1999 Annual Report Based on IAS of Wafangdian Bearing Company Limited

Important note: The Board of the Directors of the Company hereby guarantee that there is no major missing, false statement or misleading data in this report, and undertake the individual and associated responsibilities for the truth, accuracy and completeness of the contents in this report.

One. Brief introduction to the Company

The precedent of Wafangdian Bearing Company Limited was Wafangdian Bearing factory which was originally established in 1938, it has enjoyed the reputation of "The hometown and cradle of bearing industry in China", and become the leading manufacturer in the development and expansion of Chinese bearing industry for tens of years. In 1995 the factory was transformed into Wafangdian Bearing Group Corporation as one of the "One Hundred Trial Companies for Establishment of Modern Business System" in the country. In March, 1997, after one year's stock system reform and transition of business system, Wafangdian Bearing Group Corporation solely sponsored to establish Wafangdian Bearing Company Limited through the issuing of stock and listed its B-share stock in Shenzhen Stock Exchange on March 25, 1997. It was the first B-share stock in 1997 and the first B-share in the Chinese bearing industry.

The business scope of the Company includes the manufacture and sale of bearing, machinery equipment, automobile parts and components and other relative products. The Company is devoted to the enlargement of the market, technological improvement, adjustment of product structure in order to realize large –scale production, diversified product lines and scientific management.

1. Chinese name of the Company: **瓦房店轴承股份有限公司**
   English name of the Company: Wafangdian Bearing Company Limited
2. Legal representative of the Company: Wang Lushun
3. Secretary of the Board of Directors of the Company: Zhang Xinghai
   Correspondence address: No.1 Beigongji Street, Wafangdian City, Liaoning Province, PR China.
   Consulting telephone: 0411-509888ext.3829, 3373
   Fax:0411-5500794
4. Registered address of the Company: No.1 Beigongji Street, Wafangdian City, Liaoning Province, PR China.
   Office address of the Company: Beigongji Street, Wafangdian City, Liaoning Province, PR China.
   Post code: 116300
5. The company chose Securities Times, Hong Kong Commercial Newspaper and an English newspaper in Hong Kong for the disclosure of information of the Company.
   International network address: http//www. cninfo. com.cn
6. Preparation and liaison office of this report: Investment and Securities Department of the Company
7. Listing location of the Company's stock: Shenzhen Stock Exchange
   Abbreviated name of the stock: Wazhou B
   Stock code:2706

Two: Abstract of accounting data and business data

1. Main economic indicators of WBC in the report year (Unit: RMB' 000)

Total assets	2,118,072
Owners' equity	935,622
Main business income	1,113,181
Profit before tax	49,994
Net profit	40,622
Gain per share	RMB 0.12 Yuan
Net asset per share	2.84
Net return on asset	12.3%
Cash net flow-out/in from operation business	44,981
Decerease/increase in cash and equivalent	37,569

2. Main accounting data and financial indicators for the previous two years up to the report year (after adjustment)

Unit: RMB' 000

Indicators	1999	1998
Main business income	1,113,181	1,186,491
Net profit	40622	43412
Net profit after deducting abnormal profit and loss	-------	-------
Total assets	2118072	2019325
Owners' equity	935622	911500
Gain per share	0.12 Yuan	0.13 Yuan
Weighted gain per share	0.12 Yuan	0.13 Yuan
Net asset per share	2.84 Yuan	2.76 Yuan
Net asset per share af ter adjustment	------	-------
Net return on asset	4.34%	4.76%
Weighted net return on investment	4.34%	4.76%

Return per share = net profit/ total number of common shares at the end of the year
Net asset per share = owners' equity at the end of the year/total number of common shares at the end of the year
Net return on asset = (Owners' equity – accounts receivable aging over 3 years – deferred assets – Net losses from assets (both fixed and current)to be disposed – pre-operation expenses – long term deferred expenses – negative balance of housing circulation fund)/ total number of common shares at the year-end

Three Information on the equity changes in the report year and shareholders

1. Structure of the equity shares and change situation

	Period beginning amount	Period Current changes Increases and Decreases(+/-) Rights issue	Bonus issue	Accumulated Fund transferred into sharer	Others	Sub total	End amount
One. Non-marketable shares							
1. Sponsor's shares	200000000						200000000
Including:							
State-owned share	200000000						200000000
Shares held by domestic legal person							
Shares held by foreign legal person							
Others							
2.Collected legal person shares							
3. Internal employee shares							
4. Perferred shares and others							
Total non-marketable shares	200000000						200000000
Two. Marketable shares							
1. Home listed RMB ordinary shares							
2. Home listed foreign capital shares	130000000						130000000
3.Abroad listed foreign capital shares							
4. Others							
Total of marketable shares	130000000						130000000
Three. Total shares	330000000						330000000

2. Information on shareholders

(1). Up to the end of the year, the number of the registered shareholders of the WBC was 3808, including 1 state-owned shareholder and public shareholders of 3807.

(2). Shareholding information of the main shareholders (first ten)

Order	Name of shareholder	Number of shares	Percentage of total equity
1	Wafangdian Bearing Group Corporation Limited	200000000.00	60.60%
2	AKTIEBOLAGET SKF	65000000.00	19.7%
3	CHOY CHUN MUI	3813433.00	1.16%
4	CAO ZHENGRONG	1012366.00	0.307%
5	WU CHUNCHENG	680330.00	0.206%
6	TAN ZHI	665000.00	0.202%
7	WONG SHIT FUI	630900.00	0.191%
8	HONG AIFEN	617601.00	0.187%
9	ZHUANG XUZHOU	607000.00	0.184%
10	ZHAOYING FINANCE CO. LTD	540000.00	0.164%
Total		273566630.00	82.9%

Note: The first ten shareholders have no associated relationships. The shares held by those with over (including) 5% have no mortgage or freezing in the report year.

(3) Introduction to shareholders with 10% of the total shares

1. Wafangdian Bearing Group Corporation Limited (the parent company of WBC) holds 200,000,000 shares of WBC, 60.6% of the total equity.
2. SKF holds(as strategic investor) 65,000,000 shares of WBC, 19.7% of the total shares

(4) The directors, supervisors and top management have no stock of the Company.

Four. Introduction to the shareholders' meeting

One shareholders' meeting was held in the report period.

The 1999 annual shareholders' meeting was held on June 16, 1999 at the Conference Room 309 of WBGC headquarters. After discussions, the following resolutions were passed by name-bearing votes:

1. Reviewed and approved the 1998 annual board work report by 265,190,000 shares , 100% of the participating shares;
2. Reviewed and approved the 1998 annual supervisory committee report by 265,190,000 shares , 100% of the participating shares;
3. Reviewed and approved the 1998 final financial report of the company by 265,190,000 shares , 100% of the participating shares;
4. Reviewed and approved the 1998 annual profit distribution plan by 265,190,000 shares , 100% of the participating shares;
5. Reviewed and approved the proposal on the election of new directors to replace the resigned directors by 265,190,000 shares , 100% of the participating shares; elected Mr. Gao Yongyang, Mr. Shan Shikai, Mr. Wang Zhongmin, Mr. Sten Wendin to be the directors of WBC' s board.
6. Reviewed and approved the proposal on amendments to Articles of Association by 265,190,000 shares , 100% of the participating shares;

   The notice of the Meeting was published in Securities Times, Hong Kong Commercial Newspaper and the Hong Kong Standard in English on June 17,1999.

