapore 050336.

The Company is incorporated as a limited liability company and domiciled in the Republic of Singapore while Yimeng Bearing and Linyi Kaiyuan Bearing Co., Ltd. ("Linyi Kaiyuan Bearing") are incorporated as limited liability companies and domiciled in the People's Republic of China ("PRC").

Pursuant to a Transfer Agreement dated 8 June 2006, Yimeng Bearing transferred certain of its assets, liabilities and businesses to Linyi Kaiyuan Bearing for a total consideration of RMB25,980,382. Linyi Kaiyuan Bearing began to acquire and continue to carry out all the business operations of Yimeng Bearing effective from 1 April 2006.

Yimeng Bearing maintains its accounting records and prepares financial statements in accordance with accounting standards and regulations of the PRC GAAP.

The combined financial statements have been prepared for internal management purposes in accordance with Singapore Financial Reporting Standards ("SFRS") including related Interpretations promulgated by the Council on Corporate Disclosure and Governance ("CCDG").

The accounting policies and bases adopted in the preparation of the financial statements of Yimeng Bearing differ in certain respects from SFRS. The differences arising from the restatement of the results of operations and the net assets for compliance with SFRS are adjusted in the combined financial statements but are not taken up in the accounting records of Yimeng Bearing.

The combined financial statements are presented in Renminbi ("RMB"), being the currency in which the Group's transactions are denominated. The combined financial statements have been prepared solely for inclusion in the preliminary prospectus of China Bearing (Singapore) Ltd. dated 28 August 2006 in connection with the initial public offering of China Bearing (Singapore) Ltd. in Singapore.

APPENDIX VI

COMBINED UNAUDITED FINANCIAL STATEMENTS OF CHINA BEARING (SINGAPORE) LTD. FOR THE THREE-MONTH FINANCIAL PERIOD ENDED 31 MARCH 2006

**China Bearing (Singapore) Ltd. and
Shandong Yimeng Bearing Joint Stock Co., Ltd.
Combined financial statements for the three months ended 31 March 2006**

7

1 General information (cont'd)

The principal activity of the Company is that of investment holding. The Company did not carry out any trading activity during the financial period under review.

The principal activities of the Yimeng Bearing are those of the manufacture and sale of bearing products.

2(a) Basis of preparation

The combined financial statements of the Group for the three months ended 31 March 2006 were prepared in a manner similar to the “pooling of interest” method as if the Restructuring Exercise carried out on 1 April 2006 had been completed on 1 January 2003. Such manner of presentation reflects the economic substance of the combining companies, which were under common control throughout the relevant period, as a single economic enterprise, although the legal parent-subsidiary relationships were not established.

The combined financial statements, expressed in RMB, are prepared in accordance with the historical cost convention, except as disclosed in the accounting policies below.

The combined financial statements have been prepared solely to show the financial position of the Group as at 31 March 2006 and its combined results for the period then ended in connection with the proposed listing of the shares of China Bearing (Singapore) Ltd. on the Singapore Exchange Securities Trading Limited.

Accordingly, for the purpose for which these combined financial statements have been prepared, comparative figures which are required to be presented in general purposes financial statements are prepared in accordance with SFRS.

Significant accounting estimates and judgements

The preparation of the combined financial statements in conformity with SFRS requires the use of judgements, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the financial period. Although these estimates are based on management’s best knowledge of current events and actions, actual results may differ from those estimates.

2(b) Change in accounting policies

The CCDG issued a series of new and revised FRSs for which the Group applies these new and revised standards from 1 January 2005. This includes the following new and revised standards, which are relevant to the Group:

FRS 1 (revised 2004)	Presentation of Financial Statements
FRS 2 (revised 2004)	Inventories
FRS 8 (revised 2004)	Accounting Policies, Changes in Accounting Estimates and Errors
FRS 10 (revised 2004)	Events after Balance Sheet Date
FRS 16 (revised 2004)	Property, Plant and Equipment
FRS 21 (revised 2004)	The Effects of Changes in Foreign Exchange Rates
FRS 24 (revised 2004)	Related Party Disclosures
FRS 27 (revised 2004)	Consolidated and Separate Financial Statements
FRS 32 (revised 2004)	Financial Instruments: Disclosure and Presentation
FRS 36 (revised 2004)	Impairment of Assets
FRS 38 (revised 2004)	Intangible Assets
FRS 39 (revised 2004)	Financial Instruments: Recognition and Measurement
Interpretation (“INT”) of FRS 101	Changes in Existing Decommissioning, Restoration and Similar Liabilities

The adoption of the above FRS and INT FRS did not result in substantial changes to the Group’s accounting policies.

APPENDIX VI

COMBINED UNAUDITED FINANCIAL STATEMENTS OF CHINA BEARING (SINGAPORE) LTD. FOR THE THREE-MONTH FINANCIAL PERIOD ENDED 31 MARCH 2006

**China Bearing (Singapore) Ltd. and
Shandong Yimeng Bearing Joint Stock Co., Ltd.
Combined financial statements for the three months ended 31 March 2006**

8

2(b) Change in accounting policies (cont'd)

At the date of authorisation of these combined financial statements, the following Standards and Interpretations were in issue but not yet effective:

FRS 40	Investment Property
FRS 106	Exploration for and Evaluation of Mineral Resources
FRS 107	Financial Instruments: Disclosures
INT FRS 104	Determining whether an Arrangement contains a Lease
INT FRS 105	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
INT FRS 106	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment
INT FRS 107	Applying the Restatement Approach under FRS 29 Financial Reporting in Hyperinflationary Economies

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the combined financial statements of the Group.

3 Summary of significant accounting policies

Basis of combination

Subsidiary is that enterprise controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of the subsidiary are included in the combined financial statements from the date that control commences until the date that control ceases.

Any intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the combined financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses, if any. Depreciation is computed utilising the straight-line method to write off the cost of the assets after deducting the residual value over their estimated useful lives as follows:

Buildings on leasehold land	Over the remaining period of lease, which is originally 40 years
Factory facilities	30 years
Motor vehicles	6 years
Plant and machinery	12 years
Electrical fittings	10 years

The cost of property, plant and equipment includes expenditure that is directly attributable to the acquisition of the items. Dismantlement, removal or restoration costs are included as part of the cost of property, plant and equipment if the obligation for dismantlement, removal or restoration is incurred as a consequence of acquiring or using the asset. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

For acquisitions and disposals during the financial period, depreciation is provided from the month after acquisition and to the month of disposal respectively.

APPENDIX VI

COMBINED UNAUDITED FINANCIAL STATEMENTS OF CHINA BEARING (SINGAPORE) LTD. FOR THE THREE-MONTH FINANCIAL PERIOD ENDED 31 MARCH 2006

**China Bearing (Singapore) Ltd. and
Shandong Yimeng Bearing Joint Stock Co., Ltd.**

9

Combined financial statements for the three months ended 31 March 2006

Property, plant and equipment and depreciation (cont'd)

Fully depreciated property, plant and equipment, if any, are retained in the books of accounts until they are no longer in use.

Land use rights are stated at cost less accumulated depreciation. Depreciation is charged so as to write off the value of land use rights, using the straight-line method, over the period of the grant of originally 50 years.

Intangible assets

Intangible assets are accounted for using the cost model. Capitalised costs are amortised on a straight-line basis over their estimated useful lives as they are considered finite. After initial recognition, they are carried at cost less accumulated amortisation and accumulated impairment losses, if any. In addition, they are subject to impairment testing.

Intangible assets are written off where, in the opinion of the directors, no further future economic benefits are expected to arise.

Patents and licenses

Costs relating to patents and licenses which are acquired are capitalised and amortised on straight-line basis over their useful life of ten years, commencing in the year of operations.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a weighted-average basis. In the case of manufactured inventories, cost consists of cost of raw materials, direct labour and an appropriate proportion of production overheads.

Allowance is made, where necessary, for obsolete, slow-moving and defective inventories in arriving at the net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

Financial assets

Financial assets include cash and financial instruments. Financial assets, other than hedging instruments, can be divided into the following categories: financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables and available-for-sale financial assets. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the investments were acquired. The designation of financial assets is re-evaluated and classification may be changed at the reporting date with the exception that the designation of financial assets at fair value through profit or loss is not revocable.

All financial assets are recognised on their trade date - the date on which the Group commits to purchase or sell the asset. Financial assets are initially recognised at fair value, plus directly attributable transaction costs except for financial assets at fair value through profit or loss, which are recognised at fair value.

Derecognition of financial instruments occurs when the rights to receive cash flows from the investments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred. An assessment for impairment is undertaken at least at each balance sheet date whether or not there is objective evidence that a financial asset or a group of financial assets is impaired.

The Group does not have any investments and accordingly, there is no investment to be classified as held-to-maturity or available-for-sale.

APPENDIX VI

COMBINED UNAUDITED FINANCIAL STATEMENTS OF CHINA BEARING (SINGAPORE) LTD. FOR THE THREE-MONTH FINANCIAL PERIOD ENDED 31 MARCH 2006

**China Bearing (Singapore) Ltd. and
Shandong Yimeng Bearing Joint Stock Co., Ltd.**

10

Combined financial statements for the three months ended 31 March 2006

Financial assets (cont'd)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivables. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets, if any.

Loans and receivables are subsequently measured at amortised cost using the effective interest method, less allowance for impairment. Any change in their value is recognised in the combined income statement. Any reversal shall not result in a carrying amount that exceeds what the amortised cost would have been had any impairment loss not been recognised at the date the impairment is reversed. Any reversal is recognised in the combined income statement.

Receivables are provided against when objective evidence is received that the Group will not be able to collect all amounts due to it in accordance with the original terms of the receivables. The amount of the write-down is determined as the difference between the asset's carrying amount and the present value of estimated future cash flows.

Loans and receivables include trade and other receivables.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and bank deposits with a short maturity of three months or less.

Financial liabilities

The Group's financial liabilities include trade and other payables and dividend payable.

Financial liabilities are recognised when the Group becomes a party to the contractual agreements of the instrument. All interest related charges is recognised as an expense in "finance costs" in the combined income statement.

Trade payables are initially measured at fair value, and subsequently measured at amortised cost, using the effective interest method.

Other payables are recognised initially at their nominal value and subsequently measured at amortised cost less settlement payments.

Employee benefits

Pension obligations

The Group participates in the defined contribution national pension and other welfare schemes as provided by the laws in the PRC. The contributions to these schemes are charged to the combined income statement in the period to which the contributions relate.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The directors review the provisions annually and where in their opinion, the provision is inadequate or excessive, due adjustment is made.

Government grant

The Government grant is recognised on receipt basis to which they are intended to compensate for the costs incurred. Government grant is not recognised as income until there is a reasonable assurance that the Group will comply with the conditions attaching to it.

APPENDIX VI

COMBINED UNAUDITED FINANCIAL STATEMENTS OF CHINA BEARING (SINGAPORE) LTD. FOR THE THREE-MONTH FINANCIAL PERIOD ENDED 31 MARCH 2006

**China Bearing (Singapore) Ltd. and
Shandong Yimeng Bearing Joint Stock Co., Ltd.
Combined financial statements for the three months ended 31 March 2006**

11

Income taxes

The liability method of tax effect accounting is adopted by the Group. Current taxation is provided at the current taxation rate based on the tax payable on the income for the financial period that is chargeable to tax. Deferred taxation is provided at the current taxation rate on all temporary differences existing at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts in the combined financial statements.

Deferred tax liabilities are recognised for all taxable temporary differences.

Deferred tax assets are recognised for all deductible temporary differences to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilised.

The statutory tax rates enacted at the balance sheet date are used to determine deferred income tax.

Impairment of assets

The carrying amounts of the Group's assets subject to impairment are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

If it is not possible to estimate the recoverable amount of the individual asset, then the recoverable amount of the cash-generating unit to which the asset belongs will be identified.

For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

Individual assets or cash-generating units that include intangible assets, if any, with an indefinite useful life or those not yet available for use are tested for impairment at least annually. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss, if any, is recognised for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell and value in use, based on an internal discounted cash flow evaluation.

Any impairment loss is charged to the combined income statement.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount or when there is an indication that the impairment loss recognised for the asset no longer exists or decreases.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined if no impairment loss had been recognised.

A reversal of an impairment loss is credited as income in the combined income statement.

Functional currency

Items included in the combined financial statements of the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity ("the functional currency"). The combined financial statements of the Group are presented in RMB which is also the functional currency of the Group.

APPENDIX VI
COMBINED UNAUDITED FINANCIAL STATEMENTS OF CHINA BEARING
(SINGAPORE) LTD. FOR THE THREE-MONTH FINANCIAL PERIOD ENDED
31 MARCH 2006

**China Bearing (Singapore) Ltd. and
Shandong Yimeng Bearing Joint Stock Co., Ltd.**

12

Combined financial statements for the three months ended 31 March 2006

Conversion of foreign currencies

Monetary assets and liabilities in foreign currencies are translated into RMB at rates of exchange closely approximating those ruling at balance sheet date. Transactions in foreign currencies are converted at rates closely approximating those ruling at transaction dates. Exchange differences arising from such transactions are recorded in the combined income statement in the period in which they arise.

Revenue recognition

Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer. Revenue excludes relevant value-added taxes and is arrived at after deduction of trade discounts. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods.

Revenue from the sale of bearing products and raw materials is recognised when goods are sold to customers, which generally coincides with their delivery and acceptance.

Interest income is recognised on a time-apportioned basis using the effective interest method.

Financial instruments

Financial instruments carried on the combined balance sheet include cash and cash equivalents, financial assets and financial liabilities. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

Disclosures on financial risk management objectives and policies are provided in Note 19.

4 Revenue

Revenue represents sale of bearing products, excluding applicable value-added tax as follows:

	Three months ended 31 March 2006 RMB	Three months ended 31 March 2005 RMB
Sale of bearings	83,843,721	63,651,929
Sale of raw materials	938,174	1,033,411
	84,781,895	64,685,340

APPENDIX VI
COMBINED UNAUDITED FINANCIAL STATEMENTS OF CHINA BEARING
(SINGAPORE) LTD. FOR THE THREE-MONTH FINANCIAL PERIOD ENDED
31 MARCH 2006

13

China Bearing (Singapore) Ltd. and
Shandong Yimeng Bearing Joint Stock Co., Ltd.
Combined financial statements for the three months ended 31 March 2006

5	Property, plant and equipment											
		Buildings on leasehold land RMB	Land use rights RMB	Factory facilities RMB	Motor vehicles RMB	Plant and machinery RMB	Electrical fittings RMB	Total RMB				
Cost												
At 1 January 2005		3,108,014	4,005,927	9,899,337	2,873,205	66,150,221	757,000	86,793,704				
Additions		-	-	-	-	109,020	-	109,020				
Disposals		-	-	-	(140,051)	-	-	(140,051)				
At 31 March 2005		3,108,014	4,005,927	9,899,337	2,733,154	66,259,241	757,000	86,762,673				
At 1 January 2006		3,108,014	3,786,077	10,156,962	2,656,965	67,841,029	757,000	88,306,047				
Additions		-	-	-	-	29,325	-	29,325				
Disposals		-	-	-	(43,050)	(3,399,579)	-	(3,442,629)				
At 31 March 2006		3,108,014	3,786,077	10,156,962	2,613,915	64,470,775	757,000	84,892,743				
Accumulated depreciation												
At 1 January 2005		828,834	1,168,307	2,736,815	1,188,205	28,959,266	498,995	35,380,422				
Depreciation for the period		19,425	43,334	82,139	107,535	1,264,695	18,925	1,536,053				
Disposals		-	-	-	(84,905)	-	-	(84,905)				
At 31 March 2005		848,259	1,211,641	2,818,954	1,210,835	30,223,961	517,920	36,831,570				
At 1 January 2006		906,535	1,282,110	3,067,799	1,362,536	32,443,619	574,695	39,637,294				
Depreciation for the period		19,425	39,771	84,642	102,621	1,182,827	18,925	1,448,211				
Disposals		-	-	-	(17,979)	(886,240)	-	(904,219)				
At 31 March 2006		925,960	1,321,881	3,152,441	1,447,178	32,740,206	593,620	40,181,286				
Net book value												
At 31 March 2006		2,182,054	2,464,196	7,004,521	1,166,737	31,730,569	163,380	44,711,457				
At 31 March 2005		2,259,755	2,794,286	7,080,383	1,522,319	36,035,280	239,080	49,931,103				

APPENDIX VI
COMBINED UNAUDITED FINANCIAL STATEMENTS OF CHINA BEARING
(SINGAPORE) LTD. FOR THE THREE-MONTH FINANCIAL PERIOD ENDED
31 MARCH 2006

China Bearing (Singapore) Ltd. and
Shandong Yimeng Bearing Joint Stock Co., Ltd.
Combined financial statements for the three months ended 31 March 2006

14

5 Property, plant and equipment (cont'd)

	Three months ended 31 March 2006 RMB	Three months ended 31 March 2005 RMB
Depreciation expense charged to:		
Cost of sales	1,287,239	1,363,669
Administrative expenses	160,972	172,384
	1,448,211	1,536,053

6 Intangible assets

	31 March 2006 RMB	31 March 2005 RMB
Cost	6,000,000	6,000,000
Accumulated amortisation		
Balance at 1 January 2005		2,450,000
Amortisation for the period		150,000
Balance at 31 March 2005		2,600,000
Balance at 1 January 2006		3,050,000
Amortisation for the period		150,000
Balance at 31 March 2006		3,200,000
Net book value		
At 31 March 2006		2,800,000
At 31 March 2005		3,400,000

These relate to purchase for the rights to use designs of precision roller-bearings.

7 Inventories

	31 March 2006 RMB	31 March 2005 RMB
At cost:		
Raw materials	3,692,175	6,950,134
Consumables	3,077,153	3,258,572
Finished goods	7,931,591	3,829,936
Work-in-progress	4,493,483	10,106,453
	19,194,402	24,145,095
	Three months ended 31 March 2006 RMB	Three months ended 31 March 2005 RMB
Total inventories charged to:		
Cost of sales	37,821,648	26,457,034

APPENDIX VI
COMBINED UNAUDITED FINANCIAL STATEMENTS OF CHINA BEARING
(SINGAPORE) LTD. FOR THE THREE-MONTH FINANCIAL PERIOD ENDED
31 MARCH 2006

China Bearing (Singapore) Ltd. and
Shandong Yimeng Bearing Joint Stock Co., Ltd.
Combined financial statements for the three months ended 31 March 2006

15

8 Trade and other receivables

	31 March 2006 RMB	31 March 2005 RMB
Trade receivables	23,094,377	38,444,664
Note receivables	-	2,000,000
	23,094,377	40,444,664
Impairment on trade receivables	(10,974)	-
Net trade receivables	23,083,403	40,444,664
Payments made in advance for purchase of inventories	223,815	357,736
Advances made to sales personnels	177,431	207,364
Deposits	-	636,105
Payments in advance to suppliers	4,416,005	7,918,881
Prepayments	2,003,861	-
Reimbursable expenses	84,119	-
Others	267,082	672,668
	30,255,716	50,237,418

Trade receivables are usually due within 30-90 days and do not bear any effective interest rate. All trade receivables are subject to credit risk exposure. However, the Group does not identify specific concentrations of credit risk with regards to trade and other receivables, as the amounts recognised resemble a large number of receivables from various customers.

The money from note receivables of RMB2,000,000 was received on varying dates, the earliest falling on 27 June 2005 and the latest falling on 15 July 2005.

The advances made to third parties are unsecured, interest-free and receivable on demand. The carrying value approximates the fair value of the advances.

The advances made to sales personnels are for business purposes.

Prepayments relate to the capitalisation of IPO and related expenses.

The reimbursable expenses are payments on behalf relating to the incorporation of China Bearing (Bermuda). The payments on behalf are unsecured and interest-free and are repaid by May 2006.

9 Cash and cash equivalents

	31 March 2006 RMB	31 March 2005 RMB
Cash on hand	62,285	119,445
Bank balances	* 78,691,881	23,713,252
	78,754,166	23,832,697

* These bank balances are arrived at after deducting the liability owing to certain creditors deemed settled pursuant to the Transfer Agreement (Note 13).

APPENDIX VI
COMBINED UNAUDITED FINANCIAL STATEMENTS OF CHINA BEARING
(SINGAPORE) LTD. FOR THE THREE-MONTH FINANCIAL PERIOD ENDED
31 MARCH 2006

China Bearing (Singapore) Ltd. and
Shandong Yimeng Bearing Joint Stock Co., Ltd.
Combined financial statements for the three months ended 31 March 2006

16

10 Capital contribution

	31 March 2006 RMB	31 March 2005 RMB
Issued and fully paid up		
The Company: 2 shares (S\$2)	10	-
Yimeng Bearing:		
Paid in capital		
山东沂蒙轴承厂职工持股管理委员会	-	13,280,000
洛阳轴承研究所 (Note 12)	-	6,000,000
山东省沂南县玉鸟内燃机有限责任公司	-	5,000,000
沂南县阳都资产运营公司 (Note 12)	-	5,893,988
张元开	8,000,000	-
张安喜	5,000,000	-
徐以合	3,000,000	-
张安玲	2,280,000	-
山东沂蒙轴承厂有限公司	6,826,012	6,826,012
	25,106,012	37,000,000
	25,106,022	37,000,000

In financial year 2005, Yimeng Bearing acquired its own shares by way of buy-back scheme to the extent of RMB11,893,988.

On 30 January 2006, in line with the amendments to the Companies Act, Cap. 50, the concepts of par value of shares and authorised share capital have been abolished and on that date, the shares of the Company ceased to have a par value.

For the purposes of this report, the capital represents the aggregate amount of paid-in capital of the Company and Yimeng Bearing.

11 Convertible loans

	S\$	31 March 2006 RMB	31 March 2005 RMB
Convertible loan #1	500,000	2,392,344	-
#2	300,000	1,435,407	-
#3	300,000	1,435,407	-
	1,100,000	5,263,158	-

Convertible Loan #1 refers to a convertible loan agreement dated 18 November 2005 with Tan Kim Seng for the granting of a convertible loan of S\$1.0 million to the Company.

Convertible Loan #2 refers to a convertible loan agreement dated 21 November 2005 with Teo Kok Woon for the granting of a convertible loan of S\$0.8 million to the Company.

Convertible Loan #3 refers to a convertible loan agreement dated 21 November 2005 with Power Works Pte Ltd for the granting of a convertible loan of S\$0.3 million to the Company.

The convertible loans were issued at varying dates, the earliest falling on 18 November 2005 and the latest falling on 21 November 2005, and are jointly guaranteed by Zhang Anxi and Yimeng Bearing. These loans are convertible into ordinary shares of the Company on the basis as disclosed below at any time between the date of issue of the loans and the settlement date:

APPENDIX VI

COMBINED UNAUDITED FINANCIAL STATEMENTS OF CHINA BEARING (SINGAPORE) LTD. FOR THE THREE-MONTH FINANCIAL PERIOD ENDED 31 MARCH 2006

**China Bearing (Singapore) Ltd. and
Shandong Yimeng Bearing Joint Stock Co., Ltd.
Combined financial statements for the three months ended 31 March 2006**

17

11 Convertible loans (cont'd)

$$A1 = (B/C1) \div D \times 100\%$$

where

- “A1” = The Conversion Shareholding;
 “B” = The amount of the outstanding convertible loan;
 “C1” = 55% discount on historical price Earning Ratio as stated in the Prospectus; and
 “D” = FY2005 PAT (profit after tax) or RMB35 million, whichever is the lower

The convertible loans are regarded as equity in nature as they are expected to be converted to shares upon the successful application of the Company going for listing with Singapore Exchange Securities Trading Limited.