Five. Report of the Board of Directors for Year 1999

(One). Business and operative situation (with statutory result)

1. The industry the Company involved in and its position in this industry

WBC is a diversified and large-sized modern stock company with its main business being concentrated on the manufacture and selling of bearing products. The Company has the total value of assets amounting to 2 billion and 187 million RMB Yuan, with a land area of 4 hundred and 20 thousand square meters. The Company manufactures under the brand of "ZWZ" and sells quality bearing products, including general machinery bearings, metallurgical and mining bearings, railway bearings, automobile bearings and nonstandard bearings upon requirement by the customers. The products of the Company are in conformity with international and national standards, and have been verified with the ISO 9001 quality assurance system certificate. There are as many as 1500 kinds of bearings with over 4200 descriptions and specifications. The outside diameter of the products ranges from 30mm to 3000mm, and the lightest bearing is weighed at 0.4 kg, the heaviest bearing is weighed at 3985 kg. The products have been supplied to more than 4900 domestic customers and over 80 countries and regions in the world, enjoying certain good reputation both at home and abroad. The parent company — Wafangdian Bearing Group Corporation has always been the leading manufacturer in this industry in this country.

2. The scope of main business and operative situation of WBC in report year

A. The main business of WBC is the manufacture and sale of bearings, machinery equipment, automobile parts and components and other related products. The company is the leading manufacturer in this industry in China and under the recession conditions of the machinery industry in the country, the company has executed internal mechanism reform and actively develop the market and make the production market-oriented and put emphasis on the development of new products and adjusted the product structure in order to enlarge the market share.

B. Brief information on the subsidiaries in which the Company has over 50% owner's equity

Name of company	Registered address	Time of registration	Registered capital	Ownership	Main business	Nature of company	Legal representative
Huamei Company (under liquidation)	No. 1 Beigongji St. Wafangdian	1989.09.02	USD 2,869,000.00	69.70%	Small rolling bearings and parts and semi-finished products	Sino-foreign joint venture	Yu Jie
WGBC	No. 1 Beigong ji St. Wafang dian	1996.03.28	USD 4,510,000.00	75%	Bearings and relative products	Sino-foreign joint venture	Yu Jie
Liaoyang Company	No.61 Weiguolu Baita District, Liaoyang	1996.11.22	RMB 19,350,000.00	100%	Bearings and machinery building	With limited liabilities	Feng Lijie

3. Difficulties and problems met in the operations and alternative solutions

A. Severe competition has caused the decreased market demand. The company on one hand has adjusted the product structure and put emphasis on development of new products and the updating of product quality level to satisfy the market demand. And on the other hand reinforced its strength in cultivating the market by increasing market share and establishing better sales network both at home and abroad.

B. Influenced by the macro-economic environment, the Company has great difficulties in collecting the payments from customers in general, which has led to the bottlenecking of the normal production and operation of the Company. The measures taken by the Company include:

- reinforcing of the leadership in all the marketing activities,
- improving the qualifications of the marketing people,
- using legal methods to increase collection
- reinforcing of the encouragement mechanism by pegging wage level to development of market and collection of cash for the sales people,
- improving marketing network and rectifying the existing agents and distributors

(Two). The financial conditions of the Company (with statutory result)

Item	1999 (Yuan)	1998 (Yuan)	+/- percentage
Total assets	2,186,872,783.56	2,063,448,263.21	5.98%
Long term liabilities	129,183,087.38	43,044,276.12	200%

Owners' equity	985,697,769.23	956,946,309.07	3%
Profit from main business	249,051,453.59	257,690,094.78	-3.35%
Net profit	45,251,460.16	53,503,828.31	-15.4%

Reasons accounting for the changes:
1. The increases of 123 million and 425 thousand RMB Yuan in total assets have been caused by the increases in account receivables, capital tied in stock, long term equity investment and the decreases in cash fund and construction in progress.
2. The increases of 86 million and 140 thousand RMB Yuan in long term liabilities are brought about by the increases in long term loans by 85 million and 440 thousand RMB Yuan and the decreases in short term loans by 80 million and 970 RMB Yuan RMB Yuan.
3. The increase in share equity was caused by the transferring from the current profit.
4. The main business profit was reduced by 8 million and 638.4 thousand RMB Yuan. In 1999, in order to prevent the AR from increasing, supplies to customers with poor credit record or in worsening operative conditions stopped, which led to the reduction in sales revenue.
5. Net profit was reduced by 8 million and 252 thousand RMB Yuan, the decreased result in other business profit, gain from investment and managerial expenses (increases in the provision for bad account due to the new accrued method) increase.

(Three). The investment situation of the company

①the financial conditions of the company:

Name of Company	ownership	Sales revenue	Total profit	Net profit
Liaoyang company	100%	35968957.69	-415930.31	-646288.82
WGBC	75.00%	25502577.57	-3671630.02	-3671630.02
Huamei company	69.70%	17117493.06	-1973249.52	-1973249.52
Dalian SKF-Wazhou	49%	138566000.00	20486000.00	20486000.00
Shanghai Zhenxin	40%	4182488.90	5124.58	5124.58
Shanghai Aimue	5.71%	113534602.89	530520.66	520945.89

②Report on the application of B-share capital in the year of 1999

By the end of the report period, the projects in whch the B-share capital issuing capital were actually invested were in conformity with the investment projects promised and stated in the prospectus and no practical changes had been made in the projects. The detailed achievement as following:

Name of project	Investment in the Prospectus (RMB' 0000 RMB Yuan)	Investment made in 1999 (RMB' 0000)	Main completions in 1999
Improvement project for railway bearings	6000	1016	Main improvement completions in 1999 1. 3 circular grinding machines; 2. 2.Bainite hardening line and 1 two-row carburizing line are under tuning and shall be put in production in March, 2000; 3. 2 machines for roller manufacture; 4. 2 inspection devices are purchased.
Improvement project for automobile bearings	8000	48	Supplement is made to earlier processes and roller manufacture machines 1. 2 forging machines are improved. 2. 2 taper roller grinding machines and roller inspection devices are supplemented.
Improvement project for mining and metallurgical bearings	8000	533	Main improvement completions in 1999 1. 2 grinding lines are finished; 2. 2 grinding lines for steel balls and 8 machines for the earlier processes are supplemented. 3. 15 polishing machines are added for spherical roller processes. 4. 15 special lathes for rollers and on-site inspection devices are added.
Total	22000	1597	

(Four). The effect on the company after joining WTO in the future

WBC has been standing for and leading the development and level of Chinese bearing industry. WBC will be faced opportunities and challenges after joining WTO. On one side, the importing channels for abroad bearings will be free. This will make the importing bearings are competitive in price, performance and quality. Then we must base upon the domestic market, adjust products structure and reinforce technological improvement and improve the technology. Meanwhile, make use of the great sales system and sales network to develop the potential market, stable and reinfore the co-operation with present customers, based on this, to enlarge the market share. Other abroad companies into Chinese market can't be compared with WBC in this. Secondly, because the parts and components industry have broad service, the point supplied much more opportunities for development of the company. On the other side, the tariff wall will be breaken up after joining WTO, then the company will be impacted by the international market. So the company must speed up R&D to the technology, and reduce the difference with the international standard, and develop high technology products.

(Five). Business development plan for mew year (including schedule for new construction and construction in progress)

1. Business guidelines for the year 2000

WBC shall carry out One Promotion, Two New Projects, Three Adjustments and Six Breakthroughs in the year 2000.

--One Promotion: Firm promotion on the business reform

--Two Projects: Technology innovation project and management innovation project

--Three Adjustments: Major adjustments in product structure, market structure and the financial operative status

--Six breakthroughs: New breakthroughs in market development and cultivation, exporting and foreign-oriented business, collection of accounts receivable, reductions in cost and expense, product quality and manufacturing processes, disposal of questionable assets and doubtful account receivables.

2 Major objectives and goals in 2000 and ensuring measures

A. Market development and sales revenues

Breakthroughs in market development and sales target must be realized and efforts must be made to cultivate the potential market.

B. Increase exporting and realize new breakthrough in foreign-oriented business

C. Reinforcing cash management and collecting accounts receivable.

D. Improve the opertion quality and stablize the profitability of the company with the annual profit target of 58 million RMB Yuan.

(Six). Report on the daily work of the Board of Directors

Three board meetings have been held in the report period:

①The 8^{th} meeting of first board session of WBC was held on the date of January 21,1999 in the Conference Room 309 of WBC's headquarters. All the present directors and authorized representatives decided on the following resolutions:

1. unanimously verified and approved the Proposal on the Changes of the Board Members;

A. approved the resignation of Mr. Yu Jie and Mr. Wang Fengzhang as Chairman and Deputy Chairman of the Board of Directors respectively; approved Mr. Yu Jie, Mr. Wang Lushun, Mr. Tian Yanci and Mr.G.Gremlin's resignation as Board Members. This proposal will be submitted to the General Meeting of Shareholders for examination and approval. The date of the General Meeting of shareholders will be notified separately.

B. selected Mr.Wang Lushun as the Chairman of the Board of Directors of WBC, Mr.Liu Yiding as the Deputy-Chairman of the Board of Directors of WBC;

C. selected Mr. Gao Yongyang,Mr. Wang Zhongmin, Mr. Shan Shikai and Mr. Sten Wendin as the candidates for the directors of the Board of Directors of WBC;

2. unanimously approved the Proposal on the Change of Secretary of the Board of Directors;

A. approved Mr. Liu Yiding' s resignation as the secretary of the Board of Directors;

B. appointed Mr. Zhang Xinghai as the secretary of the Board of Directors.

3. unanimously approved the Proposal on the Appointment of Deputy General Managers.

A. approved Mr. Tian Yanci' s resignation as the Deputy General Manager of the Company;

B. With the nomination by the General Manager Mr.Wang Lushun, the Board of Directors appointed Mr. Gao Yongyang, Mr. Wang Zhongmin and Mr.Shan Shikai to be the Deputy General Managers of WBC;

The notice of this meeting was published in Securities Times, Hongkong Commercial Newspaper and Hong Kong Standard (English) on January 23,1999.

② The 9h meeting of first board session of WBC was held on April 12,1999 in the Conference Room 309 of WBGC Headquarters. The following reports and proposals and resolutions were approved:

A. WBC Board Work Report in the Year 1998.

B. WBC Work Report of Supervisory Committee in the Year 1998

C. Audited Final Financial Report in the Year 1998;

D. Proposal on Profit Distribution Plan;

E. Production and Operation Plans and Financial Budget Report for the Year 1999

F. Appointment of four new directors to replace the four resigned directors;

G. Proposals on Amendments to Articles of Association

H. Other issues. All the participating directors unanimously approved the Proposal on Profit Distribution Plan of WBC for 1998 which was executed after approval by the Shareholders' meeting.

The notice of this meeting was published in Securities Times, Hongkong Commercial Newspaper and Hong Kong Standard (English) on April 21,1999.

③ The Tenth Meeting of First Board Session of Wafangdian Bearing Company Limited was held on August 16, 1999 in Conference Room 309 at WBGC Headquarters. All the present directors and proxies unanimously approved the following reports and resolutions:

1. 1999 Mid-Year Report and Abstracts of Wafangdian Bearing Company Limited based on CAS and IAS respectively;

2. 1999 Mid-Year Financial Report of Wafangdian Bearing Company Limited based on CAS and IAS respectively （un-audited ）;

3. 1999 Mid-Year Profit Distribution Plan of Wafangdian Bearing Company Limited: No mid-year profit distribution shall be made and no transfer of public accumulated fund shall be made to increase the equity capital;

4. Concerning the proposal on changes in board members and top management:

A. Due to the fact that Mr. Liu Yiding has changed his job, the Board of the Company accepted his resignation as director and the Vice-Chairman of the Board. The Board proposes to appoint Mr. Wang Runtian to be the candidate for the position of director, and shall refer the proposal to the next shareholders' meeting for approval.

B. The Board also accepted the resignation of Mr. Li Xianrong for the position of Finance Controller of WBC. The Board appointed Mr. Zhang Xinghai to be the new Finance Controller of WBC.

The notice of this meeting was published in Securities Times, Hong Kong Commercial

Newspaper and Hong Kong Standard (English) on August 19,1999.

(Seven). Information on all the directors and supervisors

Name	Position	Sex	Age	Term	Annual salary (RMB Yuan)
Wang Lushun	Chairman	Male	50	3 year	
Wang Zhongmin	Director, GM	Male	36	3 year	12,095.27
Gao Yongyang	Director, Deputy GM	Male	47	3 year	13,331.89
Ni Rengshan	Director	Male	45	3 year	
Li Xianrong	Director	Male	55	3 year	
Song Mingdong	Director, Deputy GM	Male	45	3 year	13,680.00
Zhang Rumin	Director	Male	59	3 year	
Zhang Jiayi	Director Deputy GM	Male	51	3 year	
Shan Shikai	Director	Male	42	3 year	12,826.55
Liu Yiding	Director	Male	45	3 year	
Sten Wendin	Director	Male	56	3 year	
Christer Gyberg	Director	Male	53	3 year	
Patrick Tong	Director	Male	39	3 year	
Gong Longyun	Director	Male	35	3 year	
Sun Wudu	President of Supervisory Committee	Male	51	3 year	
Wang Runtian	Vice-president of Supervisory Committee	Male	57	3 year	
Duan Lian	Supervisor	Male	46	3 year	
Jiang Zhongyuan	Supervisor	Male	48	3 year	
Li Xintao	Supervisor	Male	39	3 year	
Fu Zhongwei	Supervisor	Male	37	3 year	
Jiang Lianqing	Supervisor	Male	37	3 year	
Wang Ruilan	Supervisor	Male	51	3 year	
Geng Xiuling	Supervisor	Female	51	3 year	

(Eight). The profit distribution plan and public accumulated fund transferred to be equity capital plan

The available profit for distribution of WBC shall be based on the calculations according to the International Accounting Principles and the Chinese Accounting Principles whichever is lower. After studies the Board of Directors decided: 10% shall be taken away as the legal accumulated public fund, and 5% shall be taken away as the legal public welfare fund. Take the total number of equity shares of 330 million as the base, 0.5 RMB Yuan (including tax) shall be paid to every 10 shares to all the shareholders. The remaining profit shall be transferred to coming years for distribution. In the year of 2000, no bonus shares shall be distributed and no accumulated public fund shall be transferred to equity capital. This proposed distribution plan shall be referred to the annual shareholders' conference for 1999 for review and approval before execution.