12 Other reserves

	31 March 2006 RMB	31 March 2005 RMB
Statutory common reserve	13,088,261	10,224,273
Statutory common welfare fund reserve	7,312,134	5,112,134
Voluntary common reserve	4,034	15,022,109
Exchange fluctuation reserve	174,912	-
	20,579,341	30,358,516

According to the Company Law of PRC and Articles of Association of Yimeng Bearing, Yimeng Bearing is required to provide the following statutory reserves which are appropriated from the net profit as reported in the PRC statutory financial statements:

- (a) Statutory common reserve fund
 A company is required each year to transfer 10% of the profit after tax as reported in its PRC statutory financial statements to the statutory common reserve fund, except where the fund has reached 50% of the company's registered capital. This fund can be used to make up for any losses incurred or be converted into paid-up capital, provided that the fund does not fall below 25% of the registered capital.
- (b) Statutory common welfare fund
 A company is required each year to transfer 5% to 10% of the profit after tax as reported in its PRC statutory financial statements to the statutory common welfare fund. This fund is used for the collective welfare of the staff and workers of the company. The common welfare fund is not available for distribution to owners (except on liquidation).

The combined financial statements of the Group are prepared on the assumption that the Group is subjected to the same statutory common reserve fund and statutory common welfare fund requirements as the PRC company.

- (c) Voluntary common reserve fund
 The voluntary common reserve fund is a discretionary sum set aside for the company's needs as and when required.

The voluntary common reserve to the extent of RMB15,110,000 represents the excess payments made for the reduction of capital contribution of RMB11,893,988 as follows:

洛阳轴承研究所 (Note 10)	6,000,000
沂南县阳都资产运营公司 (Note 10)	5,893,988
	11,893,988

APPENDIX VI
COMBINED UNAUDITED FINANCIAL STATEMENTS OF CHINA BEARING
(SINGAPORE) LTD. FOR THE THREE-MONTH FINANCIAL PERIOD ENDED
31 MARCH 2006

China Bearing (Singapore) Ltd. and
Shandong Yimeng Bearing Joint Stock Co., Ltd.
Combined financial statements for the three months ended 31 March 2006

18

13 Trade and other payables

	31 March 2006 RMB	31 March 2005 RMB
Trade payables	17,503,060	21,009,354
Bill payables	-	2,000,000
VAT payable	*	3,679,958
Other governmental taxes due	*	271,849
Accruals for salaries and related costs	*	834,513
Staff welfare payable	7,497,413	6,420,334
Advances received from customers	62,010	1,179,590
Advances from third parties	330,000	480,000
Deposits received	461,000	461,000
Staff salaries withheld	1,813,150	1,855,450
Staff benefit payables	2,054,810	1,049,688
Other payables	3,185,891	4,054,040
	32,907,334	43,295,776

* These liabilities of RMB4,236,744 owing to the relevant tax authorities were not transferred from Yimeng Bearing to Linyi Kaiyuan Bearing pursuant to the Transfer Agreement as well as salary payable of RMB4,264,017 to employees. Accordingly, the combined financial statements deemed that the indebtedness owing for these liabilities as settled by Yimeng Bearing before 1 April 2006 (Note 9).

The fair value of trade and other payables have not been disclosed as, due to their short duration, management considers the carrying amounts recognised in the combined balance sheet to be reasonable approximation of their fair value.

The advances from third parties are unsecured, interest-free and repayable on demand.

The bill payables of RMB2,000,000 were repaid on varying dates, the earliest falling on 12 July 2005 and the latest falling on 25 July 2005.

14 Provision for taxation

The income tax payable is settled in April 2006. This income tax liability was not transferred under the Transfer Agreement.

15(a) Other operating income

	Three months ended 31 March 2006 RMB	Three months ended 31 March 2005 RMB
Sale of scrap	680,835	619,335
Interest income – bank deposits with current account	121,953	83,001
Government grant	-	120,000
	802,788	822,336

APPENDIX VI
COMBINED UNAUDITED FINANCIAL STATEMENTS OF CHINA BEARING
(SINGAPORE) LTD. FOR THE THREE-MONTH FINANCIAL PERIOD ENDED
31 MARCH 2006

China Bearing (Singapore) Ltd. and
Shandong Yimeng Bearing Joint Stock Co., Ltd.
Combined financial statements for the three months ended 31 March 2006

19

15(b) Employee benefit expenses

	Three months ended 31 March 2006 RMB	Three months ended 31 March 2005 RMB
Directors' remuneration other than fees		
- salaries and related costs	56,192	37,918
- bonus	700,000	-
- defined contributions	44,107	34,812
Other than directors and key management personnel		
- salaries and related costs	402,450	277,957
- bonus	117,600	-
- defined contributions	315,893	255,188
	1,636,242	605,875

16 Profit before taxation

	Notes	Three months ended 31 March 2006 RMB	Three months ended 31 March 2005 RMB
Profit before taxation has been arrived at			
after charging:			
Amortisation of intangible assets	6	150,000	150,000
Depreciation of property, plant and equipment	5	1,448,211	1,536,053
Directors' fee		1,400,000	-
Loss on disposal of property, plant and equipment		228,409	45,146

17 Taxation

	Three months ended 31 March 2006 RMB	Three months ended 31 March 2005 RMB
Current taxation	11,549,930	5,644,814

The tax expense on the results of the financial period varies from the amount of income tax determined by applying the PRC's statutory rate of income tax on Group's profits as a result of the following:

	Three months ended 31 March 2006 RMB	Three months ended 31 March 2005 RMB
Profit before taxation	34,559,026	17,105,496
Tax at statutory rate of 33%	11,404,479	5,644,814
Tax effect on non-deductible items	145,451	-
	11,549,930	5,644,814

APPENDIX VI

COMBINED UNAUDITED FINANCIAL STATEMENTS OF CHINA BEARING (SINGAPORE) LTD. FOR THE THREE-MONTH FINANCIAL PERIOD ENDED 31 MARCH 2006

**China Bearing (Singapore) Ltd. and
Shandong Yimeng Bearing Joint Stock Co., Ltd.**

20

Combined financial statements for the three months ended 31 March 2006

18 Retirement benefit plans

The eligible employees of the Group, who are citizens of the PRC, are members of a state-managed retirement benefit scheme operated by the local government. The Group is required to contribute a certain percentage of their payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

The total cost charged to the combined income statement for the periods ended 31 March 2006 and 2005 were RMB360,000 and RMB290,000, representing defined contribution national pension plan for the respective periods.

19 Financial risk management objectives and policies

The Group's financial instruments carried on the combined balance sheet include cash and cash equivalents, receivables, payables and bank borrowings.

The Group does not hold or issue derivative financial instruments for trading purposes or to hedge against fluctuations, if any, in interest rates and foreign exchange.

19.1 Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

The business of the Group is mainly carried out in the PRC. Accordingly, the exposure to foreign exchange risk is minimal.

19.2 Cash flow and fair value interest rate risk

Cash flow interest rate risk is the risk that future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates.

The Group's exposure to interest rate risk relates principally to its short-term deposits placed with financial institutions.

19.3 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

Management has a credit control policy in place. Credit evaluations are performed on all customers requiring credit over a certain amount. Transactions are conducted with customers with appropriate credit histories. The credit risk and amount outstanding is monitored on an ongoing basis. With this credit evaluation processes, credit control policies and collection procedures in place, the credit risk is mitigated substantially. The Group does not require collateral in respect of financial assets.

The Group performs ongoing credit evaluation of its customers' financial condition and requires no collateral from its customers. The allowance for doubtful debts is based upon a review of the expected collectibility of all trade and other receivables.

19.4 Liquidity risk

Liquidity or funding risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value.

The Group manages its liquidity risk by ensuring the availability of adequate funds to meet all its obligations in a timely and cost-effective manner.

APPENDIX VI
COMBINED UNAUDITED FINANCIAL STATEMENTS OF CHINA BEARING
(SINGAPORE) LTD. FOR THE THREE-MONTH FINANCIAL PERIOD ENDED
31 MARCH 2006

China Bearing (Singapore) Ltd. and
Shandong Yimeng Bearing Joint Stock Co., Ltd.
Combined financial statements for the three months ended 31 March 2006

21

20 Financial instruments

Fair values

The carrying amount of the financial assets and financial liabilities with a maturity of less than one year is assumed to approximate their fair values.

The Group does not anticipate that the carrying amounts recorded at balance sheet date would be significantly different from the values that would eventually be received or settled.

APPENDIX VII
UNAUDITED PRO FORMA GROUP FINANCIAL STATEMENTS OF
CHINA BEARING (SINGAPORE) LTD FOR THE YEAR ENDED 31 DECEMBER 2005
AND THREE MONTHS ENDED 31 MARCH 2006

Unaudited pro forma Group financial statements
China Bearing (Singapore) Ltd.
For the year ended 31 December 2005 and three
months ended 31 March 2006

APPENDIX VII
UNAUDITED PRO FORMA GROUP FINANCIAL STATEMENTS OF
CHINA BEARING (SINGAPORE) LTD. FOR THE YEAR ENDED 31 DECEMBER 2005
AND THREE MONTHS ENDED 31 MARCH 2006

Contents

	Page
Compilation report	1
Unaudited Pro forma Group balance sheets	3
Unaudited Pro forma Group income statements	4
Statements of adjustments to the unaudited Pro forma Group	5
Unaudited Pro forma Group statements of changes in equity	12
Unaudited Pro forma Group cash flow statements	13
Notes to the Unaudited Pro forma Group financial statements	14

APPENDIX VII
UNAUDITED PRO FORMA GROUP FINANCIAL STATEMENTS OF
CHINA BEARING (SINGAPORE) LTD. FOR THE YEAR ENDED 31 DECEMBER 2005
AND THREE MONTHS ENDED 31 MARCH 2006

China Bearing (Singapore) Ltd.

1

Compilation report

for the year ended 31 December 2005 and period ended 31 March 2006

Compilation report of the Reporting Accountants on the unaudited pro forma financial information of the Group

This Compilation Report has been prepared for inclusion in the Prospectus dated 12 October 2006 (the “Prospectus”) in connection with the Invitation in respect of the New Shares and Vendor Shares in the capital of China Bearing (Singapore) Ltd. (“the Company”).

We report on the unaudited pro forma financial information set out in pages 3 to 29 which has been prepared, for illustrative purposes only and are based on certain assumptions and after making certain adjustments to show what:

- (i) the financial results of the Company and its subsidiary (collectively “the pro forma Group”) for the financial year ended 31 December 2005 and for the three-month financial period ended 31 March 2006 would have been if the group structure as of the date of registration of the Prospectus had been in place since the beginning of the periods being reported on;
- (ii) the financial position of the pro forma Group as at 31 December 2005 and 31 March 2006 would have been if the group structure as of the date of registration of the Prospectus had been in place on that date; and
- (iii) the equity changes and cash flows of the pro forma Group for the financial year/period ended 31 December 2005 and 31 March 2006 would have been if the group structure as of the date of registration of the Prospectus had been in place since 1 January 2005.

The unaudited pro forma financial information, because of their nature, may not give a true picture of the pro forma Group’s actual financial position, financial results, changes in equity and cash flows of the pro forma Group.

The unaudited pro forma financial information is the responsibility of the directors of the Company. Our responsibility is to express an opinion on the unaudited pro forma financial information based on our work.

We carried out procedures in accordance with Singapore Statement of Auditing Practice - SAP 24: “Auditors and Public Offering Documents”. Our work, which involved no independent examination of the underlying unaudited pro forma financial statements, consisted primarily of comparing the unaudited pro forma consolidated financial information to the financial statements (or where financial statements are not available, to accounting records) of the Company and the companies in the Pro forma Group, where applicable, considering the evidence supporting the adjustments and discussing the unaudited pro forma consolidated financial information with the directors of the Company.

APPENDIX VII
UNAUDITED PRO FORMA GROUP FINANCIAL STATEMENTS OF
CHINA BEARING (SINGAPORE) LTD. FOR THE YEAR ENDED 31 DECEMBER 2005
AND THREE MONTHS ENDED 31 MARCH 2006

China Bearing (Singapore) Ltd.

2

Compilation report (cont'd)

for the year ended 31 December 2005 and period ended 31 March 2006

In our opinion,

(a) the unaudited pro forma financial information have been properly prepared:

- (i) in a manner consistent with both the format of the financial statements and the accounting policies of the Company which are prepared in accordance with the Singapore Financial Reporting Standards; and
- (ii) on the basis stated in Note 2 of this report; and

(b) each material adjustment made to the information used in the preparation of the unaudited pro forma financial information is appropriate for the purpose of preparing such financial statements.

Foo Kon Tan Grant Thornton
Certified Public Accountants

Yeo Boon Chye
Partner-in-charge
Singapore, 12 October 2006

APPENDIX VII
UNAUDITED PRO FORMA GROUP FINANCIAL STATEMENTS OF
CHINA BEARING (SINGAPORE) LTD. FOR THE YEAR ENDED 31 DECEMBER 2005
AND THREE MONTHS ENDED 31 MARCH 2006

China Bearing (Singapore) Ltd.

3

Unaudited Pro forma Group financial statements

for the year ended 31 December 2005 and period ended 31 March 2006

Unaudited Pro forma Group balance sheets

	Notes	31 March 2006 RMB	31 December 2005 RMB
Assets			
Non-Current			
Property, plant and equipment	6	33,060,686	36,874,144
Intangible assets	7	2,800,000	2,950,000
		35,860,686	39,824,144
Current			
Inventories	8	7,931,591	16,392,210
Trade and other receivables	9	30,255,716	25,732,156
Cash and cash equivalents	10	17,165,533	1,529,403
		55,352,840	43,653,769
Total assets		91,213,526	83,477,913
Equity			
Shareholders' equity		28,398,200	15,768,794
Liabilities			
Non-current			
Loans from related parties	11	25,106,012	25,106,012
Current			
Trade and other payables	12	32,907,334	37,801,127
Non-convertible Loan	13	4,801,980	4,801,980
		37,709,314	42,603,107
Total equity and liabilities		91,213,526	83,477,913

.....
Director

.....
Director

12 October 2006

The annexed notes form an integral part of and should be read in conjunction with these financial statements.

APPENDIX VII
UNAUDITED PRO FORMA GROUP FINANCIAL STATEMENTS OF
CHINA BEARING (SINGAPORE) LTD. FOR THE YEAR ENDED 31 DECEMBER 2005
AND THREE MONTHS ENDED 31 MARCH 2006

China Bearing (Singapore) Ltd.

4

Unaudited Pro forma Group financial statements

for the year ended 31 December 2005 and period ended 31 March 2006

Unaudited Pro forma Group income statements

	Notes	1 January 2006 to 31 March 2006 RMB	1 January 2005 to 31 December 2005 RMB
Revenue	5	84,781,895	202,902,170
Cost of sales		(44,712,162)	(133,794,273)
Gross profit		40,069,733	69,107,897
Other operating income	14(a)	802,788	3,281,289
Distribution costs		(724,234)	(1,668,408)
Administrative expenses		(4,238,629)	(6,490,760)
Other operating expenses		(1,442,821)	(3,173,784)
Finance costs	14(b)	-	(3,110)
Profit before taxation	15	34,466,837	61,053,124
Taxation	16	(11,519,507)	(20,235,017)
Profit after taxation for the period/year attributable to shareholders		22,947,330	40,818,107

The annexed notes form an integral part of and should be read in conjunction with these financial statements.

APPENDIX VII
UNAUDITED PRO FORMA GROUP FINANCIAL STATEMENTS OF
CHINA BEARING (SINGAPORE) LTD. FOR THE YEAR ENDED 31 DECEMBER 2005
AND THREE MONTHS ENDED 31 MARCH 2006

5

China Bearing (Singapore) Ltd.
Unaudited Pro forma Group financial statements
for the year ended 31 December 2005 and period ended 31 March 2006

Statements of adjustments

Statement of adjustments to the consolidated balance sheet of the Pro forma Group

The following adjustments have been made in arriving at the consolidated balance sheet of the Pro forma Group as at 31 December 2005 and 31 March 2006:

As at 31 December 2005	Per aggregation of the balance sheets of China Bearing and Yimeng Bearing 31 December 2005 RMB	Depreciation on land and buildings acquired	Estimated rental expense for leasehold land and buildings	Land and buildings not acquired	Gain on disposal of land use rights not acquired	Provision for taxation deemed paid	Tax recoverable	Dividends declared	Certain liabilities not taken over deemed paid	Fund from loan creditors	Per pro forma Group balance sheet 31 December 2005 RMB
Assets											
Non-Current											
Property, plant and equipment	48,668,753	580,833	-	(12,536,947)	161,505	-	-	-	-	-	36,874,144
Intangible assets	2,950,000	-	-	-	-	-	-	-	-	-	2,950,000
Current											
Inventories	16,392,210	-	-	-	-	-	-	-	-	-	16,392,210
Trade and other receivables	25,606,173	-	-	-	-	-	125,983	-	-	-	25,732,156
Cash and cash equivalents	65,707,348	-	-	-	-	(12,813,827)	-	(50,345,070)	(3,686,589)	2,667,541	1,529,403
	107,705,731	-	-	-	-	(12,813,827)	125,983	(50,345,070)	(3,686,589)	2,667,541	43,653,769
Total assets	159,324,484	580,833	-	(12,536,947)	161,505	(12,813,827)	125,983	(50,345,070)	(3,686,589)	2,667,541	83,477,913
Equity											
Shareholders' equity	105,967,047	389,158	(632,551)	(12,536,947)	167,608	-	-	(75,451,082)	-	(2,134,439)	15,768,794
Liabilities											
Non-current											
Loans from related parties	-	-	-	-	-	-	-	25,106,012	-	-	25,106,012
Current											
Trade and other payables	40,543,610	-	944,106	-	-	-	-	-	(3,686,589)	-	37,801,127
Provision for taxation	12,813,827	191,675	(311,555)	-	(6,103)	(12,813,827)	125,983	-	-	-	-
Non-convertible Loan	-	-	-	-	-	-	-	-	-	4,801,980	4,801,980
	53,357,437	191,675	632,551	-	(6,103)	(12,813,827)	125,983	-	(3,686,589)	4,801,980	42,603,107
Total equity and liabilities	159,324,484	580,833	-	(12,536,947)	161,505	(12,813,827)	125,983	(50,345,070)	(3,686,589)	2,667,541	83,477,913

The annexed notes form an integral part of and should be read in conjunction with these financial statements.

APPENDIX VII
UNAUDITED PRO FORMA GROUP FINANCIAL STATEMENTS OF
CHINA BEARING (SINGAPORE) LTD. FOR THE YEAR ENDED 31 DECEMBER 2005
AND THREE MONTHS ENDED 31 MARCH 2006

6

China Bearing (Singapore) Ltd.
Unaudited Pro forma Group financial statements
for the year ended 31 December 2005 and period ended 31 March 2006

Statement of adjustments to the consolidated balance sheet of the Pro forma Group (cont'd)

As at 31 March 2006	Per aggregation of the balance sheets of China Bearing and Yimeng Bearing 31 March 2006 RMB	Gain on disposal of land use rights in 2005	Provision for taxation deemed paid	Land and buildings not acquired	Inventories acquired not	Fund from loan creditors	Dividend Declared	Per pro forma Group balance sheet 31 March 2006 RMB
Assets								
Non-Current								
Property, plant and equipment	44,711,457	-	-	(11,650,771)	-	-	-	33,060,686
Intangible assets	2,800,000	-	-	-	-	-	-	2,800,000
	47,511,457	-	-	(11,650,771)	-	-	-	35,860,686
Current								
Inventories	19,194,402	-	-	-	(11,262,811)	-	-	7,931,591
Trade and other receivables	30,255,716	-	-	-	-	-	-	30,255,716
Cash and cash equivalents	78,754,166	(180,000)	(13,731,104)	-	-	2,667,541	(50,345,070)	17,165,533
	128,204,284	(180,000)	(13,731,104)	-	(11,262,811)	2,667,541	(50,345,070)	55,352,840
Total assets	175,715,741	(180,000)	(13,731,104)	(11,650,771)	(11,262,811)	2,667,541	(50,345,070)	91,213,526
Equity								
Shareholders' equity	129,077,303	(180,000)	-	(11,650,771)	(11,262,811)	(2,134,439)	(75,451,082)	28,398,200
Liabilities								
Non-current								
Loans from related parties	-	-	-	-	-	-	25,106,012	25,106,012
Current								
Trade and other payables	32,907,334	-	-	-	-	-	-	32,907,334
Provision for taxation	13,731,104	-	(13,731,104)	-	-	-	-	-
Non-convertible Loan	-	-	-	-	-	4,801,980	-	4,801,980
	46,638,438	-	(13,731,104)	-	-	4,801,980	-	37,709,314
Total equity and liabilities	175,715,741	(180,000)	(13,731,104)	(11,650,771)	(11,262,811)	2,667,541	(50,345,070)	91,213,526

The annexed notes form an integral part of and should be read in conjunction with these financial statements.

APPENDIX VII
UNAUDITED PRO FORMA GROUP FINANCIAL STATEMENTS OF
CHINA BEARING (SINGAPORE) LTD. FOR THE YEAR ENDED 31 DECEMBER 2005
AND THREE MONTHS ENDED 31 MARCH 2006

China Bearing (Singapore) Ltd.

7

Unaudited Pro forma Group financial statements

for the year ended 31 December 2005 and period ended 31 March 2006

Note (a) to the statements of adjustments to the consolidated balance sheet of the Pro forma Group

The following Pro forma adjustments are made to the aggregation of the balance sheets of the companies within the Pro forma Group to reflect the following balance sheet items as at 31 December 2005 and 31 March 2006:-

As at 31 December 2005

	Per aggregation of the balance sheets of China Bearing and Yimeng Bearing 31 December 2005 RMB	Pro forma adjustments to Pro forma Group balance sheet	Per Pro forma Group balance sheet 31 December 2005 RMB
Assets			
Non-Current			
Property, plant and equipment	48,668,753	(11,794,609)	36,874,144
Intangible assets	2,950,000	-	2,950,000
	51,618,753	(11,794,609)	39,824,144
Current			
Inventories	16,392,210	-	16,392,210
Trade and other receivables	25,606,173	125,983	25,732,156
Cash and cash equivalents	65,707,348	(64,177,945)	1,529,403
	107,705,731	(64,051,962)	43,653,769
Total assets	159,324,484	(75,846,571)	83,477,913
Equity			
Shareholders' equity	105,967,047	(90,198,253)	15,768,794
Liabilities			
Non-current			
Loans from related parties	-	25,106,012	25,106,012
Current			
Trade and other payables	40,543,610	(2,742,483)	37,801,127
Provision for taxation	12,813,827	(12,813,827)	-
Non-convertible Loan	-	4,801,980	4,801,980
	53,357,437	(10,754,330)	42,603,107
Total equity and liabilities	159,324,484	(75,846,571)	83,477,913

The annexed notes form an integral part of and should be read in conjunction with these financial statements.