(Nine). Other Issues

The company chose Securities Times, Hong Kong Commercial Newspaper and Hong Kong Standard (English) in Hong Kong for the disclosure of information of the Company and there are no changes within the report period.

Six. Report of the Supervisory Committee of the Company

In the year of 1999, the Supervisory Committee of the company fulfilled the responsibility and actively took part in the operation and management of the Company and brought forward their opinions in accordance with the regulations in the Company Law and the Articles of Association of the Company.

(One). Meetings of the Supervisory Committee within the report period

Within the report period, only one meeting was held:

The 4th Meeting of the First Supervisary Commettee Session of WBC was held in Conference Room 309 of WGBC Headquarters on June 4, 1999. The participants were the following:

Mr. Sun Wudu	the President of the Supervisory Committee
Mr. Wang Runtian	the Vice-president of the Supervisory Committee
Mr. Jiang Zhongyuan	Supervisor
Mr. Wang Ruilan	Supervisor
Miss. Geng Xuiling	Supervisor
Mr. Wang Huijiang	Supervisor
Mr. Jiang Lianqing	Supervisor
Mr. Wang Lushun	Board Chairman, General Manager
Mr. Wang Zhongmin	Director, Vice-General Manager
Mr. Zhang Xinghai	Vice-Finance Controller
Mr. Su Shaoli	Director of Investment and Securities Department

The meeting reviewed and approved the reports as following:

A: Business Report of WBC for the Year of 1998;

B: Final Financial Report of WBC for the Year of 1998;

C: Proposed Profit Distribution Plan of WBC for the Year of 1998;

D: Report of the Supervisory Committee for the Year of 1998.

(Two). The work of the Supervisory Committee

1. The statutory operation of WBC:

In the year of 1999, the Committee used the rights formulated by the Company Law and the Articles of Association of the Company, and the perfect Controlling System has been built up. In the supervision exercised over the behaviors of the directors of the board, general manager and deputy-general managers in their relative positions in the report period, the Committee found no behaviors or activities which were against the laws, regulations, Articles of Association of the company or detrimental to the interests of the Company.

2. The committee inspected the financial conditions of the Company:

In the report year, Shenzhen Schinda Certified Public Accountants and Hong Kong PricewaterhouseCoopers Certified Public Accountants had issued no auditing reports that had any reserved opinions or explanations. The Supervisory Committee considers that the reports reflect the financial conditions and the operational results in truly.

3. The Committee supervised the applications of the B-share capital. The projects in which the B-share issuing capital were actually invested were in conformity with the investment projects promised and stated in the prospectus and no practical changes had been made in the projects.

4. The associated transactions of the Company. The Supervisory Committee reviewed the associated transactions that were all carried out at fair and reasonable prices and had no harmful effects on the interests of the shareholders of the listing Company.

5. In the report year, there were no purchasing and acquisition and restructuring of assets and selling of assets.

Seven. Important issues

1. No major lawsuit or arbitration issues in the report year.
2. No penalty from supervisory department to company directors, supervisors and top management has occurred in the report year.
3. The holding company of the WBC was still WBGC. The changes of president and board secretary were as the following:

   Mr. Yu Jie resigned as the chairman due to job change, Mr. Wang Lushun assumed the position. Mr. Liu Yiding resigned from board secretary, Mr. Zhang Xinghai assumed the position.
4. No important purchase and sales of major assets and acquisition in the report year.
5. Related parties transactions (See audit report Note 27)
6. The Company has become complete and perfect in asset and independent financially. The Company has separated from the controlling shareholder in terms of asset and finance and employment.

   In asset, the production system, auxiliary production system and servicing facilities, industrial properties, non-patent technology and other assets have all belonged to the listing company. The Company owns independent production, supply and sales systems.

   In finance, the Company has become financially independent, with a independent financial department with independent accounting system with standard and independent financial management system for the branches and subsidiaries, opens bank accounts independently, with no common bank accounts with the holding company, and pay for statutory taxes independently.

   In personnel, the president of WBGC is the acting president of WBC, GM and financial controller have become independent from the holding company.
7. In the report period, the Company has not trusted or contracted other companies' assets or has not been trusted or contracted by other companies' assets. Only that WBC leased the land use right of WBGC.
8. In the report period, the Company did not changed the certified public accountants,
9. Apart from bank loan guarantees RMB 214,480,000 provided to Wafangdian Bearing Group Co., Ltd. disclosed in this report, no other important contracts incurred.
10. In the report year, the Company did not change the company name and name of stock.
11. In accordance with regulations in the document CAIKUAIZI No. [1999]35 of the Finance Ministry of China the Notice on Printing and Distribution of Supplementary Regulations of Disposals of Issues Related to Accounting System of Stock Companies, and the document CAIKUAIZI No. [1999]49 of Finance Ministry of China the Answers to Supplementary Regulations of Disposals of Issues Related to Accounting System of Stock Companies, and based on the practical situation of the Company and the spirits of the board resolutions of the Company, the Company has changed the accrual for provision of bad accounts from the 5‰ of balance of AR to aging analysis method. This accounting policy change has applied the tracability adjustment method and adjusted the year-beginning figure and actual figures for last year in the 1999 annual consolidated accounting statements.

Eight. Financial report
(One): Hong Kong Pricewaterhouse Coopers Certified Public Accountants had issued no auditing reports that had any reserved opinions or explanations.

INTERNATIONAL AUDITORS' REPORT

TO THE MEMBERS OF WAFANGDIAN BEARING COMPANY LIMITED
(incorporated in the People's Republic of China with limited liability)

We have audited the accompanying consolidated balance sheet of Wafangdian Bearing Company Limited (the "Company") and its subsidiaries (the "Company and its Subsidiaries") as of 31st December 1999, and the related consolidated income and cash flow statements for the year then ended. These financial statements set out on pages 2 to 21 are the responsibility of the Company's directors. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International 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 management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements give a true and fair view of the financial position of the Company and its Subsidiaries as of 31st December 1999 and of the results of its operations and its cash flows for the year then ended in accordance with International Accounting Standards.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong,

(Two):Financial Statements

WAFANGDIAN BEARING COMPANY LIMITED

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31ST DECEMBER 1999

	Note	1999 RMB' 000	1998 RMB' 000
Sales	4	1,113,181	1,186,491
Cost of sales		(860,964)	(926,948)
Gross profit		252,217	259,543
Other operating income		9,781	21,931
Selling expenses		(48,984)	(54,626)
Administrative expenses		(128,824)	(109,892)
Operating profit		84,190	116,956
Finance costs	7	(41,195)	(54,965)
Share of result of associates		6,999	2,248
Profit before tax	5	49,994	64,239
Tax	8	(10,888)	(22,167)
Profit from ordinary activities		39,106	42,072
Minority interests		1,516	1,340
Net profit		40,622	43,412
Earnings per share	10	RMB0.12	RMB0.13

WAFANGDIAN BEARING COMPANY LIMITED
CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

FOR THE YEAR ENDED 31ST DECEMBER 1999

	1999 RMB' 000	1998 RMB' 000
Revaluation surplus	-	18,610
Goodwill written off	-	(687)
Net gains not recognised in income statement	-	17,923
Net profit	40,622	43,412
Total recognised gains and losses	40,622	61,335

WAFANGDIAN BEARING COMPANY LIMITED
CONSOLIDATED BALANCE SHEET

AS AT 31ST DECEMBER 1999

	Note	1999 RMB' 000	1998 RMB' 000
Assets			
Non-current assets			
Property, plant and equipment	11	373,023	355,182
Construction in progress	12	72,218	97,848
Deferred assets	13	2,586	16,224
Investments	14	79,489	72,490
		527,316	541,744
Current assets			
Marketable securities	15	-	13,569
Inventories	16	555,840	451,180
Accounts receivable, bills receivable and prepayments	17	927,846	868,193
Bank balances and cash		107,070	144,639
		1,590,756	1,477,581
Total assets		2,118,072	2,019,325
Equity and liabilities			
Capital and reserves			
Share capital	18	330,000	330,000
Reserves	19	605,622	581,500
		935,622	911,500
Minority interests	20	9,879	7,900
Non-current liabilities			
Bank loans	21	50,435	41,193
Other long-term loans		6,946	1,852
		57,381	43,045
Current liabilities			
Due to ultimate holding company	22	34,950	33,692
Accounts payable, accrued charges and other payables	23	437,598	367,372
Receipts in advance		25,399	24,567
Short term bank loans		589,240	602,510
Taxation	8(b)	11,503	8,939
Dividend payable	9	16,500	19,800
		1,115,190	1,056,880
Total liabilities		1,182,450	1,107,825
Total equity and liabilities		2,118,072	2,019,325

WAFANGDIAN BEARING COMPANY LIMITED
CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31ST DECEMBER 1999

	Note	1999 RMB' 000	1998 RMB' 000
Cash flows from operating activities			
Cash inflow/(outflow) generated from operations	24	53,305	(37,956)
PRC income tax paid		(8,324)	(27,378)
Net cash inflow/(outflow) from operating activities		44,981	(65,334)
Cash flows from investing activities			
Interest received		2,894	6,984
Acquisition of subsidiaries		-	(26,958)
Acquisition of an associated company and other investments		-	(27,852)
Capital injection in a subsidiary by the minority shareholders		3,495	-
Purchase of fixed assets		(5,107)	(4,301)
Payment for construction in progress		(27,506)	(62,616)
Proceeds from sale of fixed assets		5,320	5,920
Net cash outflow from investing activities		(20,904)	(108,823)
Cash flows from financing activities			
Bank loans raised		9,242	246,569
Repayment of unpledged bank loans		(13,270)	(56,786)
Other long-term loans raised		5,094	644
Dividends paid		(19,800)	(33,019)
Interest expenses		(42,912)	(57,052)
Net cash (outflow)/inflow from financing activities		(61,646)	100,356
Decrease in bank balances and cash		(37,569)	(73,801)
Bank balances and cash at 1st January		144,639	218,440
Bank balances and cash at 31st December		107,070	144,639

(Three):WAFANGDIAN BEARING COMPANY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 General

The Company and its Subsidiaries are principally engaged in the production and sale of bearing products. In preparation for future development, the Company acquired the controlling interest in Wafangdian General Bearing Company Limited on 1st April 1997 and two other subsidiaries on 1st January 1998. During the year, one of the subsidiaries, Huamei Bearing Co., Ltd. ceased its operation and pending for liquidation. Details of the subsidiaries are set out in note 29 to the financial statements.

In addition, on 30th June 1998, the Company together with the foreign strategic investor of the Company jointly established an associated company to further develop the Group's operations. Details of the associated company are set out in note 14 to the financial statements.

2 Basis of presentation of financial statements

(i) The consolidated financial statements have been prepared in accordance with International Accounting Standards ("IAS") issued by the International Accounting Standards Committee. This basis of accounting differs from that used in the preparation of the statutory financial statements in the PRC ("the PRC statutory financial statements"). The PRC statutory financial statements of the Company and its Subsidiaries have been prepared in accordance with the accounting principles and regulations as applicable in the PRC. Appropriate restatements have been made thereto to conform with IAS. Differences arising from these restatements are not incorporated in the Company's and its Subsidiaries' statutory accounting records.

(ii) The consolidated financial statements have been prepared under the historical cost convention.

3 Principal accounting policies

(a) Basis of consolidation

(i) The consolidated financial statements comprise the consolidation of financial statements of the Company and its Subsidiaries as at 31st December 1999 and of the results for the year then ended. All significant intercompany transactions, balances and unrealised surpluses and deficits on transactions between group companies have been eliminated on consolidation.

(ii) A subsidiary is a company in which the Company, directly or indirectly, owns more than half of its registered capital or voting power or otherwise has control over its operations.

(iii) The results of subsidiaries acquired or disposed of during the year are included in the consolidated results from the effective dates of acquisition and up to the effective dates of disposal.

(iv) Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries. Separate disclosure is made for minority interests.

(v) Goodwill represents the excess of purchase consideration over the fair values ascribed to the net assets of subsidiaries and associated companies acquired and is taken to reserves in the year of acquisition.

3 Principal accounting policies

(b) Investments in associates

Investments in associated undertakings are accounted for by the equity method of accounting.

These are undertakings over which the Company and its Subsidiaries has between 20% and 50% of the voting rights, and over which the Company and its Subsidiaries exercises significant influence, but which it does not control. Provision are recorded for long-term impairment in value.

Equity accounting involves recognising in the income statement the Company and its Subsidiaries' share of the associates' profit or loss for the year. The Company and its Subsidiaries' interest in the associate is carried in the balance sheet at an amount that reflects its share of the net assets of the associate.

(c) Revenue

Revenue from the sale of goods is recognised on the transfer of ownership to the customers which generally coincides with the time when delivery is made.

Interest income is recognised on an accrual basis.

(d) Taxation

The charge for PRC income tax is based on the result for the year as adjusted for items which are non-assessable or disallowable and is provided at the rates applicable to the Company and its Subsidiaries. Deferred income tax is provided, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying value for financial reporting purposes. Currently enacted tax rates are used to determine deferred income tax.

(e) Retirement benefits

The Company and its Subsidiaries participates in a defined contribution retirement scheme organised by the Dalian municipal government. The Company and its Subsidiaries is required to make contributions for its employees in accordance with the prescribed rules and regulations of the retirement scheme. The contributions to the scheme is charged to the consolidated income statement in the year to which they relate.

(f) Research and development

Research and development costs are charged to the consolidated income statement as incurred.

(g) Pre-operating expenditure

Pre-operating expenditure represents expenses incurred by subsidiaries prior to commencement of their operations. Pre-operating expenses capitalised are amortised on a straight-line basis over five years starting from the date of commencement of business.

(h) Property, plant and equipment

(i) Property, plant and equipment of the Company and its Subsidiaries are stated at cost less accumulated depreciation.

Depreciation is calculated to write off the costs of fixed assets on a straight-line basis over their expected useful lives, taking into account the estimated residual value of the assets concerned. The principal annual depreciation rates used are as follows:-

Plant and office buildings	3% - 7%
Production equipment and machinery	6% - 10%
Office equipment and machinery	5% - 25%
Motor vehicles	10% - 18%

(ii) Impairment

The carrying amounts of property, plant and equipment of the Company and its Subsidiaries are reviewed regularly to assess whether their recoverable amounts have declined below their carrying amounts. Recoverable amount is the amount which expects to recover from future use of the asset, including its residual value on disposal. When such a decline has occurred, their carrying amount is reduced to their recoverable amount. The amount of reduction to recoverable amount is charged to the consolidated income statement.