APPENDIX VII
UNAUDITED PRO FORMA GROUP FINANCIAL STATEMENTS OF
CHINA BEARING (SINGAPORE) LTD. FOR THE YEAR ENDED 31 DECEMBER 2005
AND THREE MONTHS ENDED 31 MARCH 2006

China Bearing (Singapore) Ltd.
Unaudited Pro forma Group financial statements
for the year ended 31 December 2005 and period ended 31 March 2006

8

Statement of adjustments to the consolidated balance sheet of the Pro forma Group (cont'd)

As at 31 March 2006	Per aggregation of the balance sheets of China Bearing and Yimeng Bearing 31 March 2006 RMB	Pro forma adjustments to Pro forma Group balance sheet	Per Pro forma Group balance sheet 31 March 2006 RMB
Assets			
Non-Current			
Property, plant and equipment	44,711,457	(11,650,771)	33,060,686
Intangible assets	2,800,000	-	2,800,000
	47,511,457	(11,650,771)	35,860,686
Current			
Inventories	19,194,402	(11,262,811)	7,931,591
Trade and other receivables	30,255,716	-	30,255,716
Cash and cash equivalents	78,754,166	(61,588,633)	17,165,533
	128,204,284	(72,851,444)	55,352,840
Total assets	175,715,741	(84,502,215)	91,213,526
Equity			
Shareholders' equity	129,077,303	(100,679,103)	28,398,200
Liabilities			
Non-current			
Loans from related parties	-	25,106,012	25,106,012
Current			
Trade and other payables	32,907,334	-	32,907,334
Provision for taxation	13,731,104	(13,731,104)	-
Non-convertible Loan	-	4,801,980	4,801,980
	46,638,438	(8,929,124)	37,709,314
Total equity and liabilities	175,715,741	(84,502,215)	91,213,526

The annexed notes form an integral part of and should be read in conjunction with these financial statements.

China Bearing (Singapore) Ltd.

**Unaudited Pro forma Group financial statements
for the year ended 31 December 2005 and period ended 31 March 2006**

9

Statement of adjustments to the consolidated income statement of the Pro forma Group

The following adjustments have been made in arriving at the consolidated income statement of the Pro forma Group for the financial year ended 31 December 2005 and for the three months financial period ended 31 March 2006:

Financial year ended 31 December 2005

	Notes	Per aggregation of the income statements of China Bearing and Yimeng Bearing 31 December 2005 RMB	Depreciation on land and buildings not acquired	Estimated rental expense for leasehold land and buildings	Gain on disposal of land use rights not acquired	Per income statement of the Pro forma Group 31 December 2005 RMB
Revenue	5	202,902,170	-	-	-	202,902,170
Cost of sales		(134,106,787)	312,514	-	-	(133,794,273)
Gross profit		68,795,383	312,514	-	-	69,107,897
Other operating income	14(a)	3,281,289	-	-	-	3,281,289
Distribution costs		(1,668,408)	-	-	-	(1,668,408)
Administrative expenses		(6,759,079)	268,319	-	-	(6,490,760)
Other operating expenses		(2,211,183)	-	(944,106)	(18,495)	(3,173,784)
Finance costs	14(b)	(3,110)	-	-	-	(3,110)
Profit before taxation	15	61,434,892	580,833	(944,106)	(18,495)	61,053,124
Taxation	16	(20,361,000)	(191,675)	311,555	6,103	(20,235,017)
Profit after taxation for the year attributable to shareholders		41,073,892	389,158	(632,551)	(12,392)	40,818,107

The annexed notes form an integral part of and should be read in conjunction with these financial statements.

**Unaudited Pro forma Group financial statements
for the year ended 31 December 2005 and period ended 31 March 2006**

APPENDIX VII
UNAUDITED PRO FORMA GROUP FINANCIAL STATEMENTS OF
CHINA BEARING (SINGAPORE) LTD. FOR THE YEAR ENDED 31 DECEMBER 2005
AND THREE MONTHS ENDED 31 MARCH 2006

Statement of adjustments to the consolidated income statement of the Pro forma Group (cont'd)

Financial period from 1 January 2006 to 31 March 2006

	Notes	Per aggregation of the income statements of China Bearing and Yimeng Bearing 31 March 2006 RMB	Depreciation on land and buildings not acquired	Estimated rental expense for leasehold land and buildings	Per income statement of the Pro forma Group 31 March 2006 RMB
Revenue	5	84,781,895	-	-	84,781,895
Cost of sales		(44,776,411)	64,249	-	(44,712,162)
Gross profit		40,005,484	64,249	-	40,069,733
Other operating income	14(a)	802,788	-	-	802,788
Distribution costs		(724,234)	-	-	(724,234)
Administrative expenses		(4,318,218)	79,589	-	(4,238,629)
Other operating expenses		(1,206,794)	-	(236,027)	(1,442,821)
Profit before taxation	15	34,559,026	143,838	(236,027)	34,466,837
Taxation	16	(11,549,930)	(47,466)	77,889	(11,519,507)
Profit after taxation for the period attributable to shareholders		23,009,096	96,372	(158,138)	22,947,330

The annexed notes form an integral part of and should be read in conjunction with these financial statements.

APPENDIX VII
UNAUDITED PRO FORMA GROUP FINANCIAL STATEMENTS OF
CHINA BEARING (SINGAPORE) LTD. FOR THE YEAR ENDED 31 DECEMBER 2005
AND THREE MONTHS ENDED 31 MARCH 2006

China Bearing (Singapore) Ltd.

11

Unaudited Pro forma Group financial statements

for the year ended 31 December 2005 and period ended 31 March 2006

Note (a) to the statements of adjustments to the consolidated income statement of the Pro forma Group

The following Pro forma adjustments are made to the aggregation of the income statements of the companies within the Pro forma Group to reflect the following profit and loss items for the financial year ended 31 December 2005, and for the three months financial period ended 31 March 2006:-

	Three months financial period ended 31 March 2006	Financial year ended 31 December 2005	Total
	RMB	RMB	RMB
Depreciation on land and buildings not acquired	143,838	580,833	724,671
Estimated rental expense	(236,027)	(944,106)	(1,180,133)
Elimination of gain arising from sale of land use rights not acquired	-	(18,495)	(18,495)
Decrease in pro forma profit before tax	(92,189)	(381,768)	(473,957)
Decrease in pro forma tax expense	30,423	125,983	156,406
Decrease in pro forma profit after tax	(61,766)	(255,785)	(317,551)

The annexed notes form an integral part of and should be read in conjunction with these financial statements.

APPENDIX VII
UNAUDITED PRO FORMA GROUP FINANCIAL STATEMENTS OF
CHINA BEARING (SINGAPORE) LTD. FOR THE YEAR ENDED 31 DECEMBER 2005
AND THREE MONTHS ENDED 31 MARCH 2006

China Bearing (Singapore) Ltd.

12

Unaudited Pro forma Group financial statements

for the year ended 31 December 2005 and period ended 31 March 2006

Consolidated statements of changes in equity of the Pro forma Group

	Three months financial period ended 31 March 2006 RMB	Financial year ended 31 December 2005 RMB
At beginning of financial period/year	15,768,794	75,739,287
Issue of shares in the paid-up capital of a company of the Pro forma Group	-	10
Fund from loan creditors	843,727	3,128,720
Exchange fluctuation reserve	101,160	73,752
Reduction in the paid-up capital of a company of the Pro forma Group	-	(28,540,000)
Inventories on raw materials and in-progress not taken over in the Pro forma Group	(11,262,811)	-
Net profit for the financial period/year	22,947,330	40,818,107
Dividend (Note 18)	-	(75,451,082)
At end of financial period/year	<u>28,398,200</u>	<u>15,768,794</u>

The annexed notes form an integral part of and should be read in conjunction with these financial statements.

APPENDIX VII
UNAUDITED PRO FORMA GROUP FINANCIAL STATEMENTS OF
CHINA BEARING (SINGAPORE) LTD. FOR THE YEAR ENDED 31 DECEMBER 2005
AND THREE MONTHS ENDED 31 MARCH 2006

China Bearing (Singapore) Ltd.

13

Unaudited Pro forma Group financial statements

for the year ended 31 December 2005 and period ended 31 March 2006

Unaudited Pro forma Group cash flow statements

	Period ended 31 March 2006 RMB	Year ended 31 December 2005 RMB
Cash Flows from Operating Activities		
Profit before taxation	34,466,837	61,053,124
Adjustments for:		
Amortisation of intangible assets	150,000	600,000
Exchange loss on translation	101,160	73,752
Depreciation of property, plant and equipment	1,304,373	5,503,022
Loss on disposal of property, plant and equipment	228,409	50,757
Impairment on trade receivables	-	10,974
Interest expense	-	3,110
Interest income	(121,953)	(202,870)
Operating profit before working capital changes	36,128,826	67,091,869
(Increase)/decrease in inventories	(2,276,016)	22,413,420
(Increase)/decrease in operating receivables	(4,175,583)	13,659,483
Decrease in operating payables	(2,583,792)	(3,173,500)
Cash generated from operations	27,093,435	99,991,272
Income tax paid	(11,549,933)	(26,324,160)
Net cash generated from operating activities	15,543,502	73,667,112
Cash Flows from Investing Activities		
Acquisition of property, plant and equipment	(29,325)	(3,722,605)
Proceeds from disposal of property, plant and equipment	-	428,642
Interest received	121,953	202,870
Net cash generated from/(used in) investing activities	92,628	(3,091,093)
Cash Flows from Financing Activities		
Shares issued	-	10
Fund from loan creditors	-	7,930,700
Reduction in the paid-up capital of a company in the Pro forma Group	-	(28,540,000)
Interest paid	-	(3,110)
Loans from related parties	-	25,106,012
Dividends paid	-	(112,451,082)
Net cash used in financing activities	-	(107,957,470)
Net increase/(decrease) in cash and cash equivalents	15,636,130	(37,381,451)
Cash and cash equivalents at beginning of period/year	1,529,403	38,910,854
Cash and cash equivalents at end of period/year (Note 10)	17,165,533	1,529,403

The annexed notes form an integral part of and should be read in conjunction with these financial statements.

APPENDIX VII
UNAUDITED PRO FORMA GROUP FINANCIAL STATEMENTS OF
CHINA BEARING (SINGAPORE) LTD. FOR THE YEAR ENDED 31 DECEMBER 2005
AND THREE MONTHS ENDED 31 MARCH 2006

China Bearing (Singapore) Ltd.
Unaudited Pro forma Group financial statements
for the year ended 31 December 2005 and period ended 31 March 2006

14

Notes to the unaudited Pro forma Group financial statements

1 General information

The unaudited pro forma consolidated financial statements of the Company and Linyi Kaiyuan Bearing Co., Ltd. (“Linyi Kaiyuan Bearing”) (collectively referred as “the Group”) are prepared for the year ended 31 December 2005 and period ended 31 March 2006.

The registered office is located at 336 Smith Street #05-310, New Bridge Centre, Singapore 050336.

The Company is incorporated as a limited liability company and domiciled in the Republic of Singapore while Linyi Kaiyuan Bearing is incorporated as a limited liability company and domiciled in the People’s Republic of China (“PRC”).

The incorporation date of Linyi Kaiyuan Bearing as a limited liability company is 26 December 2005. In April 2006, Linyi Kaiyuan Bearing has a paid up capital of S\$2,925,000, which represents cash only.

Pursuant to Section 23 of Part IX of the Fifth Schedule of the Securities Futures Regulations, the pro forma consolidated financial statements for the year ended 31 December 2005 were prepared based on the unaudited financial statements of the Company and Shandong Yimeng Bearing Joint Stock Co., Ltd. (“Yimeng Bearing”) and for the three-month period were prepared based on the unaudited financial statements of the Company and Linyi Kaiyuan Bearing.

Linyi Kaiyuan Bearing’s financial statements for the three-month financial period ended 31 March 2006 assume what would have been the financial position had Linyi Kaiyuan Bearing taken over the business from Yimeng Bearing from 1 January 2006.

The unaudited pro forma consolidated financial statements have been prepared for internal management purposes in accordance with Singapore Financial Reporting Standards (“SFRS”) including related Interpretations promulgated by the Council on Corporate Disclosure and Governance (“CCDG”).

Yimeng Bearing maintains its accounting records and prepares financial statements in accordance with accounting standards and regulations of the PRC GAAP.

The accounting policies and bases adopted in the preparation of the financial statements of Yimeng Bearing differ in certain respects from SFRS. The differences arising from the restatement of the results of operations and the net assets for compliance with SFRS are adjusted in the unaudited pro forma consolidated financial statements but are not taken up in the accounting records of Yimeng Bearing.

APPENDIX VII

UNAUDITED PRO FORMA GROUP FINANCIAL STATEMENTS OF CHINA BEARING (SINGAPORE) LTD. FOR THE YEAR ENDED 31 DECEMBER 2005 AND THREE MONTHS ENDED 31 MARCH 2006

China Bearing (Singapore) Ltd.

15

Unaudited Pro forma Group financial statements

for the year ended 31 December 2005 and period ended 31 March 2006

2(a) Basis of preparation of the consolidated financial statements of the Pro forma Group

The unaudited consolidated financial statements of the Pro forma Group for the financial year ended 31 December 2005 and the three-month period from 1 January 2006 to 31 March 2006 are expressed in Renminbi ("RMB"), being the functional and reporting currency of the principal companies within the Pro forma Group, and have been prepared in accordance with the historical cost convention and in accordance with the accounting policies set out on pages 18 to 22 of this report. There have been no changes to the accounting policies of the companies within the Pro forma Group during the financial year/period under review.

The unaudited consolidated financial statements of the Pro forma Group for the financial year ended 31 December 2005 and the three-month period from 1 January 2006 to 31 March 2006 are prepared in accordance with SFRS.

The unaudited pro forma consolidated financial statements have been prepared on the assumption that the current Pro forma Group structure has been in existence throughout the period, or since the respective dates of incorporation/establishment of the companies in the Pro forma Group, whichever is earlier. Details of the Pro forma Group structure are outlined in Note 3(c) on page 18 of this report.

The unaudited consolidated financial statements of the Pro forma Group comprise the Pro forma Group income statements, Pro forma Group balance sheets, Pro forma Group statements of changes in equity, Pro forma Group statements of cash flows, statements of adjustments to Pro forma Group income statements, and notes to the Pro forma Group financial statements.

The objective of the unaudited pro forma consolidated financial statements is to show what the historical information might have been had the Pro forma Group structure existed throughout the financial year/period under review, or since the respective dates of incorporation/establishment of the companies in the Pro forma Group, whichever is earlier, and thus they are for illustrative purposes only.

However, the unaudited pro forma consolidated financial statements are not necessarily indicative of the results of the operations, changes in shareholders' equity and cash flows that would have been attained had the Pro forma Group actually existed earlier, and therefore may not give a true picture of the Pro forma Group's actual results, changes in shareholders' equity and cash flows, or had the transfer of certain assets and liabilities been effected earlier (see Note 3(b) on page 17 of this report).

In arriving at the unaudited pro forma consolidated financial statements, adjustments have been made as considered necessary in order to present the financial statements on a consistent and comparable basis as if the Pro forma Group existed throughout the year/period, or since the respective dates of incorporation/establishment of the companies in the Pro forma Group, whichever is earlier. The pro forma adjustments are set out on pages 5 to 11 of this report.

The consolidated financial statements of the Pro forma Group for each of the financial year/period under review were prepared based on the following:

- (i) audited financial statements of China Bearing (Singapore) Pte. Ltd. for the financial period from 31 August 2005 (date of incorporation) to 31 December 2005, and unaudited financial statements for the financial period from 1 January 2006 to 31 March 2006 prepared in accordance with SFRS.

APPENDIX VII
UNAUDITED PRO FORMA GROUP FINANCIAL STATEMENTS OF
CHINA BEARING (SINGAPORE) LTD. FOR THE YEAR ENDED 31 DECEMBER 2005
AND THREE MONTHS ENDED 31 MARCH 2006

China Bearing (Singapore) Ltd.

16

Unaudited Pro forma Group financial statements

for the year ended 31 December 2005 and period ended 31 March 2006

2(a) Basis of preparation of the consolidated financial statements of the Pro forma Group (cont'd)

- (ii) For the purpose of preparing the unaudited pro forma consolidated income statements of the Pro forma Group, the following basis are adopted:-
 - (1) For the financial year ended 31 December 2005, the aggregation of the income statement of Yimeng Bearing for the financial period from 1 January 2005 to 31 December 2005 and the income statement of China Bearing for the financial period from 31 August 2005 to 31 December 2005 after adjustments as set out on page 11.
 - (2) For the financial period from 1 January 2006 to 31 March 2006, the unaudited income statements of China Bearing and Yimeng Bearing.
- (iii) audited financial statements of Yimeng Bearing for the financial year ended 31 December 2005 prepared in accordance with SFRS.

The statutory audited financial statements of Yimeng Bearing prepared in accordance with applicable accounting regulations in the PRC for PRC tax reporting purposes for the financial year ended 31 December 2005 were audited by Hubei Zhongzheng Certified Public Accountants Co., Ltd., a member of the Chinese Institute of Certified Public Accountants. The auditors' reports on these audited financial statements were not subject to any qualification.

For the purpose of this report, the financial statements for the financial year ended 31 December 2005 has been prepared in accordance with SFRS. Foo Kon Tan Grant Thornton, a member of the Institute of Certified Public Accountants of Singapore, was engaged to audit the financial statements of Yimeng Bearing for the financial year ended 31 December 2005 prepared in accordance with SFRS and the auditors' report on these financial statements was not subject to any qualification.

- (iv) No audited financial statements of Linyi Kaiyuan Bearing were prepared for the subsidiary as the subsidiary was newly incorporated on 26 December 2005. There were no transactions which took place for the period from 1 January 2006 to 31 March 2006 and the share capital was contributed only in April 2006.

All material intra-group transactions and balances, if any, have been eliminated in the preparation of the consolidated financial statements of the Pro forma Group.

Significant accounting estimates and judgements

The preparation of the unaudited pro forma consolidated financial statements in conformity with SFRS requires the use of judgements, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the unaudited pro forma consolidated financial statements and the reported amounts of revenues and expenses during the financial year. Although these estimates are based on management's best knowledge of current events and actions, actual results may differ from those estimates.

APPENDIX VII

UNAUDITED PRO FORMA GROUP FINANCIAL STATEMENTS OF CHINA BEARING (SINGAPORE) LTD. FOR THE YEAR ENDED 31 DECEMBER 2005 AND THREE MONTHS ENDED 31 MARCH 2006

China Bearing (Singapore) Ltd.

17

Unaudited Pro forma Group financial statements

for the year ended 31 December 2005 and period ended 31 March 2006

2(b) Change in accounting policies

The CCDG issued a series of new and revised FRSs for which the Group applies these new and revised standards from 1 January 2005. This includes the following new and revised standards, which are relevant to the Group:

FRS 1 (revised 2004)	Presentation of Financial Statements
FRS 2 (revised 2004)	Inventories
FRS 8 (revised 2004)	Accounting Policies, Changes in Accounting Estimates and Errors
FRS 10 (revised 2004)	Events after Balance Sheet Date
FRS 16 (revised 2004)	Property, Plant and Equipment
FRS 21 (revised 2004)	The Effects of Changes in Foreign Exchange Rates
FRS 24 (revised 2004)	Related Party Disclosures
FRS 27 (revised 2004)	Consolidated and Separate Financial Statements
FRS 32 (revised 2004)	Financial Instruments: Disclosure and Presentation
FRS 36 (revised 2004)	Impairment of Assets
FRS 38 (revised 2004)	Intangible Assets
FRS 39 (revised 2004)	Financial Instruments: Recognition and Measurement
Interpretation ("INT") of FRS 101	Changes in Existing Decommissioning, Restoration and Similar Liabilities

The adoption of the above FRS and INT FRS did not result in substantial changes to the Group's accounting policies.

At the date of authorisation of these unaudited pro forma consolidated financial statements, the following Standards and Interpretations were in issue but not yet effective:

FRS 40	Investment Property
FRS 106	Exploration for and Evaluation of Mineral Resources
FRS 107	Financial Instruments: Disclosures
INT FRS 104	Determining whether an Arrangement contains a Lease
INT FRS 105	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
INT FRS 106	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment
INT FRS 107	Applying the Restatement Approach under FRS 29 Financial Reporting in Hyperinflationary Economies

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group.

3 Restructuring Exercise

A Restructuring Exercise as described below was undertaken in connection with the Invitation:

- (a) On 26 December 2005, the Company incorporated a wholly-owned subsidiary, Linyi Kaiyuan Bearing Co., Ltd. ("Linyi Kaiyuan Bearing"), in the PRC as a wholly-owned foreign enterprise under the laws of the PRC with an initial registered capital of US\$4,500,000.
- (b) Pursuant to a Transfer Agreement dated 8 June 2006, Yimeng Bearing agreed to transfer certain of its assets, liabilities and businesses to Linyi Kaiyuan Bearing for a total consideration of RMB25,980,382. Linyi Kaiyuan Bearing began to acquire and continue to carry out all the business operations of Yimeng Bearing effective from 1 April 2006.

APPENDIX VII
UNAUDITED PRO FORMA GROUP FINANCIAL STATEMENTS OF
CHINA BEARING (SINGAPORE) LTD. FOR THE YEAR ENDED 31 DECEMBER 2005
AND THREE MONTHS ENDED 31 MARCH 2006

China Bearing (Singapore) Ltd.

18

Unaudited Pro forma Group financial statements

for the year ended 31 December 2005 and period ended 31 March 2006

3 Restructuring Exercise (cont'd)

Details of the assets and liabilities transferred are as follows:

	RMB
Fixed assets	33,060,686
Intangible assets	2,800,000
Trade and other receivables	28,167,736
Inventories	7,931,591
Cash and bank equivalents	12,033,715
Trade and other payables	(32,907,334)
Loans from related parties	(25,106,012)
	<u>25,980,382</u>

(c) Upon completion of the Restructuring Exercise, the Company has the following subsidiary:-

Name	Date and place of incorporation/ establishment	Percentage of equity interest attributable to the Pro forma Group	Registered capital	Principal activity
Linyi Kaiyuan Bearing Co., Ltd.	26 December 2005 PRC	100%	USD4,500,000	Manufacture and sale of bearings

The Pro forma Group for each of the financial year/period comprises the following companies:

- (i) Financial year ended 31 December 2005 : China Bearing and Yimeng Bearing
- (ii) Three-month financial period ended 31 March 2006 : China Bearing and Linyi Kaiyuan Bearing

4 Summary of significant accounting policies

Basis of preparation

The basis of preparation of the consolidated financial statements of the Pro forma Group is set out in Note 2(a) above.

Consolidation

On consolidation, all inter-company balances and significant inter-company transactions and resulting unrealised profits or losses are eliminated and the consolidated financial statements reflect external transactions and balances only.

Subsidiary

A subsidiary is defined as a company in which the investing company has a long-term equity interest of more than 50% or over whose financial and operating policy decision the Pro forma Group has control.

Shares in the subsidiary are stated at cost less allowance for any impairment losses.

Related parties

Related parties are entities with one or more common direct/indirect shareholders and/or directors and in which one party has the ability to control or exercise significant influence over the other party in financial and operating decision making.

APPENDIX VII

UNAUDITED PRO FORMA GROUP FINANCIAL STATEMENTS OF CHINA BEARING (SINGAPORE) LTD. FOR THE YEAR ENDED 31 DECEMBER 2005 AND THREE MONTHS ENDED 31 MARCH 2006

China Bearing (Singapore) Ltd.

19

Unaudited Pro forma Group financial statements

for the year ended 31 December 2005 and period ended 31 March 2006

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses, if any. Depreciation is computed utilising the straight-line method to write off the cost of the assets after deducting the residual value over their estimated useful lives as follows:

Motor vehicles	6 years
Plant and machinery	12 years
Electrical fittings	10 years

The cost of property, plant and equipment includes expenditure that is directly attributable to the acquisition of the items. Dismantlement, removal or restoration costs are included as part of the cost of property, plant and equipment if the obligation for dismantlement, removal or restoration is incurred as a consequence of acquiring or using the asset. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

For acquisitions and disposals during the financial year/period, depreciation is provided from the month after acquisition and to the month of disposal respectively.

Fully depreciated property, plant and equipment, if any, are retained in the books of accounts until they are no longer in use.

Intangible assets

Intangible assets are accounted for using the cost model. Capitalised costs are amortised on a straight-line basis over their estimated useful lives as they are considered finite. After initial recognition, they are carried at cost less accumulated amortisation and accumulated impairment losses, if any. In addition, they are subject to impairment testing.

Intangible assets are written off where, in the opinion of the directors, no further future economic benefits are expected to arise.

Patents and licenses

Costs relating to patents and licenses which are acquired are capitalised and amortised on straight-line basis over their useful life of ten years, commencing in the year of operations.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a weighted-average basis. In the case of manufactured inventories, cost consists of cost of raw materials, direct labour and an appropriate proportion of production overheads.

Allowance is made, where necessary, for obsolete, slow-moving and defective inventories in arriving at the net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

Financial assets

Financial assets include cash and financial instruments. Financial assets, other than hedging instruments, can be divided into the following categories: financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables and available-for-sale financial assets. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the investments were acquired. The designation of financial assets is re-evaluated and classification may be changed at the reporting date with the exception that the designation of financial assets at fair value through profit or loss is not revocable.

All financial assets are recognised on their trade date - the date on which the Group commits to purchase or sell the asset. Financial assets are initially recognised at fair value, plus directly attributable transaction costs except for financial assets at fair value through profit or loss, which are recognised at fair value.

APPENDIX VII

UNAUDITED PRO FORMA GROUP FINANCIAL STATEMENTS OF CHINA BEARING (SINGAPORE) LTD. FOR THE YEAR ENDED 31 DECEMBER 2005 AND THREE MONTHS ENDED 31 MARCH 2006

China Bearing (Singapore) Ltd.

20

Unaudited Pro forma Group financial statements

for the year ended 31 December 2005 and period ended 31 March 2006

Financial assets (cont'd)

Derecognition of financial instruments occurs when the rights to receive cash flows from the investments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred. An assessment for impairment is undertaken at least at each balance sheet date whether or not there is objective evidence that a financial asset or a group of financial assets is impaired.

The Group does not have any investments and accordingly, there is no investment to be classified as held-to-maturity or available-for-sale.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivables. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets, if any.

Loans and receivables are subsequently measured at amortised cost using the effective interest method less allowance for impairment. Any change in their value is recognised in the unaudited pro forma consolidated income statement. Any reversal shall not result in a carrying amount that exceeds what the amortised cost would have been had any impairment loss not been recognised at the date the impairment is reversed. Any reversal is recognised in the unaudited pro forma consolidated income statement.

Receivables are provided against when objective evidence is received that the Pro forma Group will not be able to collect all amounts due to it in accordance with the original terms of the receivables. The amount of the write-down is determined as the difference between the asset's carrying amount and the present value of estimated future cash flows.

Loans and receivables include trade and other receivables.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and bank deposits with a short maturity of three months or less.

Financial liabilities

The Group's financial liabilities include trade and other payables and dividend payables.

Financial liabilities are recognised when the Group becomes a party to the contractual agreements of the instrument. All interest related charges is recognised as an expense in "finance costs" in the unaudited pro forma consolidated income statement.

Dividend distributions to shareholders are included in current financial liabilities when the dividends are payable.

Trade payables are initially measured at fair value, and subsequently measured at amortised cost, using the effective interest method.

Other payables are recognised initially at their nominal value and subsequently measured at amortised cost less settlement payments.

Employee benefits

Pension obligations

The Group participates in the defined contribution national pension and other welfare schemes as provided by the laws in the PRC. The contributions to these schemes are charged to the unaudited pro forma consolidated income statement in the period to which the contributions relate.

APPENDIX VII

UNAUDITED PRO FORMA GROUP FINANCIAL STATEMENTS OF CHINA BEARING (SINGAPORE) LTD. FOR THE YEAR ENDED 31 DECEMBER 2005 AND THREE MONTHS ENDED 31 MARCH 2006

China Bearing (Singapore) Ltd.

21

Unaudited Pro forma Group financial statements

for the year ended 31 December 2005 and period ended 31 March 2006

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The directors review the provisions annually and where in their opinion, the provision is inadequate or excessive, due adjustment is made.

Government grant

The Government grant is recognised on receipt basis to which they are intended to compensate for the costs incurred. Government grant is not recognised as income until there is a reasonable assurance that the Group will comply with the conditions attaching to it.

Income taxes

The liability method of tax effect accounting is adopted by the Group. Current taxation is provided at the current taxation rate based on the tax payable on the income for the financial period that is chargeable to tax. Deferred taxation is provided at the current taxation rate on all temporary differences existing at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts in the unaudited pro forma consolidated financial statements.

Deferred tax liabilities are recognised for all taxable temporary differences.

Deferred tax assets are recognised for all deductible temporary differences to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilised.

The statutory tax rates enacted at the balance sheet date are used to determine deferred income tax.

Impairment of assets

The carrying amounts of the Group's assets subject to impairment are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

If it is not possible to estimate the recoverable amount of the individual asset, then the recoverable amount of the cash-generating unit to which the asset belongs will be identified.

For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

Individual assets or cash-generating units that include intangible assets, if any, with an indefinite useful life or those not yet available for use are tested for impairment at least annually. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss, if any, is recognised for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell and value in use, based on an internal discounted cash flow evaluation.

Any impairment loss is charged to the unaudited pro forma consolidated income statement.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount or when there is an indication that the impairment loss recognised for the asset no longer exists or decreases.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined if no impairment loss had been recognised.

APPENDIX VII

UNAUDITED PRO FORMA GROUP FINANCIAL STATEMENTS OF CHINA BEARING (SINGAPORE) LTD. FOR THE YEAR ENDED 31 DECEMBER 2005 AND THREE MONTHS ENDED 31 MARCH 2006

China Bearing (Singapore) Ltd.

22

Unaudited Pro forma Group financial statements

for the year ended 31 December 2005 and period ended 31 March 2006

Impairment of assets (cont'd)

A reversal of an impairment loss is credited as income in the unaudited pro forma consolidated income statement.

Functional currency

Items included in the unaudited pro forma consolidated financial statements of the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity ("the functional currency"). The unaudited pro forma consolidated financial statements of the Group are presented in RMB which is also the functional currency of the Group.

Conversion of foreign currencies

Monetary assets and liabilities in foreign currencies are translated into RMB at rates of exchange closely approximating those ruling at balance sheet date. Transactions in foreign currencies are converted at rates closely approximating those ruling at transaction dates. Exchange differences arising from such transactions are recorded in the unaudited pro forma consolidated income statement in the period in which they arise.

Revenue recognition

Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer. Revenue excludes relevant value-added taxes and is arrived at after deduction of trade discounts. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods.

Revenue from the sale of bearing products and raw materials is recognised when goods are sold to customers, which generally coincides with their delivery and acceptance.

Interest income is recognised on a time-apportioned basis using the effective interest method.

Operating lease

Leases of assets in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

Rentals on operating leases are charged to unaudited pro forma consolidated income statement on a straight-line basis over the lease term. Lease incentives, if any, are recognised as an integral part of the net consideration agreed for the use of the leased asset. Penalty payments on early termination, if any, are recognised in the unaudited pro forma consolidated income statement when incurred.

Financial instruments

Financial instruments carried on the unaudited pro forma consolidated balance sheet include cash and cash equivalents, financial assets and financial liabilities. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

Disclosures on financial risk management objectives and policies are provided in Note 21.

5 Revenue

Revenue represents sale of bearing products, excluding applicable value-added tax as follows:

	1 January 2006 to 31 March 2006 RMB	1 January 2005 to 31 December 2005 RMB
Sale of bearings	83,843,721	198,009,352
Sale of raw materials	938,174	4,892,818
	84,781,895	202,902,170

APPENDIX VII
UNAUDITED PRO FORMA GROUP FINANCIAL STATEMENTS OF
CHINA BEARING (SINGAPORE) LTD. FOR THE YEAR ENDED 31 DECEMBER 2005
AND THREE MONTHS ENDED 31 MARCH 2006

China Bearing (Singapore) Ltd.

23

Unaudited Pro forma Group financial statements

for the year ended 31 December 2005 and period ended 31 March 2006

6 Property, plant and equipment

	Motor vehicles RMB	Plant and machinery RMB	Electrical fittings RMB	Total RMB
Cost				
At 1 January 2005	2,873,205	66,150,221	757,000	69,780,426
Additions	112,282	3,610,323	-	3,722,605
Disposals	(328,522)	(1,919,515)	-	(2,248,037)
At 31 December 2005	2,656,965	67,841,029	757,000	71,254,994
Additions	-	29,325	-	29,325
Disposals	(43,050)	(3,399,579)	-	(3,442,629)
At 31 March 2006	2,613,915	64,470,775	757,000	67,841,690
Accumulated depreciation				
At 1 January 2005	1,188,205	28,959,266	498,995	30,646,466
Depreciation for the year	411,357	5,015,965	75,700	5,503,022
Disposals	(237,026)	(1,531,612)	-	(1,768,638)
At 31 December 2005	1,362,536	32,443,619	574,695	34,380,850
Depreciation for the period	102,621	1,182,827	18,925	1,304,373
Disposals	(17,979)	(886,240)	-	(904,219)
At 31 March 2006	1,447,178	32,740,206	593,620	34,781,004
Net book value				
At 31 March 2006	1,166,737	31,730,569	163,380	33,060,686
At 31 December 2005	1,294,429	35,397,410	182,305	36,874,144
		1 January 2006 to 31 March 2006	1 January 2005 to 31 December 2005	
Depreciation expense charged to:				
Cost of sales		1,207,648	5,103,212	
Administrative expenses		96,725	399,810	
		1,304,373	5,503,022	

7 Intangible assets

	31 March 2006 RMB	31 December 2005 RMB
Cost	6,000,000	6,000,000
Accumulated amortisation		
Balance at 1 January 2005		2,450,000
Amortisation for the year		600,000
Balance at 31 December 2005		3,050,000
Amortisation for the period		150,000
Balance at 31 March 2006		3,200,000
Net book value		
At 31 March 2006		2,800,000
At 31 December 2005		2,950,000

These relate to purchase for the rights to use designs of precision roller-bearings.

APPENDIX VII
UNAUDITED PRO FORMA GROUP FINANCIAL STATEMENTS OF
CHINA BEARING (SINGAPORE) LTD. FOR THE YEAR ENDED 31 DECEMBER 2005
AND THREE MONTHS ENDED 31 MARCH 2006

China Bearing (Singapore) Ltd. 24
Unaudited Pro forma Group financial statements
for the year ended 31 December 2005 and period ended 31 March 2006

8 Inventories

	31 March 2006 RMB	31 December 2005 RMB
At cost:		
Raw materials	*	1,477,498
Consumables	*	2,973,292
Finished goods	7,931,591	8,726,843
Work-in-progress	*	3,214,577
	7,931,591	16,392,210
Total inventories charged to:		
Cost of sales	37,821,648	93,020,743

* Pursuant to the Transfer Agreement, Linyi Kaiyuan Bearing will not acquire the raw materials and in-progress amounting to RMB11,262,811. Accordingly, these inventories were not transferred over from Yimeng Bearing but will be bought over when manufactured.

9 Trade and other receivables

	31 March 2006 RMB	31 December 2005 RMB
Trade receivables	23,094,377	19,190,431
Impairment on trade receivables	(10,974)	(10,974)
Net trade receivables	23,083,403	19,179,457
Payments made in advance for purchase of inventories	223,815	166,062
Advances made to sales personnels	177,431	380,158
Payments in advance to suppliers	4,416,005	4,483,408
Prepayments	2,003,861	1,277,072
Reimbursable expenses	84,119	49,816
Tax recoverable	-	125,983
Others	267,082	70,200
	30,255,716	25,732,156

Trade receivables are usually due within 30-90 days and do not bear any effective interest rate. All trade receivables are subject to credit risk exposure. However, the Group does not identify specific concentrations of credit risk with regards to trade and other receivables, as the amounts recognised resemble a large number of receivables from various customers.

The advances made to third parties are unsecured, interest-free and receivable on demand. The carrying value approximates the fair value of the advances.

The advances made to sales personnels are for business purposes.

Prepayments relate to the capitalisation of IPO and related expenses.

The reimbursable expenses are payments on behalf relating to the incorporation of China Bearing (Bermuda). The payments on behalf are unsecured and interest-free and are repaid by May 2006.

10 Cash and cash equivalents

	31 March 2006 RMB	31 December 2005 RMB
Cash on hand	62,285	12,047
Bank balances	*17,103,248	*1,517,356
	17,165,533	1,529,403

* These bank balances are arrived at after deducting the liability owing to certain creditors deemed settled pursuant to the Transfer Agreement (Note 12).

APPENDIX VII
UNAUDITED PRO FORMA GROUP FINANCIAL STATEMENTS OF
CHINA BEARING (SINGAPORE) LTD. FOR THE YEAR ENDED 31 DECEMBER 2005
AND THREE MONTHS ENDED 31 MARCH 2006

China Bearing (Singapore) Ltd.

25

Unaudited Pro forma Group financial statements

for the year ended 31 December 2005 and period ended 31 March 2006

11 Loans from related parties

The loans from shareholders of Yimeng Bearing, now a related party, represent unpaid dividend declared in financial year 2006. The loans are unsecured and interest-free. The timing of the loans is neither planned for nor is likely to occur in the foreseeable future. These loans are regarded as quasi equity from the shareholders of Yimeng's perspective.

12 Trade and other payables

	31 March 2006 RMB	31 December 2005 RMB
Trade payables	17,503,060	21,336,346
VAT payable	*	*
Other governmental taxes due	*	*
Accruals for salaries and related costs	*	*
Staff welfare payable	7,497,413	7,178,130
Advances received from customers	62,010	159,970
Advances from third parties	330,000	330,000
Deposits received	461,000	461,000
Staff salaries withheld	1,813,150	1,819,050
Staff benefit payables	2,054,810	1,599,834
Other payables	3,185,891	4,916,797
	32,907,334	37,801,127

* These liabilities of RMB4,236,744 (2005 - RMB2,638,756) owing to the relevant tax authorities were not transferred from Yimeng Bearing to Linyi Kaiyuan Bearing pursuant to the Transfer Agreement as well as salary payable of RMB4,264,017 (2005 - RMB1,047,833) to employees. Accordingly, the unaudited pro forma consolidated financial statements deemed that the indebtedness owing for these liabilities as settled by Yimeng Bearing before 1 April 2006 (Note 10).

The fair value of trade and other payables have not been disclosed as, due to their short duration, management considers the carrying amounts recognised in the unaudited pro forma consolidated balance sheet to be reasonable approximation of their fair value.

The advances from third parties are unsecured, interest-free and repayable on demand.

13 Non-convertible Loan

	S\$	31 March 2006 RMB	31 March 2005 RMB
Non-convertible Loan	970,000	4,801,980	4,801,980

The Non-convertible Loan refers to loan granted by Legacy Venture Capital pursuant to the loan agreement dated 5 April 2006. This loan is secured by the pledge of shares in the Company belonging to Zhang Yuankai and Zhang Anxi as well as personal guarantees by these two directors. This loan is repayable one year from the date of draw-down.

Interest is charged at the rate of 14% per annum from the date of draw-down, subject to a minimum interest charge of RMB336,139 [S\$67,900].

APPENDIX VII
UNAUDITED PRO FORMA GROUP FINANCIAL STATEMENTS OF
CHINA BEARING (SINGAPORE) LTD. FOR THE YEAR ENDED 31 DECEMBER 2005
AND THREE MONTHS ENDED 31 MARCH 2006

China Bearing (Singapore) Ltd.

26

Unaudited Pro forma Group financial statements

for the year ended 31 December 2005 and period ended 31 March 2006

14(a) Other operating income

	1 January 2006 to 31 March 2006 RMB	1 January 2005 To 31 December 2005 RMB
Sale of scrap	680,835	2,866,313
Interest income - bank deposits with current account	121,953	202,870
Government grant	-	120,000
Miscellaneous income	-	92,106
	802,788	3,281,289

14(b) Finance costs

	1 January 2006 to 31 March 2006 RMB	1 January 2005 to 31 December 2005 RMB
Interest - bank note discounted	-	3,010
- bond	-	100
	-	3,110

14(c) Employee benefit expenses

	1 January 2006 to 31 March 2006 RMB	1 January 2005 to 31 December 2005 RMB
Directors' remuneration other than fees		
- salaries and related costs	56,192	172,969
- bonus	700,000	-
- defined contributions	44,107	28,477
Other than directors and key management personnel		
- salaries and related costs	402,450	1,220,726
- bonus	117,600	-
- defined contributions	315,893	1,281,523
	1,636,242	2,703,695

15 Profit before taxation

		1 January 2006 to 31 March 2006 RMB	1 January 2005 to 31 December 2005 RMB
	Note		
Profit before taxation has been arrived at			
after charging:			
Amortisation of intangible assets	7	150,000	600,000
Depreciation of property, plant and equipment	6	1,304,373	5,503,022
Loss on disposal of property, plant and equipment		228,409	50,757
Operating lease rentals		236,027	944,106

APPENDIX VII
UNAUDITED PRO FORMA GROUP FINANCIAL STATEMENTS OF
CHINA BEARING (SINGAPORE) LTD. FOR THE YEAR ENDED 31 DECEMBER 2005
AND THREE MONTHS ENDED 31 MARCH 2006

China Bearing (Singapore) Ltd.

27

Unaudited Pro forma Group financial statements

for the year ended 31 December 2005 and period ended 31 March 2006

16 Taxation

	1 January 2006 to 31 March 2006 RMB	1 January 2005 to 31 December 2005 RMB
Current taxation	11,519,507	20,235,017

The tax expense on the results of the financial period/year varies from the amount of income tax determined by applying the PRC's statutory rate of income tax on Pro forma Group's profits as a result of the following:

Profit before taxation	34,466,837	61,053,124
Tax at statutory rate of 33%	11,374,056	20,147,531
Tax effect on non-deductible items	145,451	87,486
	11,519,507	20,235,017

17 Retirement benefit plans

The eligible employees of the Pro forma Group, who are citizens of the PRC, are members of a state-managed retirement benefit scheme operated by the local government. The Pro forma Group is required to contribute a certain percentage of their payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Pro forma Group with respect to the retirement benefit scheme is to make the specified contributions.

The total cost charged to the unaudited pro forma consolidated income statement for the year ended 31 December 2005 and period ended 31 March 2006 was RMB1,310,000 and RMB360,000, representing defined contribution national pension plan for the respective periods.

18 Dividends

The Company has not declared any dividend in financial year 2005. However, Yimeng Bearing paid a sum of RMB37,000,000 dividend in respect of prior years, of which RMB31,471,685 relates to financial year 2004.

Subsequent to 31 March 2006, Yimeng Bearing declared dividends of RMB75,451,082 to the then shareholders as at 31 March 2006.

19 Operating lease commitments

At the balance sheet date, the Group was committed to making the following lease rental payments under non-cancellable operating leases for land and buildings.

	31 March 2006 RMB	31 December 2005 RMB
Not later than one year	944,106	-
Later than one year and not later than five years	3,776,424	-
Later than five years	4,720,530	-

APPENDIX VII

UNAUDITED PRO FORMA GROUP FINANCIAL STATEMENTS OF CHINA BEARING (SINGAPORE) LTD. FOR THE YEAR ENDED 31 DECEMBER 2005 AND THREE MONTHS ENDED 31 MARCH 2006

China Bearing (Singapore) Ltd.

28

Unaudited Pro forma Group financial statements

for the year ended 31 December 2005 and period ended 31 March 2006

19 Operating lease commitments (cont'd)

The leases on the Company's buildings and factory facilities cover an area of 41,475 sq m commencing 1 April 2006. The rentals which are payable will expire on 31 March 2016, subject to an option to renew for another period of not less than 2 years. The current rent payable on the lease is RMB236,026 per quarter which are subject to revision on renewal.

20 Significant related party transaction

Other than the related party information disclosed elsewhere in the unaudited pro forma consolidated financial statements, the following is a significant related party transaction entered into between the Group and Yimeng Bearing.

	1 January 2006 to 31 March 2006 RMB	1 January 2005 to 31 December 2005 RMB
Rental of land and buildings	236,027	944,106

21 Financial risk management objectives and policies

The Pro forma Group's financial instruments carried on the unaudited pro forma consolidated balance sheet include cash and cash equivalents, receivables and payables.

The Pro forma Group does not hold or issue derivative financial instruments for trading purposes or to hedge against fluctuations, if any, in interest rates and foreign exchange.

21.1 Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

The business of the Pro forma Group is mainly carried out in the PRC. Accordingly, the exposure to foreign exchange risk is minimal.

21.2 Cash flow and fair value interest rate risk

Cash flow interest rate risk is the risk that future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates.

The Pro forma Group's exposure to interest rate risk relates principally to its short-term deposits placed with financial institutions.

21.3 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

Management has a credit control policy in place. Credit evaluations are performed on all customers requiring credit over a certain amount. Transactions are conducted with customers with appropriate credit histories. The credit risk and amount outstanding is monitored on an ongoing basis. With this credit evaluation processes, credit control policies and collection procedures in place, the credit risk is mitigated substantially. The Pro forma Group does not require collateral in respect of financial assets.

The Pro forma Group performs ongoing credit evaluation of its customers' financial condition and requires no collateral from its customers. The allowance for doubtful debts is based upon a review of the expected collectibility of all trade and other receivables.

APPENDIX VII
UNAUDITED PRO FORMA GROUP FINANCIAL STATEMENTS OF
CHINA BEARING (SINGAPORE) LTD. FOR THE YEAR ENDED 31 DECEMBER 2005
AND THREE MONTHS ENDED 31 MARCH 2006

China Bearing (Singapore) Ltd.