(iii) Gain or loss on disposal

The gain or loss on disposal of an item of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the consolidated income statement.

(iv) Restoring and improvement costs

Major costs incurred in restoring property, plant and equipment to their normal working conditions are charged to the consolidated income statement. Improvements are capitalised and depreciated over their expected useful lives to the Company and its Subsidiaries.

(v) The Company took over certain assets and liabilities upon its incorporation from Wafangdian Bearing Group at valuation as approved by the State-owned Assets Administration Bureau of the PRC. Such valuation was an one-off exercise on incorporation of the Company to determine the deemed costs of property, plant and equipment taken over by the Company.

(i) Construction in progress

Construction in progress represents plant and machinery under installation. This includes all expenditures and other direct costs, prepayments and deposits attributable to the installation period. Construction in progress is stated at cost, which includes the cost of construction, purchase cost of plant and machinery, as well as interest charges arising from borrowings used to finance the construction during the construction period. No depreciation is provided on construction in progress until the related assets is completed and transferred for production use.

(j) Borrowing costs

Borrowing costs that are directly attributable to the construction of assets which necessarily take a substantial period of time to be ready for their intended use are capitalised as part of the cost of the assets. All other borrowing costs are recognised as an expense in the year in which they are incurred.

(k) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost includes cost of materials computed using the weighted average method and in the case of work in progress and finished goods, cost also includes direct labour and an appropriate proportion of variable and fixed production overheads. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(l) Accounts receivable and other receivables

Provision is made against accounts receivable and other receivables to the extent that they are considered to be doubtful. Accounts receivable and other receivables in the consolidated balance sheet are stated net of such provisions.

(m)Foreign currencies

The Company and its Subsidiaries' books and records are maintained in Renminbi. Foreign currency transactions during the year are translated into Renminbi at the applicable rates of exchange ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into Renminbi at the rates of exchange ruling at the balance sheet date. Exchange differences arising are included in the income statement.

(n) Financial instruments

Financial instruments carried on the consolidated balance sheet includes cash and bank balances, investments, receivable, payable and borrowings. Accounts receivable and other receivables are stated at carrying amounts determined in accordance with note 3(l). Other financial assets and liabilities are stated at cost.

(o) Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing company are accounted for as operating leases. Rental applicable to such operating leases are charged to the consolidated income statement on a straight line basis over the lease term.

(p) Marketable securities

Marketable securities are stated at the lower of cost and market value at the balance sheet date, the difference in value is charged to the consolidated income statement. Market value is the selling price of the securities in the respective stock exchanges at the balance sheet date. The gain or loss on disposal of marketable securities is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the consolidated income statement.

4 Analysis of sales

Sales revenue represents sales of bearing and related products to external customers at invoiced value net of discounts, value-added tax and returns. All sales are made in the PRC. As such, no disclosure as to business segment information is considered necessary.

5 Profit before tax

The following items have been charged in arising at operating profit:

	1999 RMB' 000	1998 RMB' 000
Depreciation of property, plant and equipment	38,147	48,105
Land use right fee paid to Wafangdian Bearing Group	3,164	3,256
Amortisation of pre-operating expenses	868	498
Repairs and maintenance	28,123	33,439
Research and development expenditure paid to Wafangdian Bearing Group	7,400	4,600
Provision for slow moving inventories	19,309	-
(Write back)/provision for bad and doubtful debts	(19,309)	4,300

6 Staff costs

	1999 RMB' 000	1998 RMB' 000
Wages and salaries	111,196	102,804
Contributions to retirement scheme (note 28)	16,559	18,685
	127,755	121,489
Monthly average number of employees of the Company and its subsidiaries during the year	10,965	11,832

7 Finance (costs)/income

	1999 RMB' 000	1998 RMB' 000
Interest expense on bank borrowings	(43,401)	(57,052)
Interest income	2,894	6,984
Net foreign exchange losses	(349)	(2,290)
Other financial charges	(339)	(2,607)
	(41,195)	(54,965)

8 Taxation

(a)

	1999 RMB' 000	1998 RMB' 000
Current year		
The Company and its Subsidiaries	10,888	21,560
Share of tax of an associate	-	607
	10,888	22,167

In accordance with the PRC income tax law, the Company is subject to an income tax rate of 33%. Pursuant to the approval document "Da Zheng" (1996) No.110 from the Dalian municipal government on 27th August 1996, the Company is entitled to have a tax refund, which may be retained by the Company for profit distribution purposes.

The company ahs received tax refund receivable of RMB13,164,000 during the year.

Pursuant to the approval document "Guo Fa" (2000) No. 2 from the State Council on 11th January 2000, starting form 1st January 2000, all tax refund policy of regional government requires prior approval of the State Council.

The associated company is granted exemption from income tax for two years commencing from the first profit-making year and a 50% reduction in the income tax rate in the following three years. Due to 1998 was not a full year operation, the associated has chosen 1999 as its first profit-making year.

The difference between income tax calculated based on the consolidated profit before tax and basic tax rate and the actual income tax provided is summarised as follows:

	1999 RMB' 000	1998 RMB' 000
Profit before tax	49,999	64,239
Tax calculated at tax rate applicable to the Company and its Subsidiaries	10,658	21,321
Expenses not deductible for tax purposes	230	239
Tax charge	10,888	21,560

(b) The amount of taxation in the consolidated balance sheet represents:

	1999 RMB' 000	1998 RMB' 000
PRC income tax payable	6,759	7,001
Other tax payable	4,744	1,938
	11,503	8,939

PRC income tax payable represents the amount of PRC income tax payable for the year less the amount of provisional PRC income tax paid during the year.

(c) No provision for deferred taxation has been made in the accounts as the effect of all timing differences is not material to the Company and its Subsidiaries.

9 Dividends

	1999 RMB' 000	1998 RMB' 000
Proposed final dividend	16,500	19,800

Pursuant to a resolution by the board on [18th] April 2000, the directors proposed a final cash dividend RMB0.05 (1998: RMB0.06) per share for the year ended 31st December 1999.

10 Earnings per share

Basic earnings per share is calculated by dividing the net profit attributable to shareholders by the number of ordinary shares in issue during the year.

	1999	1998
Net profit attributable to shareholders	RMB40,622,000	RMB43,412,000
Weighted average number of ordinary shares in issue	330,000,000	330,000,000
Basic earnings per share	RMB 0.12	RMB 0.13

Fully diluted earnings per share is not shown since the Company has no dilutive potential ordinary shares.

11 Property, plant and equipment

	Plant and office buildings RMB' 000	Production equipment and machinery RMB' 000	Office equipment and machinery RMB' 000	Motor vehicles RMB' 000	Total RMB' 000
Cost					
At 1st January 1999	217,542	287,540	216,126	17,631	738,839
Additions	-	3,515	358	1,234	5,107
Transfer from construction in progress	4,115	24,815	23,604	602	53,136
Disposals and transfers	-	(3,321)	(1,671)	(1,096)	(6,088)
At 31st December 1999	221,657	312,549	238,417	18,371	790,994
Accumulated depreciation					
At 1st January 1999	88,982	136,624	146,960	11,091	383,657
Charge for the year	7,530	17,937	10,570	2,110	38,147
Disposals and transfers	-	(1,393)	(1,519)	(921)	(3,833)
At 31st December 1999	96,512	153,168	156,011	12,280	417,971
Net book value at 31st December 1999	125,145	159,381	82,406	6,091	373,023
Net book value at 31st December 1998	128,560	150,916	69,166	6,540	355,182

(a) All plant and office buildings are located in the PRC. The land where the properties are situated has been granted free of charge by the state for use by Wafangdian Bearing Group prior to the incorporation of the Company. Pursuant to the reorganisation, Wafangdian Bearing Group purchased the land use rights of the relevant pieces of land from the PRC government and in turn lease these rights to the Company at an annual rental of approximately RMB3,164,000 until 30th June 2000.

(b) At 31st December 1999, net book value of fixed assets that are pledged as securities for bank borrowings amounted to RMB23,390,000.

(c) At 31st December 1999, the costs and net book value of idle temporary idle fixed assets held by the Company and its Subsidiaries amounted to RMB92,879,000. In the management opinion these fixed assets will be used and disposed of at a price not less than the net book value by the end of Year 2000

12 Construction in progress

	1999 RMB' 000	1998 RMB' 000
Balance brought forward	97,848	92,987
Acquisition of subsidiaries	-	521
Net additions	27,506	52,919
Transfer to fixed assets	(53,136)	(48,579)
Balance carried forward	72,218	97,848

13 Deferred assets

	1999 RMB' 000	1998 RMB' 000
Deferred value-added tax ("VAT") recoverable (note (a))	-	9,668
Pre-operating expenses	2,586	3,454
Others	-	3,102
	2,586	16,224

(a) Year end balance represents the deemed VAT on the opening inventory balance as at 1st January 1994 arrived at according to the relevant regulations for VAT issued by the Ministry of Finance and the State Administration of Taxation. Pursuant to document Cai Shui Ze 1995 No 42 issued by the Ministry of Finance and the State Administration of Taxation on 27th April 1995, the Company was permitted to offset the deemed VAT against future VAT payable over 5 years. VAT of the Company has fully offset during the year.

14 Investments

	1999 RMB' 000	1998 RMB' 000
Share of net assets of an associated company (note (a))	77,083	70,084
Other investments	2,406	2,406
	79,489	72,490

(a) At 31st December 1999, the Company held unlisted shares in the following associated company:

Name	Place of incorporation	Principal activities	Interest held 1999	Interest held 1998
Dalian SKF-zhou Bearings Company Limited	PRC	Manufacturing and trading of SRB products	49%	49%

14 Investments (continued)

The movement of investment in an associated company is analysed as follows:

	1999 RMB' 000	1998 RMB' 000
Balance brought forward	70,084	-
Additions	-	68,443
Share of results before tax	6,999	2,248
Share of tax	-	(607)
Balance carried forward	77,083	70,084

15 Marketable securities

Marketable securities represent government bonds listed on the stock exchanges in Shanghai and Shenzhen of the PRC. All such government bonds were redeemed during the year.

16 Inventories

	1999 RMB' 000	1998 RMB' 000
Raw materials	134,795	110,912
Work in progress	95,597	89,567
Finished goods	325,448	250,701
	555,840	451,180

The carrying amount of inventories that are carried at net realizable value amounted to RMB1,293,000.

17 Accounts receivable, bills receivable and prepayments

	1999 RMB' 000	1998 RMB' 000
Accounts receivable and bills receivable	611,615	561,480
Amounts due from fellow subsidiaries (note 22)	169,627	163,431
Prepayments	134,476	128,973
Other receivables	12,128	14,309
	927,846	868,193

18 Share capital

	1999 RMB' 000	1998 RMB' 000
Registered, issued and fully paid of RMB1 each		
State-owned legal person shares	200,000	200,000
B shares	130,000	130,000
	330,000	330,000

(a) The Company's registered share capital is RMB330,000,000 divided into 330,000,000 shares of RMB1 each.

(b) Pursuant to articles 13 and 14 of the Company's articles of association, the state-owned legal person shares and B shares are all registered ordinary shares and carry equal rights.

19 Reserves

	Capital reserve (note (a)) RMB' 000	Statutory surplus reserve fund note (b)) RMB' 000	Statutory public welfare fund (note(b)) RMB' 000	Retained profits (note (c)) RMB' 000	Total RMB' 000
At 1st January 1998	489,238	13,992	7,836	28,899	539,965
Additions	18,610	-	-	-	18,610
Goodwill written off	(687)	-	-	-	(687)
Profit for the year	-	-	-	43,412	43,412
Transfer to reserves	-	5,455	2,727	(8,182)	-
Dividends	-	-	-	(19,800)	(19,800)
At 31st December 1998	507,161	19,447	10,563	44,329	581,500
At 1st January 1999	507,161	19,447	10,563	44,329	581,500
Profit for the year	-	-	-	40,622	40,622
Transfer to reserves	687	4,273	2,136	(7,096)	-
Adjustment to prior year unappropriated profit*	-	(1,219)	(1,470)	2,689	-
Dividends	-	-	-	(16,500)	(16,500)
At 31st December 1999	507,848	22,501	11,229	64,044	605,622

19 Reserves

* Pursuant to the approval document (1999) No. 35 from the Ministry of Finance, the Company is required to change its accounting policies of provision for bad and doubtful debts and permanent diminution in value of investment from 1st January 1999. the effects are adjusted as prior yea adjustment. The effect was to reduce the statutory surplus reserve fund and statutory public welfare fund by RMB1,219,000 and RMB1,470,000 respectively and an increase in the retained profits of RMB2,689,000.

(a) Capital reserve mainly comprise of surplus arising from the difference between transfer of bearing business and the related assets and liabilities from Wafangdian Bearing Group and the nominal value of state-owned legal person shares issued and the share premium on the issue of the B shares.

(b) In accordance with relevant PRC regulations applicable to companies limited by shares and the Company's articles of association, the Company is required to allocate its profit after taxation to the following reserves:

Statutory surplus reserve fund

The Company is required each year to transfer 10% of the profit after taxation as reported under the PRC statutory financial statements to the statutory surplus reserve fund until the balance reaches 50% of the paid up share capital. This reserve can be used to make up prior years' losses or to increase share capital. Except for the reduction of losses incurred, any other usage should not result in this reserve balance falling below 25% of the registered capital.

Statutory public welfare fund

The Company is required each year to transfer 5% of the profit after taxation as reported under the PRC statutory financial statements to the statutory public welfare fund. The statutory public welfare fund is not available for distribution to shareholders (except in liquidation). Once the capital expenditure on staff welfare facilities has been made, an equivalent amount must be transferred from the statutory public welfare fund to the discretionary surplus reserve fund.

(c) Pursuant to relevant PRC regulations and the articles of association of the Company, profit distributable to shareholders shall be the lower of the distributable profits determined according to PRC accounting standards as stated in the PRC statutory financial statements and the distributable profits adjusted according to IAS. In the PRC financial statements as at 31st December 1999, retained profits attributable to shareholders amounted to approximately RMB120,858,000 (1998: RMB110,421,000).