29

Unaudited Pro forma Group financial statements

for the year ended 31 December 2005 and period ended 31 March 2006

21 Financial risk management objectives and policies (cont'd)

21.4 Liquidity risk

Liquidity or funding risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value.

The Pro forma Group manages its liquidity risk by ensuring the availability of adequate funds to meet all its obligations in a timely and cost-effective manner.

22 Financial instruments

Fair values

The carrying amount of the financial assets and financial liabilities with a maturity of less than one year is assumed to approximate their fair values.

The Group does not anticipate that the carrying amounts recorded at balance sheet date would be significantly different from the values that would eventually be received or settled.

APPENDIX VIII
AUDITED FINANCIAL STATEMENTS OF SHANDONG YIMENG BEARING JOINT
STOCK CO., LTD. FOR THE YEARS ENDED 31 DECEMBER 2003, 2004 AND 2005

Financial statements
Shandong Yimeng Bearing Joint Stock Co., Ltd.
For the years ended 31 December 2003, 2004 and 2005

(Prepared under Singapore Financial Reporting Standards)

APPENDIX VIII
AUDITED FINANCIAL STATEMENTS OF SHANDONG YIMENG BEARING JOINT
STOCK CO., LTD. FOR THE YEARS ENDED 31 DECEMBER 2003, 2004 AND 2005

Shandong Yimeng Bearing Joint Stock Co., Ltd.

Contents

	Page
Auditors' report	1
Balance sheet	2
Income statement	3
Statement of changes in equity	4
Cash flow statement	5
Notes to the financial statements	6

Auditors' report to the members of Shandong Yimeng Bearing Joint Stock Co., Ltd.

We have audited the accompanying financial statements of Shandong Yimeng Bearing Joint Stock Co., Ltd. for the years ended 31 December 2003, 2004 and 2005. These financial statements are the responsibility of the company's directors and have been prepared solely for the purpose of inclusion in the preliminary prospectus in connection with the initial public offering of China Bearing (Singapore) Ltd. in Singapore. Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not accept or assume responsibility to anyone or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Singapore Standards on Auditing. 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 the directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, on the basis of preparation set out in Note 2(a) to the financial statements, the financial statements present fairly, in all material respects, the financial position of the company for the years ended 31 December 2003, 2004 and 2005, and the results of its operations, changes in equity and cash flows for the years ended, in accordance with Singapore Financial Reporting Standards.

Foo Kon Tan Grant Thornton
Certified Public Accountants

Yeo Boon Chye
Partner-in-charge
Singapore, 28 February 2006

APPENDIX VIII
AUDITED FINANCIAL STATEMENTS OF SHANDONG YIMENG BEARING JOINT STOCK CO., LTD. FOR THE YEARS ENDED 31 DECEMBER 2003, 2004 AND 2005

Shandong Yimeng Bearing Joint Stock Co., Ltd.

2

Financial statements for the years ended 31 December 2003, 2004 and 2005

(Prepared under Singapore Financial Reporting Standards)

Balance sheet

	Notes	31 December 2005 RMB	31 December 2004 RMB	31 December 2003 RMB
Assets				
Non-Current				
Property, plant and equipment	5	48,668,753	51,413,282	55,755,625
Intangible assets	6	2,950,000	3,550,000	4,150,000
		51,618,753	54,963,282	59,905,625
Current				
Inventories	7	16,392,210	38,805,630	42,207,056
Trade and other receivables	8	24,279,285	39,276,630	44,591,913
Cash and cash equivalents	9	61,962,377	38,910,854	28,922,550
		102,633,872	116,993,114	115,721,519
Total assets		154,252,625	171,956,396	175,627,144
Equity				
Capital and Reserves				
Capital contribution	10	25,106,012	37,000,000	37,000,000
Retained profits		55,384,747	20,737,719	31,872,758
Other reserves	11	20,404,429	30,358,516	23,932,161
		100,895,188	88,096,235	92,804,919
Liabilities				
Current				
Trade and other payables	12	40,543,610	40,897,001	66,858,838
Dividend payable		-	37,000,000	5,528,315
Provision for taxation		12,813,827	5,963,160	5,215,072
Bank borrowings	13	-	-	5,220,000
		53,357,437	83,860,161	82,822,225
Total equity and liabilities		154,252,625	171,956,396	175,627,144

.....
Director

.....
Director

28 February 2006

The annexed notes form an integral part of and should be read in conjunction with these financial statements.

APPENDIX VIII
AUDITED FINANCIAL STATEMENTS OF SHANDONG YIMENG BEARING JOINT STOCK CO., LTD. FOR THE YEARS ENDED 31 DECEMBER 2003, 2004 AND 2005

Shandong Yimeng Bearing Joint Stock Co., Ltd.

3

Financial statements for the years ended 31 December 2003, 2004 and 2005

(Prepared under Singapore Financial Reporting Standards)

Income statement

	Notes	31 December 2005 RMB	31 December 2004 RMB	31 December 2003 RMB
Revenue	4	202,902,170	146,021,073	107,614,063
Cost of sales		(134,106,787)	(102,971,308)	(81,575,541)
Gross profit		68,795,383	43,049,765	26,038,522
Other operating income	14(a)	3,281,289	6,139,620	3,678,550
Distribution costs		(1,668,408)	(1,468,783)	(1,802,165)
Administrative expenses		(6,494,018)	(5,727,798)	(4,784,562)
Other operating expenses		(2,211,183)	(1,861,810)	(1,650,717)
Finance costs	14(b)	(3,110)	(185,993)	(337,256)
Profit before taxation	15	61,699,953	39,945,001	21,142,372
Taxation	16	(20,361,000)	(13,182,000)	(9,773,000)
Profit after taxation for the year attributable to shareholders		41,338,953	26,763,001	11,369,372

The annexed notes form an integral part of and should be read in conjunction with these financial statements.

Statement of changes in equity

APPENDIX VIII

AUDITED FINANCIAL STATEMENTS OF SHANDONG YIMENG BEARING JOINT STOCK CO., LTD. FOR THE YEARS ENDED 31 DECEMBER 2003, 2004 AND 2005

	Capital contribution RMB	Retained profits RMB	Statutory common reserve RMB	Statutory welfare fund RMB	Voluntary common reserve RMB	Sub-total RMB	Total RMB
Balance as at 1 January 2003	37,000,000	27,110,908	6,185,392	3,092,695	10,983,228	20,261,315	84,372,223
Net profit for the year	-	11,369,372	-	-	-	-	11,369,372
Transfer to statutory common reserve	-	(3,670,846)	1,468,339	734,168	1,468,339	3,670,846	-
Dividends	-	(2,936,676)	-	-	-	-	(2,936,676)
Balance as at 31 December 2003	37,000,000	31,872,758	7,653,731	3,826,863	12,451,567	23,932,161	92,804,919
Net profit for the year	-	26,763,001	-	-	-	-	26,763,001
Transfer to statutory common reserve	-	(6,426,355)	2,570,542	1,285,271	2,570,542	6,426,355	-
Dividends	-	(31,471,685)	-	-	-	-	(31,471,685)
Balance as at 31 December 2004	37,000,000	20,737,719	10,224,273	5,112,134	15,022,109	30,358,516	88,096,235
Net profit for the year	-	41,338,953	-	-	-	-	41,338,953
Transfer to statutory common reserve	-	(6,691,925)	4,400,000	2,200,000	91,925	6,691,925	-
Capital reduction	(11,893,988)	-	-	-	-	-	(11,893,988)
Utilised towards and applied for capital reduction	-	-	(1,536,012)	-	(15,110,000)	(16,646,012)	(16,646,012)
Balance as at 31 December 2005	25,106,012	55,384,747	13,088,261	7,312,134	4,034	20,404,429	100,895,188

The annexed notes form an integral part of and should be read in conjunction with these financial statements.

APPENDIX VIII
AUDITED FINANCIAL STATEMENTS OF SHANDONG YIMENG BEARING JOINT STOCK CO., LTD. FOR THE YEARS ENDED 31 DECEMBER 2003, 2004 AND 2005

Shandong Yimeng Bearing Joint Stock Co., Ltd.

5

Financial statements for the years ended 31 December 2003, 2004 and 2005

(Prepared under Singapore Financial Reporting Standards)

Cash flow statement

	31 December 2005 RMB	31 December 2004 RMB	31 December 2003 RMB
Cash Flows from Operating Activities			
Profit before taxation	61,699,953	39,945,001	21,142,372
Adjustments for:			
Depreciation of property, plant and equipment	6,083,855	6,255,721	6,606,021
Amortisation of intangible assets	600,000	600,000	600,000
Loss/(gain) on disposal of property, plant and equipment	32,262	515,301	(551,733)
Impairment on trade receivables	10,974	-	-
Interest income	(202,870)	(189,173)	(168,193)
Interest expense	3,110	185,993	337,256
Operating profit before working capital changes	68,227,284	47,312,843	27,965,723
Decrease/(increase) in inventories	22,413,420	3,401,426	(4,014,649)
Decrease/(increase) in operating receivables	14,986,371	5,315,283	(18,316,622)
(Decrease)/increase in operating payables	(353,391)	(25,961,837)	20,514,206
Cash generated from operations	105,273,684	30,067,715	26,148,658
Income tax paid	(13,510,333)	(12,433,912)	(6,228,068)
Net cash generated from operating activities	91,763,351	17,633,803	19,920,590
Cash Flows from Investing Activities			
Acquisition of property, plant and equipment	(3,980,230)	(2,756,079)	(5,878,824)
Proceeds from disposal of property, plant and equipment	608,642	327,400	4,005,804
Interest received	202,870	189,173	168,193
Net cash used in investing activities	(3,168,718)	(2,239,506)	(1,704,827)
Cash Flows from Financing Activities			
Bank loans obtained	-	-	1,220,000
Repayment of bank loans	-	(5,220,000)	(2,370,000)
Payment for cancellation of shares	(28,540,000)	-	-
Dividends paid	(37,000,000)	-	-
Interest paid	(3,110)	(185,993)	(337,256)
Net cash used in financing activities	(65,543,110)	(5,405,993)	(1,487,256)
Net increase in cash and cash equivalents	23,051,523	9,988,304	16,728,507
Cash and cash equivalents at beginning of year	38,910,854	28,922,550	12,194,043
Cash and cash equivalents at end of year (Note 9)	61,962,377	38,910,854	28,922,550

The annexed notes form an integral part of and should be read in conjunction with these financial statements.

APPENDIX VIII
AUDITED FINANCIAL STATEMENTS OF SHANDONG YIMENG BEARING JOINT STOCK CO., LTD. FOR THE YEARS ENDED 31 DECEMBER 2003, 2004 AND 2005

Shandong Yimeng Bearing Joint Stock Co., Ltd.
Financial statements for the years ended 31 December 2003, 2004 and 2005
(Prepared under Singapore Financial Reporting Standards)

6

Notes to the financial statements

1 General information

The financial statements of Shandong Yimeng Bearing Joint Stock Co., Ltd. (山东沂蒙轴承股份有限公司) are prepared for the years ended 31 December 2003, 2004 and 2005.

The registered office is located at No. 2 Yiqing Road, Yinan County, Shandong 276309, People's Republic of China ("PRC").

The company was incorporated as a limited liability company and domiciled in the PRC.

The principal activities of the company are those of the manufacture and sale of bearing products.

The company maintains its accounting records and prepares statutory financial statements in accordance with accounting standards and regulations of the PRC GAAP.

The financial statements have been prepared for internal management purposes in accordance with Singapore Financial Reporting Standards ("SFRS") including related Interpretations promulgated by the Council on Corporate Disclosure and Governance ("CCDG").

The accounting policies and bases adopted in the preparation of the statutory financial statements differ in certain respects from SFRS. The differences arising from the restatement of the results of operations and the net assets for compliance with SFRS are adjusted in the financial statements but are not taken up in the accounting records of the company.

The financial statements are presented in Renminbi ("RMB"), being the currency in which the company's transactions are denominated. The financial statements have been prepared solely for inclusion in the preliminary prospectus of China Bearing (Singapore) Ltd. in connection with the initial public offering of China Bearing (Singapore) Ltd. in Singapore.

APPENDIX VIII

AUDITED FINANCIAL STATEMENTS OF SHANDONG YIMENG BEARING JOINT STOCK CO., LTD. FOR THE YEARS ENDED 31 DECEMBER 2003, 2004 AND 2005

Shandong Yimeng Bearing Joint Stock Co., Ltd.

7

Financial statements for the years ended 31 December 2003, 2004 and 2005
(Prepared under Singapore Financial Reporting Standards)

2(a) Basis of preparation

The financial statements, expressed in RMB, are prepared in accordance with the historical cost convention in accordance with SFRS, including related Interpretations promulgated by the CCDG.

The financial statements have been prepared solely to show the financial positions of the company as at 31 December 2003, 2004 and 2005 and its results for each of the years then ended in connection with the proposed listing of the shares of China Bearing (Singapore) Ltd. on the Singapore Exchange Securities Trading Limited.

Accordingly, for the purpose for which these financial statements have been prepared, comparative figures which are required to be presented in general purposes financial statements are prepared in accordance with SFRS.

Significant accounting estimates and judgements

The preparation of the financial statements in conformity with SFRS requires the use of judgements, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the financial year. Although these estimates are based on management's best knowledge of current events and actions, actual results may differ from those estimates.

2(b) Change in accounting policies

In respect of the year ended 31 December 2004, the company has applied the same accounting policies and methods of computation in the financial statements for the current year as compared to the audited financial statements for the year ended 31 December 2003, except for the adoption of new and revised SFRSs which became effective from 1 January 2004. The adoption of these SFRSs did not result in significant changes to the company's accounting policies.

In respect of the financial year 2005, the CCDG issued a series of new and revised FRSs for which the company applies these new and revised standards from 1 January 2005. This includes the following new and revised standards, which are relevant to the company as a single entity:

FRS 1 (revised 2004)	Presentation of Financial Statements
FRS 2 (revised 2004)	Inventories
FRS 8 (revised 2004)	Accounting Policies, Changes in Accounting Estimates and Errors
FRS 10 (revised 2004)	Events after Balance Sheet Date
FRS 16 (revised 2004)	Property, Plant and Equipment
FRS 21 (revised 2004)	The Effects of Changes in Foreign Exchange Rates
FRS 24 (revised 2004)	Related Party Disclosures
FRS 27 (revised 2004)	Consolidated and Separate Financial Statements
FRS 32 (revised 2004)	Financial Instruments: Disclosure and Presentation
FRS 36 (revised 2004)	Impairment of Assets
FRS 38 (revised 2004)	Intangible Assets
FRS 39 (revised 2004)	Financial Instruments: Recognition and Measurement
Interpretation ("INT") of FRS 101	Changes in Existing Decommissioning, Restoration and Similar Liabilities

The adoption of the above FRS and INT FRS did not result in substantial changes to the company's accounting policies.

APPENDIX VIII

AUDITED FINANCIAL STATEMENTS OF SHANDONG YIMENG BEARING JOINT STOCK CO., LTD. FOR THE YEARS ENDED 31 DECEMBER 2003, 2004 AND 2005

Shandong Yimeng Bearing Joint Stock Co., Ltd.

8

Financial statements for the years ended 31 December 2003, 2004 and 2005
(Prepared under Singapore Financial Reporting Standards)

2(b) Change in accounting policies (cont'd)

At the date of authorisation of these financial statements, the following Standards and Interpretations were in issue but not yet effective:

FRS 40	Investment Property
FRS 106	Exploration for and Evaluation of Mineral Resources
FRS 107	Financial Instruments: Disclosures
INT FRS 104	Determining whether an Arrangement contains a Lease
INT FRS 105	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
INT FRS 106	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment
INT FRS 107	Applying the Restatement Approach under FRS 29 Financial Reporting in Hyperinflationary Economies

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the company.

3 Summary of significant accounting policies

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses, if any. Depreciation is computed utilising the straight-line method to write off the cost of the assets after deducting the residual value over their estimated useful lives as follows:

Buildings on leasehold land	Over the remaining period of lease, which is originally 40 years
Factory facilities	30 years
Motor vehicles	6 years
Plant and machinery	12 years
Electrical fittings	10 years

The cost of property, plant and equipment includes expenditure that is directly attributable to the acquisition of the items. Dismantlement, removal or restoration costs are included as part of the cost of property, plant and equipment if the obligation for dismantlement, removal or restoration is incurred as a consequence of acquiring or using the asset. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

For acquisitions and disposals during the financial year, depreciation is provided from the month after acquisition and to the month of disposal respectively.

Fully depreciated property, plant and equipment, if any, are retained in the books of accounts until they are no longer in use.

Land use rights are stated at cost less accumulated depreciation. Depreciation is charged so as to write off the value of land use rights, using the straight-line method, over the period of the grant of originally 50 years.

APPENDIX VIII

AUDITED FINANCIAL STATEMENTS OF SHANDONG YIMENG BEARING JOINT STOCK CO., LTD. FOR THE YEARS ENDED 31 DECEMBER 2003, 2004 AND 2005

Shandong Yimeng Bearing Joint Stock Co., Ltd.

9

Financial statements for the years ended 31 December 2003, 2004 and 2005

(Prepared under Singapore Financial Reporting Standards)

Intangible assets

Intangible assets are accounted for using the cost model. Capitalised costs are amortised on a straight-line basis over their estimated useful lives as they are considered finite. After initial recognition, they are carried at cost less accumulated amortisation and accumulated impairment losses, if any. In addition, they are subject to impairment testing.

Intangible assets are written off where, in the opinion of the directors, no further future economic benefits are expected to arise.

Patents and licenses

Costs relating to patents and licenses which are acquired are capitalised and amortised on straight-line basis over their useful life of ten years, commencing in the year of operations.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a weighted-average basis. In the case of manufactured inventories, cost consists of cost of raw materials, direct labour and an appropriate proportion of production overheads.

Allowance is made, where necessary, for obsolete, slow-moving and defective inventories in arriving at the net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

Financial assets

Financial assets include cash and financial instruments. Financial assets, other than hedging instruments, can be divided into the following categories: financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables and available-for-sale financial assets. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the investments were acquired. The designation of financial assets is re-evaluated and classification may be changed at the reporting date with the exception that the designation of financial assets at fair value through profit or loss is not revocable.

All financial assets are recognised on their trade date - the date on which the company commits to purchase or sell the asset. Financial assets are initially recognised at fair value, plus directly attributable transaction costs except for financial assets at fair value through profit or loss, which are recognised at fair value.

Derecognition of financial instruments occurs when the rights to receive cash flows from the investments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred. An assessment for impairment is undertaken at least at each balance sheet date whether or not there is objective evidence that a financial asset or a group of financial assets is impaired.

The company does not have any investments and accordingly, there is no investment to be classified as assets held-to-maturity or available-for-sale.

APPENDIX VIII

AUDITED FINANCIAL STATEMENTS OF SHANDONG YIMENG BEARING JOINT STOCK CO., LTD. FOR THE YEARS ENDED 31 DECEMBER 2003, 2004 AND 2005

Shandong Yimeng Bearing Joint Stock Co., Ltd.

10

Financial statements for the years ended 31 December 2003, 2004 and 2005

(Prepared under Singapore Financial Reporting Standards)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the company provides money, goods or services directly to a debtor with no intention of trading the receivables. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets, if any.

Loans and receivables are subsequently measured at amortised cost using the effective interest method less provision for impairment. Any change in their value is recognised in income statement. Any reversal shall not result in a carrying amount that exceeds what the amortised cost would have been had any impairment loss not been recognised at the date the impairment is reversed. Any reversal is recognised in the income statement.

Receivables are provided against when objective evidence is received that the company will not be able to collect all amounts due to it in accordance with the original terms of the receivables. The amount of the write-down is determined as the difference between the asset's carrying amount and the present value of estimated future cash flows.

Loans and receivables include trade and other receivables.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and bank deposits with a short maturity of three months or less.

Related parties

Related parties are entities with one or more common direct/indirect shareholders and/or directors and in which one party has the ability to control or exercise significant influence over the other party in financial and operating decision making.

Financial liabilities

The company's financial liabilities include bank borrowings, trade and other payables and dividend payable.

Financial liabilities are recognised when the company becomes a party to the contractual agreements of the instrument. All interest related charges is recognised as an expense in "finance costs" in the income statement.

Borrowings are recognised initially at fair value of proceeds received less attributable transaction costs, if any. Borrowings are subsequently stated at amortised cost which is the initial fair value less any principal repayments. Any difference between the proceeds (net of transaction costs) and the redemption value is taken to the income statement over the period of the borrowings using the effective interest method.

Dividend distributions to shareholders are included in "current financial liabilities" when the dividends are payable.

Trade payables are initially measured at fair value, and subsequently measured at amortised cost, using the effective interest method.

Other payables are recognised initially at their nominal value and subsequently measured at amortised cost less settlement payments.

Employee benefits

Pension obligations

The company participates in the defined contribution national pension and other welfare schemes as provided by the laws in the PRC. The contributions to these schemes are charged to the income statement in the period to which the contributions relate.

APPENDIX VIII

AUDITED FINANCIAL STATEMENTS OF SHANDONG YIMENG BEARING JOINT STOCK CO., LTD. FOR THE YEARS ENDED 31 DECEMBER 2003, 2004 AND 2005

Shandong Yimeng Bearing Joint Stock Co., Ltd.

11

Financial statements for the years ended 31 December 2003, 2004 and 2005

(Prepared under Singapore Financial Reporting Standards)

Provisions

Provisions are recognised when the company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The directors review the provisions annually and where in their opinion, the provision is inadequate or excessive, due adjustment is made.

Government grant

The Government grant is recognised on receipt basis to which they are intended to compensate for the costs incurred. Government grant is not recognised as income until there is a reasonable assurance that the company will comply with the conditions attaching to it.

Income taxes

The liability method of tax effect accounting is adopted by the company. Current taxation is provided at the current taxation rate based on the tax payable on the income for the financial period that is chargeable to tax. Deferred taxation is provided at the current taxation rate on all temporary differences existing at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

Deferred tax liabilities are recognised for all taxable temporary differences.

Deferred tax assets are recognised for all deductible temporary differences to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilised.

The statutory tax rates enacted at the balance sheet date are used to determine deferred income tax.

Impairment of assets

The carrying amounts of the company's assets subject to impairment are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

If it is not possible to estimate the recoverable amount of the individual asset, then the recoverable amount of the cash-generating unit to which the asset belongs will be identified.

For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

Individual assets or cash-generating units that include intangible assets, if any, with an indefinite useful life or those not yet available for use are tested for impairment at least annually. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss, if any, is recognised for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell and value in use, based on an internal discounted cash flow evaluation.

Any impairment loss is charged to the income statement.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount or when there is an indication that the impairment loss recognised for the asset no longer exists or decreases.

APPENDIX VIII
AUDITED FINANCIAL STATEMENTS OF SHANDONG YIMENG BEARING JOINT STOCK CO., LTD. FOR THE YEARS ENDED 31 DECEMBER 2003, 2004 AND 2005

Shandong Yimeng Bearing Joint Stock Co., Ltd.

12

Financial statements for the years ended 31 December 2003, 2004 and 2005

(Prepared under Singapore Financial Reporting Standards)

Impairment of assets (cont'd)

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined if no impairment loss had been recognised.