20 Minority interests

	1999 RMB'000	1998 RMB'000
Balance brought forward	7,900	-
Additions	3,495	9,240
Share of net loss of subsidiaries	(1,516)	(1,340)
Balance carried forward	9,879	7,900

21 Bank loans

Bank loans amounted to RMB13,930,000 are secured by machinery equipment.
Other bank loans are unsecured, bearing interest at the fixed annual rates from 9% to 14% and fall due in the second to fifth years.
Short term band loans to the extent of RMB398,910,000 and USD 800,000 are guaranteed by Wafangdian Bearing Group.

22 Amounts due from fellow subsidiaries, amounts due to holding company and fellow subsidiaries.

Balances arise in the normal course of business. Balances are unsecured and non-interest bearing.

23 Accounts payable, accrued charges and other payables

	1999 RMB' 000	1998 RMB' 000
Accounts payable and bills payable	116,411	99,381
Amounts due to fellow subsidiaries (note 22)	183,708	123,817
Other payables	137,479	144,174
	437,598	367,372

24 Reconciliation of profit before tax to net cash inflow/(outflow) from operating activities

	1999 RMB' 000	1998 RMB' 000
Profit before tax	49,994	63,632
Depreciation of fixed assets	38,147	48,105
Gain on disposal of fixed assets	(3,064)	(1,310)
Income from investments	(7,000)	-
Amortisation of deferred assets	13,638	-
Decrease/(increase) in marketable securities	13,569	(569)
Increase in inventories	(104,660)	(30,875)
Increase in accounts receivable, bills receivable and prepayments including amounts due from fellow subsidiaries	(59,653)	(102,745)
Increase/(decrease) in accounts payable, accrued charges and other payables including amounts due to holding company and fellow subsidiaries	72,316	(64,262)
Interest received	(2,894)	(6,984)
Interest expenses	42,912	57,052
Cash inflow/(outflow) generated from operations	53,305	(37,956)

25 Commitments under operating leases

At 31st December 1999, the future lease payments under non-cancellable operating leases were as follows:

	1999 RMB' 000	1998 RMB' 000
Within one year	3,164	3,256
In the second to fifth years inclusive	1,582	4,884
	4,746	8,140

26 Financial assets and financial liabilities

Financial assets of the Company and its Subsidiaries include cash, bills receivable, accounts receivable, other receivables and marketable securities. Financial liabilities of the Company and its Subsidiaries include bank loans, accounts payable, bills payable and other payables.

(a) Interest rate risk

The interest rates and terms of repayment of long term loans are disclosed in note 21. Other financial assets and liabilities do not have material interest rate risk.

(b) Exchange risk

The major currency of the Company and its Subsidiaries' transactions is Renminbi, therefore, the Company and its subsidiaries do not have material exchange risk.

(c) Credit risk

Accounts receivable of the Company and its Subsidiaries are spread among a number of customers in the PRC. Other than that, financial assets of the Company and its Subsidiaries do not represent a concentration of risk. At 31st December 1999, the carrying amounts of financial assets best represent their maximum credit risk exposures at the balance sheet date.

(d) Fair values

There are no material differences between the fair value and carrying amounts of the Company and its Subsidiaries' financial assets and financial liabilities. Financial assets and liabilities are estimated based on a fair valuation method and will be subject to the principal assumptions made. Any change in valuation method and principal assumptions will materially affect the valuation results.

27 Related party transactions

As disclosed in the financial statements, in the normal course of business, the Company and its Subsidiaries had the following material transactions with its related parties during the year:

	1999 RMB' 000	1998 RMB' 000
Fellow subsidiaries		
- purchase of bearing parts from	326,855	473,264
- sales of raw materials and bearing parts to	248,221	375,104
Associated company		
- purchase of bearings from	144,027	83,861
- sales of raw material parts to	101,277	134,136
Wafangdian Bearing Group		
- payment of utilities and other production costs to	219,635	165,187
- payment of land use right fee to	3,164	3,256
- payment of research and development to	7,400	4,600
- sale of accounts receivable for cash consideration to	93,811	128,129
Directors' emoluments	52	32

28 Retirement scheme

The Company and its Subsidiaries have participated in a defined contribution retirement scheme as organised by the Dalian municipal government for all fixed and contracted staff. The Company and its Subsidiaries' contribution to the scheme is provided at 19% (1998: 19%) of the total salary of its staff. Contribution to the retirement scheme for the year ended 31st December 1999 amounted to RMB16,559,000 (1998: RMB18,685,000).

29 Subsidiaries

Name	Place of incorporation	Principal activities	Interest held 1999	Interest held 1998
Wafangdian General Bearing Company Limited	PRC	Manufacturing of bearing and spare parts for automobiles and train	75%	75%
Liaoyang Bearing Manufacture Co., Ltd.	PRC	Trading of motor vehicle bearing products	100%	100%
Huamei Bearing Co., Ltd.*	PRC	Manufacturing of Y-series bearing products	69.7%	69.7%

* Huamei Bearing Co., Ltd. ceased its operation during the year and pending for liquidation.

30. Contingent liabilities

At the balance sheet date, the company had provided guarantees on bank loans of RMB214,480,000 granted to Wafangdian Bearing Group..

31. Ultimate holding company

The directors regard Wafangdian Bearing Group Corporation, a state-owned enterprise established in the PRC, as being the ultimate holding company.

32. Approval of accounts

The accounts were approved by the board of directors on April 18, 2000.

WAFANGDIAN BEARING COMPANY LIMITED

SUPPLEMENTARY INFORMATION

FOR THE YEAR ENDED 31ST DECEMBER 1999

Effects on the consolidated profit after taxation and minority interests but before appropriation and the consolidated net assets of significant differences between PRC statutory financial statements to financial statements prepared in accordance with International Accountings Standard ("IAS") are summarised below:

	For the year ended 31st December 1999 Consolidated profit after taxation and minority interests but before appropriation RMB' 000	As at 31st December 1999 Consolidated net assets RMB' 000
In accordance with PRC statutory financial statements	45,251	985,698
IAS adjustments:		
- Reversal of income for using the Company's trademark	(1,374)	-
- Reversal of pre-acquisition profit of a subsidiary	(834)	-
- Provision for slow moving inventories	(19,309	(28,207)
- Write back of provision for bad and doubtful debts	19,309	(22,037
- Goodwill write back	687	-
- Unrealised profit on sales form an associated company	(3,108)	(3,108)
- Others	-	3,276
As restated at under IAS	40,622	935,622

Nine. Other information of the Compny

1. The first registration date: March 20, 1997
2.Registration No. of the business license of company legal person: Dagongshangqufazi24239971-2
3. Tax registration No.: Guoshuidazi210281242399712
4. Name of trust institution for non-marketable shares: Shenzhen Stock Registration Co., Ltd.
5. Office addresses for the employed certified public accountants'
Shinda Certified Public Accountants: 16/F. Securities building, No. 5020 Pinhe Road, Shenzhen
Pricewaterhouse Coopers Certified Public Accountants: 23/F. Sunning Plaza, No. 10 Hysan Ave., Causewau Bay, Hong Kong
6. The annual report of the Company is prepared in bot Chinese version shall prevail.

Ten. Documents for reference

1. Original copy of the annual report signed by the Chairman of the Board of the Directors.
2. Financial reports which bear the signatures of the Directors.
3.1999 Audit Reports and Financial Reports prepared on the basis of the International Accounting Standards and the Chinese Accounting Standards, with the seals and signatures of the certified public accountants.
4. Articles of Association of the Company.