A reversal of an impairment loss is credited as income in the income statement.

Functional currency

Items included in the financial statements of the company are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity ("the functional currency"). The financial statements of the company are presented in RMB which is also the functional currency of the company.

Conversion of foreign currencies

Monetary assets and liabilities in foreign currencies are translated into RMB at rates of exchange closely approximating those ruling at balance sheet date. Transactions in foreign currencies are converted at rates closely approximating those ruling at transaction dates. Exchange differences arising from such transactions are recorded in the income statement in the period in which they arise.

Revenue recognition

Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer. Revenue excludes relevant value-added taxes and is arrived at after deduction of trade discounts. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods.

Revenue from the sale of bearing products and raw materials is recognised when goods are sold to customers, which generally coincides with their delivery and acceptance.

Interest income is recognised on a time-apportioned basis using the effective interest method.

Financial instruments

Financial instruments carried on the balance sheet include cash and cash equivalents, financial assets and financial liabilities. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

Disclosures on financial risk management objectives and policies are provided in Note 18.

4 Revenue

Revenue represents sale of bearing products, excluding applicable value-added tax as follows:

	2005	2004	2003
	RMB	RMB	RMB
Sale of bearings	198,009,352	138,910,056	97,975,084
Sale of raw materials	4,892,818	7,111,017	9,638,979
	202,902,170	146,021,073	107,614,063

APPENDIX VIII
AUDITED FINANCIAL STATEMENTS OF SHANDONG YIMENG BEARING JOINT STOCK CO., LTD. FOR THE YEARS ENDED 31 DECEMBER 2003, 2004 AND 2005

13

Shandong Yimeng Bearing Joint Stock Co., Ltd.
Financial statements for the years ended 31 December 2003, 2004 and 2005
(Prepared under Singapore Financial Reporting Standards)

5 Property, plant and equipment

	Buildings on leasehold land RMB	Land use rights RMB	Factory facilities RMB	Motor vehicles RMB	Plant and machinery RMB	Electrical fittings RMB	Total RMB
Cost							
At 1 January 2003	3,529,883	4,005,927	9,422,964	3,226,537	68,223,711	720,000	89,129,022
Additions	-	-	740,645	556,650	4,581,529	-	5,878,824
Disposals	(421,869)	-	(264,272)	(520,000)	(6,094,882)	-	(7,301,023)
At 31 December 2003	3,108,014	4,005,927	9,899,337	3,263,187	66,710,358	720,000	87,706,823
Additions	-	-	-	571,600	2,147,479	37,000	2,756,079
Disposals	-	-	-	(961,582)	(2,707,616)	-	(3,669,198)
At 31 December 2004	3,108,014	4,005,927	9,899,337	2,873,205	66,150,221	757,000	86,793,704
Additions	-	-	257,625	112,282	3,610,323	-	3,980,230
Disposals	-	(219,850)	-	(328,522)	(1,919,515)	-	(2,467,887)
At 31 December 2005	3,108,014	3,786,077	10,156,962	2,656,965	67,841,029	757,000	88,306,047
Accumulated depreciation							
Balance at 1 January 2003	705,074	821,637	2,114,973	1,469,588	23,726,895	353,962	29,192,129
Depreciation for the year	84,731	173,335	327,330	447,523	5,501,102	72,000	6,606,021
Disposals	(38,671)	-	(32,300)	(504,400)	(3,271,581)	-	(3,846,952)
At 31 December 2003	751,134	994,972	2,410,003	1,412,711	25,956,416	425,962	31,951,198
Depreciation for the year	77,700	173,335	326,812	456,794	5,148,047	73,033	6,255,721
Disposals	-	-	-	(681,300)	(2,145,197)	-	(2,826,497)
At 31 December 2004	828,834	1,168,307	2,736,815	1,188,205	28,959,266	498,995	35,380,422
Depreciation for the year	77,701	172,148	330,984	411,357	5,015,965	75,700	6,083,855
Disposals	-	(58,345)	-	(237,026)	(1,531,612)	-	(1,826,983)
Balance at 31 December 2005	906,535	1,282,110	3,067,799	1,362,536	32,443,619	574,695	39,637,294
Net book value							
At 31 December 2005	2,201,479	2,503,967	7,089,163	1,294,429	35,397,410	182,305	48,668,753
At 31 December 2004	2,279,180	2,837,620	7,162,522	1,685,000	37,190,955	258,005	51,413,282
At 31 December 2003	2,356,880	3,010,955	7,489,334	1,850,476	40,753,942	294,038	55,755,625

APPENDIX VIII
AUDITED FINANCIAL STATEMENTS OF SHANDONG YIMENG BEARING JOINT STOCK CO., LTD. FOR THE YEARS ENDED 31 DECEMBER 2003, 2004 AND 2005

Shandong Yimeng Bearing Joint Stock Co., Ltd. **14**
Financial statements for the years ended 31 December 2003, 2004 and 2005
(Prepared under Singapore Financial Reporting Standards)

5 Property, plant and equipment (cont'd)

	2005 RMB	2004 RMB	2003 RMB
Depreciation expense charged to:			
Cost of sales	5,415,727	5,485,916	5,701,825
Administrative expenses	668,128	769,805	904,196
	6,083,855	6,255,721	6,606,021

6 Intangible assets

	2005 RMB	2004 RMB	2003 RMB
Cost	6,000,000	6,000,000	6,000,000
			RMB
Accumulated amortisation			
Balance at 1 January 2003			1,250,000
Amortisation for the year			600,000
At 31 December 2003			1,850,000
Amortisation for the year			600,000
At 31 December 2004			2,450,000
Amortisation for the year			600,000
Balance at 31 December 2005			3,050,000
Net book value			
At 31 December 2005			2,950,000
At 31 December 2004			3,550,000
At 31 December 2003			4,150,000

These relate to purchase for the rights to use designs of precision roller-bearings.

7 Inventories

	2005 RMB	2004 RMB	2003 RMB
At cost:			
Raw materials	1,477,498	9,932,308	11,193,457
Consumables	2,973,292	3,749,324	3,352,414
Finished goods	8,726,843	21,336,101	22,274,462
Work-in-progress	3,214,577	3,787,897	5,386,723
	16,392,210	38,805,630	42,207,056
Total inventories charged to:			
Cost of sales	93,020,743	68,369,489	50,898,805

APPENDIX VIII
AUDITED FINANCIAL STATEMENTS OF SHANDONG YIMENG BEARING JOINT STOCK CO., LTD. FOR THE YEARS ENDED 31 DECEMBER 2003, 2004 AND 2005

Shandong Yimeng Bearing Joint Stock Co., Ltd.

15

Financial statements for the years ended 31 December 2003, 2004 and 2005

(Prepared under Singapore Financial Reporting Standards)

8 Trade and other receivables

	2005 RMB	2004 RMB	2003 RMB
Trade receivables	19,190,431	31,988,104	35,423,332
Note receivables	-	382,400	1,100,000
	19,190,431	32,370,504	36,523,332
Impairment on trade receivables	(10,974)	-	-
Net trade receivables	19,179,457	32,370,504	36,523,332
Advances to third parties	-	919,409	3,777,503
Payments made in advance for purchases of inventories	166,062	311,592	901,949
Advances made to sales personnels	380,158	212,574	146,885
Down-payment for purchase of land	-	570,000	570,000
Deposits	-	16,105	32,700
Advance payment to suppliers	4,483,408	4,301,932	1,402,768
Others	70,200	574,514	1,236,776
	24,279,285	39,276,630	44,591,913

Trade receivables are usually due within 30-90 days and do not bear any effective interest rate. All trade receivables are subject to credit risk exposure. However, the company does not identify specific concentrations of credit risk with regards to trade and other receivables, as the amounts recognised resemble a large number of receivables from various customers.

The advances made to third parties are unsecured, interest-free and receivable on demand. The carrying value approximates the fair value of the advances.

The advances made to sales personnels are for business purposes.

9 Cash and cash equivalents

	2005 RMB	2004 RMB	2003 RMB
Cash on hand	12,037	19,253	70,000
Bank balances	61,950,340	38,891,601	28,852,550
	61,962,377	38,910,854	28,922,550

10 Capital contribution

	2005 RMB	2004 RMB	2003 RMB
Balance at beginning of year - contributions in cash	37,000,000	37,000,000	37,000,000
Capital reduction during the year by way of share buy-back and cancellation of shares (see Note 11)	(11,893,988)	-	-
Balance at end of year - contributions in cash	25,106,012	37,000,000	37,000,000

APPENDIX VIII
AUDITED FINANCIAL STATEMENTS OF SHANDONG YIMENG BEARING JOINT STOCK CO., LTD. FOR THE YEARS ENDED 31 DECEMBER 2003, 2004 AND 2005

Shandong Yimeng Bearing Joint Stock Co., Ltd.

16

Financial statements for the years ended 31 December 2003, 2004 and 2005

(Prepared under Singapore Financial Reporting Standards)

10 Capital contribution (cont'd)

	2005 RMB	2004 RMB	2003 RMB
Contributed in cash			
山东沂蒙轴承厂职工持股管理委员会	-	13,280,000	13,280,000
洛阳轴承研究所 (Note 11)	-	6,000,000	6,000,000
山东省沂南县玉鸟内燃机有限责任公司	-	5,000,000	5,000,000
沂南县阳都资产运营公司 (Note 11)	-	5,893,988	5,893,988
张元开	8,000,000	-	-
张安喜	5,000,000	-	-
徐以合	3,000,000	-	-
张安玲	2,280,000	-	-
山东沂蒙轴承厂有限公司	6,826,012	6,826,012	6,826,012
	25,106,012	37,000,000	37,000,000

11 Statutory common reserve

	2005 RMB	2004 RMB	2003 RMB
Statutory common reserve			
- Balance at beginning of year	10,224,273	7,653,731	6,185,392
- Transferred from income statement	4,400,000	2,570,542	1,468,339
- Utilised during the year	(1,536,012)	-	-
- Balance at end of year	13,088,261	10,224,273	7,653,731
Statutory common welfare fund reserve			
- Balance at beginning of year	5,112,134	3,826,863	3,092,695
- Transferred from income statement	2,200,000	1,285,271	734,168
- Balance at end of year	7,312,134	5,112,134	3,826,863
Voluntary common reserve			
- Balance at beginning of year	15,022,109	12,451,567	10,983,228
- Transferred from income statement	91,925	2,570,542	1,468,339
- Utilised towards reduction in capital contribution of RMB11,893,988	(15,110,000)	-	-
- Balance at end of year	4,034	15,022,109	12,451,567
	20,404,429	30,358,516	23,932,161

According to the current PRC company law, the company is required to transfer between 5% and 10% of its profit after taxation to statutory common reserve until the common reserve balance reaches 50% of the registered capital. For the purpose of calculating the transfer to this reserve, the profit after taxation shall be the amount determined under PRC accounting standards. The transfer to this reserve must be made before the distribution of dividends to shareholders.

Statutory common reserve can be used to make good previous years' losses and for conversion to capital, if any, provided that the balance remains not less than 25% of the registered capital.

The voluntary common reserve to the extent of RMB15,110,000 represents the excess payments made for the reduction of capital contribution of RMB11,893,988 as follows:

洛阳轴承研究所 (Note 10)	6,000,000
沂南县阳都资产运营公司 (Note 10)	5,893,988
	11,893,988

APPENDIX VIII
AUDITED FINANCIAL STATEMENTS OF SHANDONG YIMENG BEARING JOINT STOCK CO., LTD. FOR THE YEARS ENDED 31 DECEMBER 2003, 2004 AND 2005

Shandong Yimeng Bearing Joint Stock Co., Ltd.

17

Financial statements for the years ended 31 December 2003, 2004 and 2005

(Prepared under Singapore Financial Reporting Standards)

12 Trade and other payables

	2005 RMB	2004 RMB	2003 RMB
Trade payables	21,336,346	21,636,949	40,029,279
Bill payables (unsecured)	-	1,382,400	10,910,000
Advances received from customers	159,970	1,801,462	249,370
Accruals for salaries and related costs	1,047,832	867,974	740,143
Staff welfare payable	7,178,131	6,149,173	5,390,654
VAT payable	2,439,982	1,716,887	1,232,289
Other governmental taxes payable	198,774	78,204	79,454
Advances from third parties	330,000	330,000	1,723,644
Deposits received	461,000	16,500	56,500
Staff salaries withheld	1,819,050	1,855,450	1,855,450
Staff benefit payable	1,599,834	677,361	399,679
Other payables	3,972,691	4,384,641	4,192,376
	40,543,610	40,897,001	66,858,838

The fair value of trade and other payables have not been disclosed as, due to their short duration, management considers the carrying amounts recognised in the balance sheet to be reasonable approximation of their fair value.

The advances from third parties are unsecured, interest-free and repayable on demand.

13 Bank borrowings

	Note	2005 RMB	2004 RMB	2003 RMB
Bank loan				
- # 1	(a)	-	-	2,000,000
- # 2	(b)	-	-	2,000,000
- # 3	(c)	-	-	220,000
- # 4	(d)	-	-	1,000,000
Bank loan		-	-	5,220,000

- (a) The one-year unsecured bank loan facility # 1 of RMB2,000,000 granted to the company was fully repaid on 28 June 2004.

Interest was charged at 5.310% per annum.

The bank loan was secured by personal guarantees from certain shareholders of the company.

- (b) The one-year bank loan facility # 2 of RMB2,000,000 granted to the company was fully repaid on 28 June 2004.

Interest was charged at 5.310% per annum.

The bank loan was secured by personal guarantees from certain shareholders of the company.

- (c) The one-year unsecured bank loan facility # 3 of RMB220,000 granted to the company was fully repaid on 2 December 2004.

Interest was charged at 4.425% per annum.

The bank loan was secured by personal guarantees from certain shareholders of the company.

APPENDIX VIII
AUDITED FINANCIAL STATEMENTS OF SHANDONG YIMENG BEARING JOINT STOCK CO., LTD. FOR THE YEARS ENDED 31 DECEMBER 2003, 2004 AND 2005

Shandong Yimeng Bearing Joint Stock Co., Ltd.

18

Financial statements for the years ended 31 December 2003, 2004 and 2005

(Prepared under Singapore Financial Reporting Standards)

13 Bank borrowings (cont'd)

- (d) The one-year bank loan facility # 4 of RMB1,000,000 granted to the company was fully repaid on 30 July 2004.

Interest was charged at 5.310% per annum.

The bank loan was secured by personal guarantees from certain shareholders of the company.

The bank loans are classified as current liabilities as they are expected to be settled in the normal course of the company's operating cycle. The carrying amounts of current bank loans approximate their fair values.

14(a) Other operating income

	2005 RMB	2004 RMB	2003 RMB
Sale of scrap	2,866,313	3,127,723	2,549,506
Interest income – bank deposits	202,870	189,173	168,193
Processing fee	-	2,799,104	-
Gain on disposal of property, plant and equipment	-	-	551,733
Government grant	120,000	-	-
Miscellaneous income	92,106	23,620	409,118
	3,281,289	6,139,620	3,678,550

14(b) Finance costs

	2005 RMB	2004 RMB	2003 RMB
Interest - bank loans	-	156,923	329,055
- bank note discounted	3,010	29,070	8,201
- bond	100	-	-
	3,110	185,993	337,256

The effective interest rate on bank loans was 6.0% and 5.6% per annum for the financial years 2004 and 2003 respectively.

14(c) Employee benefit expenses

	2005 RMB	2004 RMB	2003 RMB
Directors' remuneration			
- salaries and related costs	172,969	153,684	97,864
- defined contributions	28,477	31,328	19,912
Other than directors and key management personnel			
- salaries and related costs	1,220,726	1,086,955	936,818
- defined contributions	1,281,523	1,056,703	765,088
	2,703,695	2,328,670	1,819,682

APPENDIX VIII
AUDITED FINANCIAL STATEMENTS OF SHANDONG YIMENG BEARING JOINT STOCK CO., LTD. FOR THE YEARS ENDED 31 DECEMBER 2003, 2004 AND 2005

Shandong Yimeng Bearing Joint Stock Co., Ltd. **19**
Financial statements for the years ended 31 December 2003, 2004 and 2005
(Prepared under Singapore Financial Reporting Standards)

15 Profit before taxation

		2005 RMB	2004 RMB	2003 RMB
	Note			
Profit before taxation has been arrived at				
after charging:				
Amortisation of intangible assets	6	600,000	600,000	600,000
Depreciation of property, plant and equipment	5	6,083,855	6,255,721	6,606,021
Loss on disposal of property, plant and equipment		32,262	515,301	-

16 Taxation

	2005 RMB	2004 RMB	2003 RMB
Current taxation	20,361,000	13,182,000	6,977,000
Underprovision in respect of prior years	-	-	2,796,000
	20,361,000	13,182,000	9,773,000

The tax expense on the results of the financial year varies from the amount of income tax determined by applying the PRC's statutory rate of income tax on company's profits as a result of the following:

	2005 RMB	2004 RMB	2003 RMB
Profit before taxation	61,699,953	39,945,001	21,142,372
Tax at statutory rate of 33%	20,361,000	13,182,000	6,977,000

17 Retirement benefit plans

The eligible employees of the company, who are citizens of the PRC, are members of a state-managed retirement benefit scheme operated by the local government. The company is required to contribute a certain percentage of their payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the company with respect to the retirement benefit scheme is to make the specified contributions.

The total cost charged to the income statement for the years ended 31 December 2003, 2004 and 2005 were RMB785,000, RMB1,088,031 and RMB1,310,000 representing defined contribution national pension plan for the respective years.

APPENDIX VIII

AUDITED FINANCIAL STATEMENTS OF SHANDONG YIMENG BEARING JOINT STOCK CO., LTD. FOR THE YEARS ENDED 31 DECEMBER 2003, 2004 AND 2005

Shandong Yimeng Bearing Joint Stock Co., Ltd.

20

Financial statements for the years ended 31 December 2003, 2004 and 2005

(Prepared under Singapore Financial Reporting Standards)

18 Financial risk management objectives and policies

The company's financial instruments carried on the balance sheet include cash and cash equivalents, receivables, payables and bank borrowings.

The company does not hold or issue derivative financial instruments for trading purposes or to hedge against fluctuations, if any, in interest rates and foreign exchange.

18.1 Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

The business of the company is mainly carried out in the PRC. Accordingly, the exposure to foreign exchange risk is minimal.

18.2 Cash flow and fair value interest rate risk

Cash flow interest rate risk is the risk that future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates.

The company's exposure to interest rate risk is minimal as the company has no exposure to variable interest instruments.

18.3 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

Management has a credit control policy in place. Credit evaluations are performed on all customers requiring credit over a certain amount. Transactions are conducted with customers with appropriate credit histories. The credit risk and amount outstanding is monitored on an ongoing basis. With this credit evaluation processes, credit control policies and collection procedures in place, the credit risk is mitigated substantially. The company does not require collateral in respect of financial assets.

The company performs ongoing credit evaluation of its customers' financial condition and requires no collateral from its customers. The allowance for doubtful debts is based upon a review of the expected collectibility of all trade and other receivables.

18.4 Liquidity risk

Liquidity or funding risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value.

The company manages its liquidity risk by ensuring the availability of adequate funds to meet all its obligations in a timely and cost-effective manner.

19 Financial instruments

Fair values

The carrying amount of the financial assets and financial liabilities with a maturity of less than one year is assumed to approximate their fair values.

The company does not anticipate that the carrying amounts recorded at balance sheet date would be significantly different from the values that would eventually be received or settled.

APPENDIX IX

TERMS, CONDITIONS AND PROCEDURES FOR APPLICATION AND ACCEPTANCE

You are invited to apply for the Invitation Shares at the Issue Price for each Invitation Share, subject to the following terms and conditions:-

1. **YOUR APPLICATION MUST BE MADE IN LOTS OF 1,000 INVITATION SHARES AND INTEGRAL MULTIPLES THEREOF. YOUR APPLICATION FOR ANY OTHER NUMBER OF INVITATION SHARES WILL BE REJECTED.**
2. Your application for Offer Shares may be made by way of printed Offer Shares Application Forms or by way of Electronic Applications through ATMs belonging to the Participating Banks ("ATM Electronic Applications") or through Internet Banking ("IB") websites of the relevant Participating Banks ("Internet Electronic Applications", which together with ATM Electronic Applications, shall be referred to as "Electronic Applications"). Your application for the Placement Shares may only be made by way of printed Placement Shares Application Forms. **YOU MAY NOT USE CPF FUNDS TO APPLY FOR THE INVITATION SHARES.**
3. **You are allowed to submit only one application in your own name for the Offer Shares or the Placement Shares. If you submit an application for Offer Shares by way of an Application Form, you MAY NOT submit another application for Offer Shares by way of an Electronic Application and vice versa. Such separate applications shall be deemed to be multiple applications and may be rejected at the discretion of our Company and the Vendor.**

If you submit an application for Offer Shares by way of an ATM Electronic Application, you MAY NOT submit another application for Offer Shares by way of an Internet Electronic Application and vice versa. Such separate applications shall be deemed to be multiple applications and may be rejected at the discretion of our Company and the Vendor.

If you, other than an approved nominee company, have submitted an application for Offer Shares in your own name, you should not submit any other application for Offer Shares, whether by way of an Application Form or by way of an Electronic Application, for any other person. Such separate applications shall be deemed to be multiple applications and may be rejected at the discretion of our Company and the Vendor.

You are allowed to submit only one application in your own name for the Placement Shares. Any separate applications by you for the Placement Shares shall be deemed to be multiple applications and we have the discretion whether to accept or reject such multiple applications.

If you, being other than an approved nominee company, have submitted an application for Placement Shares in your own name, you should not submit any other application for Placement Shares for any other person. Such separate applications shall be deemed to be multiple applications and will be liable to be rejected at our discretion.

If you have made an application for Placement Shares, and you have also made a separate application for Offer Shares either by way of an Application Form or through an Electronic Application, we shall have the discretion to either (i) reject both of such separate applications or (ii) accept any one (but not the other) out of such separate applications.

Conversely, if you have made an application for Offer Shares either by way of an Application Form or through an Electronic Application, and you have also made a separate application for Placement Shares, we shall have the discretion to either (i) reject both of such separate applications or (ii) accept any one (but not the other) out of such separate applications.

APPENDIX IX

TERMS, CONDITIONS AND PROCEDURES FOR APPLICATION AND ACCEPTANCE

Joint applications shall be rejected. Multiple applications for New Shares shall be liable to be rejected at the discretion of our Company. If you submit or procure submissions of multiple share applications for Offer Shares, Placement Shares or both Offer Shares and Placement Shares, you may be deemed to have committed an offence under the Penal Code, Chapter 224 of Singapore and the Securities Industry Act, Chapter 289 of Singapore and your applications may be referred to the relevant authorities for investigation. Multiple applications or those appearing to be or suspected of being multiple applications may be rejected at the discretion of our Company and the Vendor.

4. We will not accept applications from any person under the age of 21 years, undischarged bankrupts, sole-proprietorships, partnerships, non-corporate bodies, joint Securities Account holders of CDP and from applicants whose addresses (furnished in their printed Application Forms or, in the case of Electronic Applications, contained in the records of the relevant Participating Banks) bear post office box numbers. No person acting or purporting to act on behalf of a deceased person is allowed to apply under the Securities Account with CDP in the deceased name at the time of application.
5. We will not recognise the existence of a trust. An application by a trustee or trustees must therefore be made in his/her/their own name(s) and without qualification or, where the application is made by way of an Application Form by a nominee, in the name(s) of an approved nominee company or companies after complying with paragraph 6 below.
6. **WE WILL ONLY ACCEPT APPLICATIONS FROM APPROVED NOMINEE COMPANIES ONLY.** Approved nominee companies are defined as banks, merchant banks, finance companies, insurance companies, licensed securities dealers in Singapore and nominee companies controlled by them. Applications made by nominees other than approved nominee companies shall be rejected.
7. **IF YOU ARE NOT AN APPROVED NOMINEE COMPANY, YOU MUST MAINTAIN A SECURITIES ACCOUNT WITH CDP IN YOUR OWN NAME AT THE TIME OF YOUR APPLICATION.** If you do not have an existing Securities Account with CDP in your own name at the time of your application, your application will be rejected (if you apply by way of an Application Form), or you will not be able to complete your Electronic Application (if you apply by way of an Electronic Application). If you have an existing Securities Account with CDP but fail to provide your Securities Account number or provide an incorrect Securities Account number in Section B of the Application Form or in your Electronic Application, as the case may be, your application is liable to be rejected. Subject to paragraph 8 below, your application may be rejected if your particulars such as name, NRIC/passport number, nationality and permanent residence status provided in your Application Form or in the records of the relevant Participating Bank at the time of your Electronic Application, as the case may be, differ from those particulars in your Securities Account as maintained by CDP. If you possess more than one individual direct Securities Account with CDP, your application shall be rejected.
8. **If your address as stated in the Application Form or, in the case of an Electronic Application, contained in the records of the relevant Participating Bank, as the case may be, is different from the address registered with CDP, you must inform CDP of your updated address promptly, failing which the notification letter on successful allotment and other correspondence from CDP will be sent to your address last registered with CDP.**

APPENDIX IX

TERMS, CONDITIONS AND PROCEDURES FOR APPLICATION AND ACCEPTANCE

9. **Our Company and the Vendor reserve the right to reject any application which does not conform strictly to the instructions set out in the Application Form and in this Prospectus or which does not comply with the instructions for Electronic Applications or with the terms and conditions of this Prospectus or, in the case of an application by way of an Application Form, which is illegible, incomplete, incorrectly completed or which is accompanied by an improperly drawn remittance or improper form of remittance. Our Company and the Vendor further reserve the right to treat as valid any applications not completed or submitted or effected in all respects in accordance with the instructions set out in the Application Forms or the instructions for Electronic Applications or the terms and conditions of this Prospectus and also to present for payment or other processes all remittances at any time after receipt and to have full access to all information relating to, or deriving from, such remittances or the processing thereof.**
10. Our Company and the Vendor reserve the right to reject or to accept, in whole or in part, or to scale down or to ballot any application, without assigning any reason therefore, and no enquiry and/or correspondence on the decision of our Company and the Vendor with regards hereto will be entertained. This right applies to applications made by way of Application Forms and by way of Electronic Applications. In deciding the basis of allotment and/or allocation, which shall be at our discretion, due consideration will be given to the desirability of allotting and/or allocating the Invitation Shares to a reasonable number of Applicants with a view to establishing an adequate market for the Shares.
11. Share certificates will be registered in the name of CDP or its nominee and will be forwarded only to CDP. It is expected that CDP will send to each successful applicant, at your own risk, within 15 Market Days after the close of the Application List, a statement of account stating that your Securities Account has been credited with the number of Invitation Shares allotted and/or allocated to you. This will be the only acknowledgement of application monies received and is not an acknowledgement by our Company and the Vendor. You irrevocably authorise CDP to complete and sign on your behalf as transferee or renounee any instrument of transfer and/or other documents required for the issue or transfer of the Invitation Shares allotted and/or allocated to you. This authorisation applies to applications made by way of printed Application Forms and by way of Electronic Applications.
12. In the event that our Company lodges a supplementary or replacement prospectus ("relevant document") pursuant to the SFA or any applicable legislation in force from time to time prior to the close of the Invitation and the Invitation Shares have not been issued and/or sold, we will (as required by law) at our Company and the Vendor's sole and absolute discretion either:-
 - (i) within 7 days of the lodgement of the relevant document give you a copy of the relevant document and provide you with an option to withdraw your application; or
 - (ii) deem your application as withdrawn and cancelled and refund your application monies (without interest or any share of revenue or other benefit arising therefrom) to you within 7 days from the lodgement of the relevant document.

Where an applicant has notified us within 14 days from the date of lodgement of the relevant document of your wish to exercise your option under the SFA to withdraw your application, we shall return to you all monies paid by you on account of your application for the Invitation Shares without interest or any share of revenue or other benefit arising therefrom and at your own risk, within 7 days from the receipt of such notification.

In the event that at any time at the time of the lodgement, the Invitation Shares have already been issued and/or sold but trading has not commenced, we will (as required by law) either:-

- (i) within 7 days of the lodgement give you a copy of the relevant document and provide you with an option to return the shares; or

APPENDIX IX
TERMS, CONDITIONS AND PROCEDURES FOR APPLICATION AND ACCEPTANCE

- (ii) deem the issue as void and refund your payment for the shares (without interest or any share of revenue or other benefit arising therefrom) within 7 days from the lodgement of the relevant document.

Where an applicant has notified us within 14 days from the date of lodgement of the relevant document of your wish to exercise your option under the SFA to return to the Invitation Shares issued and/or sold to you, you shall return all documents, if any, purporting to be evidence of title to those Invitation Shares whereupon we shall pay to you all monies paid by you on account of your application for the Invitation Shares without interest or any share of revenue or other benefit arising therefrom and at your own risk, within 7 days from the receipt of such notification and documents.

Additional terms and instructions applicable upon the lodgement of the supplementary or replacement prospectus, including instructions on how you can exercise the option to withdraw your application or return the Invitation Shares, may be found in such supplementary or replacement prospectus.

- 13. In the event of an under-subscription for Offer Shares as at the close of the Application List, that number of Offer Shares under-subscribed shall be made available to satisfy applications for Placement Shares to the extent that there is an over-subscription for Placement Shares as at the close of the Application List.

In the event of an under-subscription for Placement Shares as at the close of the Application List, that number of Placement Shares under-subscribed shall be made available to satisfy applications for Offer Shares to the extent that there is an over-subscription for Offer Shares as at the close of the Application List.

In the event of an over-subscription for Offer Shares as at the close of the Application List and Placement Shares are fully subscribed or over-subscribed as at the close of the Application List, the successful applications for Offer Shares will be determined by ballot or otherwise as determined by our Company and the Vendor and approved by the SGX-ST, if required.

In all the above instances, the basis of allotment and/or allocation of the Invitation Shares as may be decided by our Directors and the Vendor in ensuring a reasonable spread of shareholders of our Company, shall be made public, as soon as practicable, via an announcement through the SGX-ST and by advertisement in a generally circulating daily press.

In the event of an under-subscription for the Offer Shares and/or Placement Shares as at the close of the Application List, the number of Offer Shares and/or Placement Shares under-subscribed shall be subscribed and/or purchased by the Underwriter and/or Placement Agent, respectively.

- 14. You irrevocably authorise CDP to disclose the outcome of your application, including the number of Invitation Shares allotted and/or allocated to you pursuant to your application to us, the Manager, the Underwriter and the Placement Agent and, any other parties so authorised by the foregoing persons.
- 15. Any reference to “you” or the “Applicant” in this section shall include an individual, a corporation, an approved nominee and trustee applying for the Offer Shares by way of an Application Form or by way of an Electronic Application and a person applying for the Placement Shares through the Placement Agent.

APPENDIX IX
TERMS, CONDITIONS AND PROCEDURES FOR APPLICATION AND ACCEPTANCE

16. By completing and delivering an Application Form or by making and completing an Electronic Application by (in the case of an ATM Electronic Application) pressing the “Enter” or “OK” or “Confirm” or “Yes” or any other relevant key on the ATM (as the case may be) or by (in the case of an Internet Electronic Application) clicking “Submit” or “Continue” or “Yes” or “Confirm” or any other relevant button on the IB website screen (as the case may be) in accordance with the provisions of this Prospectus, you:-
- (a) irrevocably offer agree and undertake to subscribe for and/or purchase the number of Invitation Shares specified in your application (or such smaller number for which the application is accepted) at the Issue Price and agree that you will accept such Invitation Shares as may be allotted and/or allocated to you, in each case subject to the conditions set out in this Prospectus and the Memorandum and Articles of Association of our Company;
 - (b) agree that, in the event of any inconsistency between the terms and conditions set for application set out in this Prospectus and those set out in the IB websites or ATMs of the Participating Banks, the terms and conditions set out in this Prospectus shall prevail;
 - (c) agree that the aggregate Issue Price for the Invitation Shares applied for is due and payable to the Company and the Vendor forthwith;
 - (d) warrant the truth and accuracy of the information contained, and representations and declarations made, in your application and acknowledge and agree that such information, representations and declarations will be relied on by our Company in determining whether to accept your application; and
 - (e) agree and warrant that, if the laws of any jurisdictions outside Singapore are applicable to your application, you have complied with all such laws and none of our Company, the Vendor, the Manager, Underwriter and Placement Agent will infringe any such laws as a result of the acceptance of your application.
17. Our acceptance of applications will be conditional upon, *inter alia*, our Company being satisfied that:-
- (a) permission has been granted by the SGX-ST to deal in and for quotation for all our existing Shares (including the Vendor Shares) and the New Shares on the Official List of the SGX-ST;
 - (b) the Management and Underwriting Agreement and the Placement Agreement referred to on paragraphs 18 to 25 of the section “Other General Information” of this Prospectus have become unconditional and have not been terminated or cancelled prior to such date as our Company and the Vendor may determine; and
 - (c) the Authority has not served a stop order which directs that no or no further shares to which this Prospectus relates be allotted and/or allocated.
18. In the event that a stop order in respect of the Invitation Shares is served by the Authority or other competent authority and:-
- (a) the Invitation Shares have not been issued and/or sold, we will (as required by law) deem all applications withdrawn and cancelled and our Company shall refund the application monies (without interest or any share of revenue or other benefit arising therefrom) to you within 14 days of the date of the stop order; or

APPENDIX IX

TERMS, CONDITIONS AND PROCEDURES FOR APPLICATION AND ACCEPTANCE

- (b) if the Invitation Shares have already been issued and/or sold but trading has not commenced, the issue and/or sale will (as required by law) be deemed void and:-
 - (i) if documents purporting to evidence title had been issued to you, our Company shall inform you to return such documents to our Company within 14 days from that date; and
 - (ii) we will refund the application monies (without interest or any share of revenue or other benefit arising therefrom) to you within 7 days from the date of receipt of those documents (if applicable) or the date of the stop order, whichever is later.

This shall not apply where only an interim stop order has been served.

- 19. In the event that an interim stop order in respect of the Invitation Shares is served by the Authority or other competent authority, no Invitation Shares shall be issued to you until the Authority revokes the interim stop order.
- 20. The Authority is not able to serve a stop order in respect of the Invitation Shares if the Invitation Shares have been issued and listed on a securities exchange and trading in them has commenced.
- 21. We will not hold any application in reserve.
- 22. We will not allot and/or allocate any Shares on the basis of this Prospectus later than six months after the date of registration of this Prospectus.
- 23. Additional terms and conditions for applications by way of Application Forms are set out on pages IX-6 to IX-9 of this Prospectus.
- 24. Additional terms and conditions for applications by way of Electronic Applications are set out on pages IX-10 to IX-18 of this Prospectus.

ADDITIONAL TERMS AND CONDITIONS FOR APPLICATIONS USING APPLICATION FORMS

Applications by way of an Application Form shall be made on and subject to, the terms and conditions of this Prospectus including but not limited to the terms and conditions appearing below as well as those set out under the section on “TERMS, CONDITIONS AND PROCEDURES FOR APPLICATION AND ACCEPTANCE”; as well as the Memorandum and Articles of Association of our Company.

- 1. Your application must be made using the WHITE Application Forms for Offer Shares, and WHITE official envelopes “A” and “B”; the BLUE Application Forms for Placement Shares accompanying and forming part of this Prospectus. We draw your attention to the detailed instructions contained in the respective Application Forms and this Prospectus for the completion of the Application Forms which must be carefully followed. **Our Company and the Vendor reserve the right to reject applications which do not conform strictly to the instructions set out in the Application Forms and this Prospectus or to the terms and conditions of this Prospectus or which are illegible, incomplete, incorrectly completed or which are accompanied by improperly drawn remittances or improper form of remittances.**
- 2. Your Application Forms must be completed in English. Please type or write clearly in ink using **BLOCK LETTERS**.
- 3. All spaces in the Application Forms except those under the heading “FOR OFFICIAL USE ONLY” must be completed and the words “NOT APPLICABLE” or “N.A.” should be written in any space that is not applicable.

APPENDIX IX

TERMS, CONDITIONS AND PROCEDURES FOR APPLICATION AND ACCEPTANCE

4. Individuals, corporations, approved nominee companies and trustees must give their names in full. If you are an individual, you must make your application using your full names as it appears in your identity cards (if you have such an identification document) or in your passport and, in the case of a corporation, in your full name as registered with a competent authority. If you are not an individual, you must complete the Application Form under the hand of an official who must state the name and capacity in which he signs the Application Form. If you are a corporation completing the Application Form, you are required to affix your Common Seal (if any) in accordance with your Memorandum and Articles of Association or equivalent constitutive documents of the corporation. If you are a corporate applicant and your application is successful, a copy of your Memorandum and Articles of Association or equivalent constitutive documents must be lodged with our Company's Share Registrar and Share Transfer Office. Our Company and the Vendor reserve the right to require you to produce documentary proof of identification for verification purposes.
5.
 - (a) You must complete Sections A and B and sign page 1 of the Application Form.
 - (b) You are required to delete either paragraph 7(a) or 7(b) on page 1 of the Application Form. Where paragraph 7(a) is deleted, you must also complete Section C of the Application Forms with particulars of the beneficial owner(s).
 - (c) If you fail to make the required declaration in paragraph 7(a) or 7(b), as the case may be, on page 1 of the Application Form, your application is liable to be rejected.
6. You (whether you are an individual or corporate applicant, whether incorporated or unincorporated and wherever incorporated or constituted) will be required to declare whether you are a citizen or permanent resident of Singapore or a corporation in which citizens or permanent residents of Singapore or any body corporate constituted under any statute of Singapore having an interest in the aggregate of more than 50 per cent. of the issued share capital of or interests in such corporations. If you are an approved nominee company, you are required to declare whether the beneficial owner of the Shares is a citizen or permanent resident of Singapore or a corporation, whether incorporated or unincorporated and wherever incorporated or constituted, in which citizens or permanent residents of Singapore or any body corporate whether incorporated or unincorporated and wherever incorporated or constituted under any statute of Singapore have an interest in the aggregate of more than 50 per cent. of the issued share capital of or interests in such corporation.
7. Your application must be accompanied by a remittance in Singapore currency for the full amount payable, in respect of the number of Invitation Shares applied for, in the form of a BANKER'S DRAFT or CASHIER'S ORDER drawn on a bank in Singapore, made out in favour of **"CHINA BEARING SHARE ISSUE ACCOUNT"** crossed "A/C PAYEE ONLY" and with your name and address written clearly on the reverse side. Applications not accompanied by any payment or accompanied by ANY OTHER FORM OF PAYMENT WILL NOT BE ACCEPTED. We will reject remittances bearing "NOT TRANSFERABLE" or "NON TRANSFERABLE" crossings. No acknowledgement or receipt will be issued by our Company, the Vendor or the Manager for applications and application monies received.
8. Monies paid in respect of unsuccessful applications are expected to be returned (without interest or any share of revenue or other benefit arising therefrom) to you by ordinary post within 24 hours of balloting of applications at your own risk. Where your application is rejected or accepted in part only, the full amount or the balance of the application monies, as the case may be, will be refunded (without interest or any share of revenue or other benefit arising therefrom) to you by ordinary post at your own risk within 14 Market Days after the close of the Application List provided that your remittance accompanying your application has been presented for payment or other processes have been honoured and the application monies received in the designated share issue account. In the event that the Invitation is cancelled by us following the termination of the Management and

APPENDIX IX

TERMS, CONDITIONS AND PROCEDURES FOR APPLICATION AND ACCEPTANCE

Underwriting Agreement and/or the Placement Agreement, the application monies received will be refunded (without interest or any share of revenue or other benefit arising therefrom) to you by ordinary post or telegraphic transfer at your own risk within 5 Market Days of the termination of the Invitation. In the event that the Invitation is cancelled by us following the issuance of a stop order by the Authority, the application monies received will be refunded (without interest or any share of revenue or other benefit arising therefrom) to you by ordinary post or telegraphic transfer at your own risk within 14 days from the date of the stop order.

9. Capitalised terms used in the Application Forms and defined in this Prospectus shall bear the meanings assigned to them in this Prospectus.
10. By completing and delivering the Application Form, you agree that:-
 - (a) in consideration of our Company and the Vendor having distributed the Application Form to you and agreeing to close the Application List at 12.00 noon on 18 October 2006 or such other time or date as our Company and the Vendor may, in consultation with the Manager, decide and by completing and delivering the Application Form:-
 - (i) your application is irrevocable; and
 - (ii) your remittance will be honoured on first presentation and that any monies returnable may be held pending clearance of your payment without interest or any share of revenue or other benefit arising therefrom;
 - (b) all applications, acceptances and contracts resulting therefrom under the Invitation shall be governed by and construed in accordance with the laws of Singapore and that you irrevocably submit to the non-exclusive jurisdiction of the Singapore courts;
 - (c) in respect of the Invitation Shares for which your application has been received and not rejected, acceptance of your application shall be constituted by written notification and not otherwise, notwithstanding any remittance being presented for payment by or on behalf of our Company and the Vendor;
 - (d) you will not be entitled to exercise any remedy of rescission for misrepresentation at any time after acceptance of your application;
 - (e) in making your application, reliance is placed solely on the information contained in this Prospectus and that neither our Company, the Vendor, the Manager, Underwriter and Placement Agent nor any other person involved in the Invitation shall have any liability for any information not so contained;
 - (f) you consent to the disclosure of your name, NRIC/passport number, address, nationality, permanent resident status, CDP Securities Account number, CPF Investment Account number (if applicable) and share application amount from your account with the relevant Participating Bank to our Share Registrar, CDP, SCCS, SGX-ST, CPF, our Company, the Vendor, the Manager, Underwriter and Placement Agent or other authorised operators; and
 - (g) you irrevocably agree to subscribe for and/or purchase the number of Invitation Shares applied for as stated in the Application Form or any smaller number of such Invitation Shares that may be allotted to you in respect of your application. In the event that our Company decides to allot a smaller number of Invitation Shares or not to allot any Invitation Shares to you, you agree to accept such decision is final.

APPENDIX IX

TERMS, CONDITIONS AND PROCEDURES FOR APPLICATION AND ACCEPTANCE

Applications for Offer Shares

1. Your application for Offer Shares **MUST** be made using the **WHITE** Offer Shares Application Forms and **WHITE** official envelopes "A" and "B". **ONLY ONE APPLICATION** should be enclosed in each envelope.
2. You must:-
 - (a) enclose the **WHITE** Offer Shares Application Form, duly completed and signed, together with the correct remittance in accordance with the terms and conditions of this Prospectus in the **WHITE** envelope "A" provided;
 - (b) in the appropriate spaces on **WHITE** envelope "A":-
 - (i) write your name and address;
 - (ii) state the number of Offer Shares applied for; and
 - (iii) affix adequate Singapore postage;
 - (c) SEAL **WHITE** ENVELOPE "A";
 - (d) write, in the special box provided on the larger **WHITE** envelope "B" addressed to Tricor Barbinder Share Registration Services, 8 Cross Street, #11-00 PWC Building, Singapore 048424, the number of Offer Shares you have applied for; and
 - (e) insert **WHITE** official envelope "A" into **WHITE** official envelope "B", seal **WHITE** official envelope "B" and affix adequate Singapore postage and thereafter **DESPATCH BY ORDINARY POST OR DELIVER BY HAND at your own risk to Tricor Barbinder Share Registration Services, 8 Cross Street, #11-00 PWC Building, Singapore 048424, to arrive by 12.00 noon on 18 October 2006 or such other date or time as our Company and the Vendor may, in consultation with the Manager, decide. Local Urgent Mail or Registered Post must NOT be used.** No acknowledgement of receipt will be issued for any application or remittance received.
3. Applications that are illegible, incomplete or incorrectly completed or accompanied by improperly drawn remittances or improper form of remittance or which are not honoured upon their first presentation are liable to be rejected.

Applications for Placement Shares

1. Your application for Placement Shares **MUST** be made using the **BLUE** Placement Shares Application Forms. **ONLY ONE APPLICATION** should be enclosed in each envelope.
2. The completed and signed **BLUE** Placement Shares Application Form and your remittance in full in respect of the number of Placement Shares applied for (in accordance with the terms and conditions of this Prospectus) with your name and address written clearly on the reverse side, must be enclosed and sealed in an envelope to be provided by you. The sealed envelope must be **DESPATCHED BY ORDINARY POST OR DELIVERED BY HAND at your own risk to Tricor Barbinder Share Registration Services, 8 Cross Street, #11-00 PWC Building, Singapore 048424, to arrive by 12.00 noon on 18 October 2006 or such other time as our Company may, in consultation with the Manager, decide. Local Urgent Mail or Registered Post must NOT be used.** No acknowledgement of receipt will be issued for any application or remittance received.

APPENDIX IX

TERMS, CONDITIONS AND PROCEDURES FOR APPLICATION AND ACCEPTANCE

ADDITIONAL TERMS AND CONDITIONS FOR ELECTRONIC APPLICATIONS

The procedures for Electronic Applications are set out on the ATM screens (in the case of ATM Electronic Applications) and the IB website screens (in the case of Internet Electronic Applications) of the relevant Participating Banks. Currently, UOB Group and DBS, are the only Participating Banks through which Internet Electronic Applications can be made. For illustration purposes, the procedures for Electronic Applications through ATMs and the IB website of UOB Group are set out respectively in the “Steps for an Electronic Application through ATMs of UOB Group” and the “Steps for an Internet Electronic Application through the IB website of UOB Group” (collectively, the “Steps”) appearing on pages IX-15 to IX-18 of this Prospectus. The Steps set out the actions that you must take at an ATM or the IB website of UOB Group to complete an Electronic Application. Please read carefully the terms of this Prospectus, the Steps and the terms and conditions for Electronic Applications set out below before making an Electronic Application. Any reference to “you” or the “applicant” in the additional terms and conditions for Electronic Applications and the Steps shall refer to you making an application for Offer Shares through an ATM or the IB website of a relevant Participating Bank.

You must have an existing bank account with and be an ATM cardholder of one of the Participating Banks before you can make an Electronic Application at the ATMs. An ATM card issued by one Participating Bank cannot be used to apply for Offer Shares at an ATM belonging to other Participating Banks. For an Internet Electronic Application, you must have an existing bank account with and an IB User Identification (“User ID”) and a Personal Identification Number/Password (“PIN”) given by the relevant Participating Bank. The Steps set out the actions that you must take at ATMs or the IB website of UOB Group to complete an Electronic Application. The actions that you must take at ATMs or the IB websites of other Participating Banks are set out on the ATM screens or the IB website screens of the relevant Participating Banks. Upon the completion of your ATM Electronic Application transaction, you will receive an ATM transaction slip (“Transaction Record”), confirming the details of your Electronic Application. Upon completion of your Internet Electronic Application through the IB website of UOB Group, there will be an on-screen confirmation (“Confirmation Screen”) of the application which can be printed for your record. The Transaction Record or your printed record of the Confirmation Screen is for your retention and should not be submitted with any Application Form.

You must ensure that you enter your own Securities Account number when using the ATM card issued to you in your own name. If you fail to use your own ATM card or if you do not key in your own Securities Account number, your application will be rejected. If you operate a joint bank account with any of the Participating Banks, you must ensure that you enter your own Securities Account number when using the ATM card issued to you in your own name. Using your own Securities Account number with an ATM card which is not issued to you in your own name will render your ATM Electronic Application liable to be rejected.

You must ensure, when making an Internet Electronic Application, that your mailing address for the account selected for the application is in Singapore and the application is being made in Singapore and you will be asked to declare accordingly. Otherwise your application is liable to be rejected.

You shall make an Electronic Application in accordance with and subject to the terms and conditions of this Prospectus including but not limited to the terms and conditions appearing below and those set out under the section on “TERMS, CONDITIONS AND PROCEDURES FOR APPLICATION AND ACCEPTANCE” as well as the Memorandum and Articles of Association of our Company.

1. In connection with your Electronic Application for Offer Shares, you are required to confirm statements to the following effect in the course of activating your Electronic Application:-
 - (a) **that you have received a copy of this Prospectus (in the case of an ATM Electronic Application only) and have read, understood and agreed to all the terms and conditions of application for Offer Shares and this Prospectus prior to effecting the Electronic Application and agree to be bound by the same;**

APPENDIX IX

TERMS, CONDITIONS AND PROCEDURES FOR APPLICATION AND ACCEPTANCE

- (b) that you consent to the disclosure of your name, NRIC/passport number, address, nationality, permanent residence status, share application amount, CPF Investment Account number (if applicable) and CDP Securities Account number and application details (the “Relevant Particulars”) with the relevant Participating Bank to the CDP, CPF, SCCS, SGX-ST, Share Registrar, our Company, the Vendor, the Manager, , the Underwriter, the Placement Agent or other authorised operator (the “Relevant Parties”); and
- (c) that this is your only application for Offer Shares and it is made in your own name and at your own risk.

Your application will not be successfully completed and cannot be recorded as a completed transaction in the ATM or on the IB website unless you press the “Enter” or “Confirm” or “Yes” or “OK” or any other relevant key in the ATM or click “Confirm” or “OK” or “Submit” or “Continue” or “Yes” or any other relevant button on the IB website screen. By doing so, you shall be treated as signifying your confirmation of each of the above three statements. In respect of statement 1(b) above, such confirmation, shall signify and shall be treated as your written permission, given in accordance with the relevant laws of Singapore including Section 47(2) of the Banking Act (Chapter 19) of Singapore to the disclosure by the relevant Participating Bank of the Relevant Particulars to the Relevant Parties.

- 2. **BY MAKING AN ELECTRONIC APPLICATION, YOU CONFIRM THAT YOU ARE NOT APPLYING FOR OFFER SHARES AS A NOMINEE OF ANY OTHER PERSON AND THAT ANY ELECTRONIC APPLICATION THAT YOU MAKE IS THE ONLY APPLICATION MADE BY YOU AS THE BENEFICIAL OWNER.**

YOU SHOULD MAKE ONLY ONE ELECTRONIC APPLICATION FOR OFFER SHARES AND SHOULD NOT MAKE ANY OTHER APPLICATION FOR NEW SHARES, WHETHER AT THE ATMS OR THE IB WEBSITES (IF ANY) OF ANY PARTICIPATING BANK OR ON THE APPLICATION FORMS. IF YOU HAVE MADE AN APPLICATION FOR OFFER OR PLACEMENT SHARES ON AN APPLICATION FORM, YOU SHALL NOT MAKE AN ELECTRONIC APPLICATION FOR OFFER SHARES AND VICE VERSA.

- 3. You must have sufficient funds in your bank account with your Participating Bank at the time you make your Electronic Application, failing which your Electronic Application will not be completed or accepted. **Any Electronic Application which does not conform strictly to the instructions set out in this Prospectus or on the screens of the ATM or the IB website of the relevant Participating Bank through which your Electronic Application is being made shall be rejected.**

You may make an ATM Electronic Application at the ATM of any Participating Bank or an Internet Electronic Application at the IB website of the relevant Participating Bank for the Offer Shares using only cash by authorising such Participating Bank to deduct the full amount payable from your account with such Participating Bank.

- 4. You irrevocably agree and undertake to subscribe for and/or purchase and to accept the number of Offer Shares applied for as stated on the Transaction Record or the Confirmation Screen or any lesser number of Offer Shares that may be allotted and/or allocated to you in respect of your Electronic Application. In the event that our Company and the Vendor decide to allot and/or allocate any lesser number of such Offer Shares or not to allot and/or allocate any Offer Shares to you, you agree to accept such decision as final. If your Electronic Application is successful, your confirmation (by your action of pressing the “Enter” or “Confirm” or “Yes” or “OK” or any other relevant key on the ATM or clicking “Confirm” or “OK” or “Submit” or “Continue” or “Yes” or any other relevant button on the IB website screen) of the number of Offer Shares applied for shall signify and shall be treated as your acceptance of the number of Offer Shares that may be allotted and/or allocated to you and your agreement to be bound by the Memorandum and Articles of Association of our Company.

APPENDIX IX

TERMS, CONDITIONS AND PROCEDURES FOR APPLICATION AND ACCEPTANCE

5. **We will not keep any applications in reserve.** Where your Electronic Application is unsuccessful, the full amount of the application monies will be refunded in Singapore currency (without interest or any share of revenue or other benefit arising therefrom) to you by being automatically credited to your account with your Participating Bank within 24 hours of balloting provided that the remittance in respect of such application which has been presented for payment or other processes has been honoured and the application monies have been received in the designated share issue amount. **Trading on a “WHEN ISSUED” basis, if applicable, is expected to commence after such refund has been made.**

Where your Electronic Application is rejected or accepted in part only, the full amount or the balance of the application monies, as the case may be, will be refunded in Singapore currency (without interest or any share of revenue or other benefit arising therefrom) to you by being automatically credited to your account with your Participating Bank within 14 days after the close of the Application List provided that the remittance in respect of such application which has been presented for payment or other processes has been honoured and the application monies have been received in the designated share issue account.

Responsibility for timely refund of application monies from unsuccessful or partially successful Electronic Applications lies solely with the respective Participating Banks. Therefore, you are strongly advised to consult your Participating Bank as to the status of your Electronic Application and/or the refund of any monies to you from unsuccessful or partially successful Electronic Application, to determine the exact number of Offer Shares allotted to you, if any, before trading the Offer Shares on the SGX-ST. You may also call CDP Phone at 6535 7511 to check the provisional results of your application by using your T-pin (issued by CDP upon your application for the service) and keying in the stock code (that will be made available together with the results of the allotment via an announcement through the SGX-ST and by advertisement in a generally circulating daily press). To sign up for the service, you may contact CDP customer service officers. Neither the SGX-ST, the CDP, the SCCS, the Participating Banks, our Company, the Vendor, the Manager, the Underwriter or the Placement Agent assume any responsibility for any loss that may be incurred as a result of you having to cover any net sell positions or from buy-in procedures activated by the SGX-ST.

6. If your Electronic Application is unsuccessful, no notification will be sent by the Participating Banks.

If you make Electronic Applications through the ATM or IB website of the following Participating Banks, you may check the results of your Electronic Applications as follows:-

Bank	Telephone	Available at ATM	Operating Hours	Service expected from
UOB Group	1800 222 2121	ATM (Other Transactions – “IPO Enquiry”) ⁽¹⁾ http://www.uobgroup.com ⁽¹⁾⁽²⁾	ATM / Phone Banking – 24 hours a day Internet Banking – 24 hours a day	Evening of the balloting day Evening of the balloting day
DBS Bank	1800 339 6666 (for POSB Account holders) 1800 111 1111 (for DBS Account holders)	Internet Banking http://www.dbs.com ⁽²⁾	24 hours a day	Evening of the balloting day
OCBC	1800 363 3333	ATM/Internet Banking/ Phone Banking ⁽³⁾	24 hours a day	Evening of the balloting day

APPENDIX IX

TERMS, CONDITIONS AND PROCEDURES FOR APPLICATION AND ACCEPTANCE

Notes:-

- (1) If you have made your Electronic Applications through the ATMs or IB website of UOB Group, you may check the results of your application through UOB Personal Internet Banking, UOB Group ATMs or UOB PhoneBanking Services.
 - (2) If you make your Internet Electronic Application through the IB website of UOB Group or DBS Bank, you may check the result of your application through the same channels listed in the table above in relation to ATM Electronic Application made at ATMs of UOB Group or DBS Bank.
 - (3) Applicants who have made Electronic Application through the ATMs of OCBC may check the results of their applications through OCBC Personal Internet Banking, OCBC ATMs or OCBC Phone Banking Services.
7. You irrevocably agree and acknowledge that your Electronic Application is subject to risks of electrical, electronic, technical and computer-related faults and breakdowns, fires, acts of God and other events beyond the control of the Participating Banks, our Company, the Vendors and the Manager and if, in any such event, our Company, the Vendor, the Manager and/or the relevant Participating Bank do not receive your Electronic Application, or data relating to your Electronic Application or the tape or any other devices containing such data is lost, corrupted or not otherwise accessible, whether wholly or partially for whatever reason, you shall be deemed not to have made an Electronic Application and you shall have no claim whatsoever against our Company, the Vendor, the Manager, the Underwriter and the Placement Agent and/or the relevant Participating Bank for Offer Shares applied for or for any compensation, loss or damage.
8. Electronic Applications shall close at **12.00 noon on 18 October 2006** or such other time as our Company may, in consultation with the Manager, decide. Subject to the paragraph above, an Internet Electronic Application is deemed to be received only upon its completion, that is, when there is an on-screen confirmation of the application.
9. You are deemed to have irrevocably requested and authorised our Company and the Vendor to:-
 - (a) register the Offer Shares allotted and/or allocated to you in the name of CDP for deposit into your Securities Account;
 - (b) send the relevant Share certificate(s) to CDP;
 - (c) return or refund (without interest or any share of revenue earned or other benefit arising therefrom) the application monies in Singapore Currency, should your Electronic Application be unsuccessful, by automatically crediting your bank account with your Participating Bank with the relevant amount within 24 hours of the balloting of applications; and
 - (d) return or refund (without interest or any share of revenue or other benefit arising therefrom) the balance of the application monies in Singapore Currency, should your Electronic Application be accepted in part only, by automatically crediting your bank account with your Participating Bank with the relevant amount within 14 Market Days after the close of the Application List.
10. We do not recognise the existence of a trust. Any Electronic Application by a trustee must be made in your own name and without qualification. Our Company will reject any application by any person acting as nominee except those made by approved nominee companies only.
11. All your particulars in the records of your relevant Participating Bank at the time you make your Electronic Application shall be deemed to be true and correct and your relevant Participating Bank and the Relevant Parties shall be entitled to rely on the accuracy thereof. If there has been any change in your particulars after the time of the making of your Electronic Application, you shall promptly notify your relevant Participating Bank.

APPENDIX IX

TERMS, CONDITIONS AND PROCEDURES FOR APPLICATION AND ACCEPTANCE

12. **You should ensure that your personal particulars as recorded by both CDP and the relevant Participating Bank are correct and identical, otherwise, your Electronic Application is liable to be rejected.** You should promptly inform CDP of any change in address, failing which the notification letter on successful allotment other correspondence from the CDP will be sent to your address last registered with CDP.
13. By making and completing an Electronic Application, you are deemed to have agreed that:-
- (a) in consideration of our Company and the Vendor making available the Electronic Application facility, through the Participating Banks as the agents of our Company, at the ATMs and IB websites (if any):-
 - (i) your Electronic Application is irrevocable; and
 - (ii) your Electronic Application, our acceptance and the contract resulting therefrom under the Invitation shall be governed by and construed in accordance with the laws of Singapore and you irrevocably submit to the non-exclusive jurisdiction of the Singapore courts;
 - (b) none of our Company, the Vendor, the CDP, the Manager nor the Participating Banks shall be liable for any delays, failures or inaccuracies in the recording, storage or in the transmission or delivery of data relating to your Electronic Application to our Company or CDP due to breakdowns or failure of transmission, delivery or communication facilities or any risks referred to in paragraph 7 above or to any cause beyond our respective controls;
 - (c) in respect of Offer Shares for which your Electronic Application has been successfully completed and not rejected, acceptance of your Electronic Application shall be constituted by written notification by or on behalf of our Company and the Vendor and not otherwise, notwithstanding any payment received by or on behalf of our Company and the Vendor;
 - (d) you will not be entitled to exercise any remedy of rescission for misrepresentation at any time after acceptance of your application; and
 - (e) in making your application, reliance is placed solely on the information contained in this Prospectus and that none of our Company, the Vendor, the Manager, the Underwriter or the Placement Agent or any other person involved in the Invitation shall have any liability for any information not so contained.

Steps for Electronic Applications through ATMs and the IB website of UOB Group

The instructions for Electronic Applications will appear on the ATM screens and the IB website screens of the respective Participating Banks. For illustrative purposes, the steps for making an Electronic Application through the ATMs or the IB website of UOB Group are shown below. Instructions for Electronic Applications appearing on the ATM screens and the IB website screens (if any) of the relevant Participating Banks (other than UOB Group) may differ from that represented below.

Owing to space constraints on UOB Group's ATM screens, the following terms will appear in abbreviated form:-

"&"	:	and
"A/C" and "A/CS"	:	ACCOUNT AND ACCOUNTS, respectively
"ADDR"	:	ADDRESS
"AMT"	:	AMOUNT

APPENDIX IX
TERMS, CONDITIONS AND PROCEDURES FOR APPLICATION AND ACCEPTANCE

“APPLN”	:	APPLICATION
“CDP”	:	THE CENTRAL DEPOSITORY (PTE) LIMITED
“CPF”	:	CENTRAL PROVIDENT FUND BOARD
“CPFINVT A/C”	:	CPF INVESTMENT ACCOUNT
“ESA”	:	ELECTRONIC SHARE APPLICATION
“IC/PSSPT”	:	NRIC or PASSPORT NUMBER
“NO” or “NO.”	:	NUMBER
“PERSONAL NO”	:	PERSONAL IDENTIFICATION NUMBER
“REGISTRARS”	:	SHARE REGISTRARS
“SCCS”	:	SECURITIES CLEARING & COMPUTER SERVICES (PTE) LTD
“YR”	:	YOUR

Steps for an ATM Electronic Application through ATMs of UOB Group

- Step 1 : Insert your personal Unicard, Uniplus card or UOB VISA/MASTER card and key in your personal identification number.
- 2 : Select “CASHCARD/OTHER TRANSACTIONS”
- 3 : Select “SECURITIES APPLICATION”
- 4 : Select “ESA-FIXED”
- 5 : Select the share counter which you wish to apply for.
- 6 : Read and understand the following statements which will appear on the screen:-
- THIS OFFER OF SECURITIES (OR UNITS OF SECURITIES) WILL BE MADE IN, OR ACCOMPANIED BY, A COPY OF THE PROSPECTUS/DOCUMENT OR SUPPLEMENTARY DOCUMENTS. ANYONE WISHING TO ACQUIRE THESE SECURITIES (OR UNITS OF SECURITIES) WILL NEED TO MAKE AN APPLICATION IN THE MANNER SET OUT IN THE PROSPECTUS/DOCUMENT SUPPLEMENT DOCUMENT (Press “ENTER” to continue)
 - PLEASE CALL 1800-22-22-121 IF YOU WOULD LIKE TO FIND OUT WHERE YOU CAN OBTAIN A COPY OF THE PROSPECTUS/DOCUMENT OR SUPPLEMENTARY DOCUMENT
 - WHERE APPLICABLE, A COPY OF THE PROSPECTUS/DOCUMENT OR SUPPLEMENTARY DOCUMENT HAS BEEN LODGED WITH AND REGISTERED BY THE MONETARY AUTHORITY OF SINGAPORE WHO ASSUMES NO RESPONSIBILITY FOR ITS CONTENTS OF THE PROSPECTUS/DOCUMENT OR SUPPLEMENTARY DOCUMENT (Press “ENTER” to confirm that you have read and understood the above statements.)

APPENDIX IX

TERMS, CONDITIONS AND PROCEDURES FOR APPLICATION AND ACCEPTANCE

- 7 : Read and understand the following terms which will appear on the screen:-
- YOU HAVE READ, UNDERSTOOD & AGREED TO ALL THE TERMS OF THE PROSPECTUS/DOCUMENT/SUPPLEMENTARY DOCUMENT & THIS ELECTRONIC APPLICATION
 - YOU CONSENT TO DISCLOSE YR NAME, IC/PSSPT, NATIONALITY, ADDR, APPLN AMT, CPFINVT A/C NO & CDP A/C NO FROM YR A/CS TO CDP, CPF, SCCS, REGISTRARS AND ISSUER
 - THIS IS YR ONLY FIXED PRICE APPLN & IS IN YR NAME & AT YR RISK (Press “ENTER” to continue)
- 8 : Screen will display:-
- NRIC/Passport No. XXXXXXXXXXXXX**
- IF YOUR NRIC NO / PASSPORT NO IS INCORRECT, PLEASE CANCEL THE TRANSACTION AND NOTIFY THE BRANCH PERSONALLY.**
(Press “CANCEL” or “CONFIRM”)
- 9 : Select mode of payment i.e. “CASH ONLY”. You will be prompted to select Cash Account type to debit (i.e., “CURRENT ACCOUNT / I- ACCOUNT”, “CAMPUS” OR “SAVINGS ACCOUNT / TX ACCOUNT”). Should you have a few accounts linked to your ATM card, a list of linked account numbers will be displayed for you to select
- 10 : After you have selected the account, your CDP Securities Account number will be displayed for you to confirm or change (This screen with your CDP Securities Account number will be shown if your CDP Securities Account number is already stored in the ATM system of UOB Group). If this is the first time you are using UOB Group’s ATM to apply for Shares, your CDP Securities Account number will not be stored in the ATM system of UOB Group and the following screen will be displayed for your input of your CDP Securities Account number
- 11 : Read and understand the following terms which will appear on the screen:-
1. **PLEASE DO NOT APPLY FOR YOUR JOINT A/C HOLDER OR OTHER THIRD PARTIES**
 2. **PLEASE USE YOUR OWN ATM CARD**
 3. **DO NOT KEY IN THE CDP A/C NO. OF YOUR JOINT A/C HOLDER OR OTHER THIRD PARTIES**
 4. **KEY IN YOUR CDP A/C NO. (12 DIGITS) 1681-XXXX-XXXX**
 5. **PRESS ENTER KEY**
- 12 : Key in your CDP Securities Account number (12 digits) and press the “ENTER” key.
- 13 : Select your nationality status; and
- 14 : Key in the number of Shares you wish to apply for and press the “ENTER” key.
- 15 : Check the details of your Electronic Application on the screen and press “ENTER” key to confirm your Electronic Application.

APPENDIX IX

TERMS, CONDITIONS AND PROCEDURES FOR APPLICATION AND ACCEPTANCE

- 16 : Select “NO” if you do not wish to make any further transactions and remove the Transaction Record. You should keep the Transaction Record for your own reference only.

Owing to space constraints on UOB Group's IB website screens, the following terms will appear in abbreviated form:-

“CDP”	:	The Central Depository (Pte) Limited
“CPF”	:	The Central Provident Fund
“NRIC” or “I/C”	:	National Registration Identity Card
“PR”	:	Permanent Resident
“SGD” or S\$	:	Singapore Dollars
“SCCS”	:	Securities Clearing & Computer Services (Pte) Ltd
“SGX-ST”	:	Singapore Exchange Securities Trading Limited

Steps for an Internet Electronic Application through the IB website of UOB Group

- Step 1 : Connect to UOB website at <http://www.uobgroup.com>
- 2 : Locate the Login icon at the top title bar of the Home Page
- 3 : Click on Login > and at drop list select “UOB Personal Internet Banking”
- 4 : Enter your Username and Password and click “Submit”
- 5 : Select Investment Services (IPO Application should be the default transaction that appears, if not click IPO Application)
- 6 : Read the IMPORTANT notice and complete the declarations found on the bottom of the page by answering Yes/No to the questions
- 7 : Click “Continue”
- 8 : Select your country of residence (you must be residing in Singapore to apply and click “Continue”)
- 9 : Select the IPO counter from the drop list (if there are concurrent IPOs and click “Continue”)
- 10 : Check the share counter, select the mode of payment and account number to debit and click on “Continue”
- 11 : Read the important instructions and click on “confirm” to confirm that:-
- 1. You have read, understood and agreed to all terms and conditions of the application and Prospectus/Document or Supplementary Document;**

APPENDIX IX
TERMS, CONDITIONS AND PROCEDURES FOR APPLICATION AND ACCEPTANCE

2. You consent to disclose your name, I/C or passport number, address, nationality, CDP Securities Account number, CPF Investment Account number (if applicable) and application details to the share registrars, CDP, SGX-ST, SCCS, CPF, issuer/vendor(s) and Manager.
 3. This application is made in your own name and at your own risk.
 4. For FIXED/MAX price share application, this is your only application. For TENDER price share application, this is your only application for this share at the selected tender price.
 5. For FOREIGN CURRENCY securities, subject to the terms of the issue, please note the following: The application monies will be debited from your bank account in S\$, based on the Bank's prevailing board rates at the time of application. The different prevailing board rates at the time of the application and at the time of refund of applications monies may result in either a foreign exchange profit or loss, or application monies may be debited and refunds credited in S\$ at the same exchange rate.
 6. For 1st-come-1st serve securities, the number of securities applied for may be reduced, subject to the availability at the point of application.
- 12 : Check your personal details, details of the share counter you wish to apply for and account to debit.
- Select (a) "Nationality"
- Enter (b) your CDP securities account number; and
- (c) the number of shares applied for.
- 13 : Check your personal particulars (name, NRIC /Passport No. and nationality), details of the share counter you wish to apply for, CDP securities account number and the number of shares applied for, payment mode and account to debit.
- 14 : Click "Confirm," "Edit" or "Cancel."
- 15 : Print the Confirmation Screen (optional) for your own reference and retention only.



China Bearing (Singapore) Ltd.
中国轴承(新加坡)有限公司

Company Registration No: 200512048E

Singapore Office: 5 Shenton Way #37-04 UIC Building Singapore 068808

China Office: No.2 Yiqing Road, Yinan County, Shandong Province, the PRC