

CHINA BEARING (SINGAPORE) LTD.
(Company Registration No. 200512048E)
(Incorporated in the Republic of Singapore)

**RESPONSE TO SGX QUERIES REGARDING FULL YEAR FINANCIAL STATEMENT
ANNOUNCEMENT RELEASED ON 29 FEBRUARY 2016**

The Board of Directors (the "Board") of China Bearing (Singapore) Ltd. (the "Company") wishes to announce the following in response to queries raised by the Singapore Exchange Securities Trading Limited ("SGX") in respect of the Company's full year financial statement announcement released on 29 February 2016:

Queries from SGX

- a. The Company recorded an impairment loss of RMB 11.5 million on property, plant and equipment ("PPE") for FY2015. In this regard, please disclose:

- i. What were the circumstances leading to the impairment loss? What were the procedures conducted by the Company in assessing the impairment amounts?

Reply: The Company assessed annually whether property, plant and equipment had any indication of impairment in order to comply with the relevant Financial Reporting Standards ("FRS"). In conjunction with the disposal of Linyi Kaiyuan Bearing Co., Ltd., the management carried out a review of the recoverable amount of property, plant and equipment based on the fair values determined by an independent professional valuer Golden Standard & Headmen Appraisal and Advisory Co., Ltd. (the "PPE Valuer"), using the cost approach (replacement costs of assets less depreciation cost). The same valuation report was reviewed and relied on by Baker Tilly TFW, and presented to the Board on 23 September 2015.

The management assesses and documents the evidence obtained from the PPE Valuer to support the conclusion that such valuation meets the requirements of FRS, and made such provision in the book. The provision for impairment losses has been reviewed and adopted by our Auditor, Foo Kon Tan LLP.

- ii. Confirmation from the Board on whether it is satisfied with the reasonableness of the methodologies used to determine the impairment loss of the PPE.

Reply: In accordance with the assessment conducted by the management, the Board is satisfied with the reasonableness of the methodologies used by the PPE Valuer to determine the impairment loss of the PPE.

- iii. Whether the board had sought appropriate independent professional advice. If yes, identify the professionals and provide the Board's confirmation as to whether the professionals appointed by the Company have the necessary experience.

Reply: Yes, the Company has appointed independent professional valuer, Golden Standard & Headmen Appraisal and Advisory Co., Ltd. (北京大正海地人资产评估有限公司), website address: <http://www.gshaa.com.cn/gsjj.asp> (the "PPE Valuer") to conduct the valuation of the PPE. The PPE Valuer is one of the top valuation firm based in Beijing and has conducted valuation activity for various China state-owned companies and listed companies on the Shanghai Stock Exchange and Shenzhen Stock Exchange which are involved in various industries.

List of the clients includes:

State-owned companies

- 1) Aviation Industry Corporation of China (中国航空工业集团公司)
- 2) Sinopec Limited (中国石油化工股份有限公司)
- 3) China Telecommunication Corporation (中国电信集团公司)
- 4) China National Chemical Engineering Group Corporation (中国化学工程股份有限公司)
- 5) XCMG Construction Machinery Co., Ltd. (徐州工程机械集团有限公司)
- 6) Beiqi Foton Motor Co., Ltd. (北汽福田汽车股份有限公司)

Listed companies

- 1) Pang Da Automobile Trade Co., Ltd. (庞大汽贸集团股份有限公司)
- 2) Shandong BoHui Paper Industrial Co. (山东博汇纸业股份有限公司)
- 3) Ningbo Veken Elite Group Co., Ltd. (宁波维科精华集团股份有限公司)
- 4) Guangdong Zhongsheng Pharmaceutical Company Limited (广东众生药业股份有限公司)
- 5) Jiangsu Sihuan Bioengineering Co., Ltd. (江苏四环生物股份有限公司)
- 6) Tongyu Heavy Industry Co., Ltd. (通裕重工股份有限公司)

Based on the PPE Valuer's background and track record, the Board is of the opinion that the PPE Valuer has sufficient qualification and experience to conduct the valuation activity.

- b. The Company recorded a penalty of RMB 8.4 million imposed by customers on defective products and technical cost incurred for the improvement on the bearing products.

i. Whether the Company had undertaken due diligence to verify the penalty?

Reply: As mentioned in the reply to queries to SGX dated 1 December 2015, the Company was made aware of and confirmed the defects in its bearing Model No. 32310. The defective bearings which failed to comply with specification requirements had resulted in defects and damages in the axles produced by the Company's customers using the defective bearings. The customers had to recall the said affected axles delivered and repair those affected axles which had yet to be delivered to their end customers.

Upon identification of the issue, the Company and the customers sent the samples of the defected bearing to National Bearing Quality Inspection Centre Luoyang Bearing Research Lab ("NBQIC") (国家轴承质量监督及检测中心洛阳轴承研究所检验实验室) to perform quality inspection. The result of the inspection had confirmed the defect of bearing Model No. 32310 manufactured by the Company.

NBQIC is a state-owned quality inspection centre and research centre.

ii. Whether the Company had appointed third party valuer to review the reasonableness and veracity of the penalty?

Reply: Pursuant to the terms and conditions of the sales agreements with the customers, all costs incurred by the customers to rectify the Company's defective products are to be borne by the Company. The costs shall include but is not limited to transportation cost, cost of storage, cost of repair, cost of dismantle, damages related to the defected products and cost of workmanship. It is an industry practice to have such clauses in the sales agreement with the customer.

Upon confirmation of defective product, the Company began the negotiation process with the customers, namely Anhui Ankai Futian Shuguang Axles Co., Ltd. and Shanxi Hande Axles Co., Ltd., with regard to product indemnification and compensation.

The customers had submitted their claim of product indemnification as follows:-

	Shanxi Hande Axles Co., Ltd. (陕西汉德车桥有限公司)	Anhui Ankai Futian Shuguang Axles Co., Ltd. (安徽安凯福田曙光车桥有限公司)
Cost of dismantle (RMB in million)	3.0	3.1
Transportation cost (RMB in million)	0.3	0.3
Disposal of damage axles (RMB in million)	4.0	1.5
Total	7.3	4.9

The negotiation with the customers resulted in an agreement for a compensation amount of RMB 4.5 million and RMB 2.5 million payable to Shanxi Hande Axles Co., Ltd. and Anhui Ankai Futian Shuguang Axles Co., Ltd. respectively.

The same bearing model was also sold to some distributors from which the Company had recalled the defective bearings. Additional RMB 1.4 million has been paid to compensate these distributors.

The Company subsequently reached a full and final settlement with the customers and distributors in July 2015. The penalty was net off against the receivables of the customers pursuant to the settlement agreements.

As the settlement mechanism has been clearly provided in the sales agreements with the customers, the Board did not deem it necessary to appoint a third party valuer.

iii. Whether the Board has undertaken independent investigations including and not limited to conducting a review of documents and records?

Reply: The Board carried out the following reviews and investigations:

- (i) reviewed the documents submitted by the management which was mainly third party state-owned quality reports;
- (ii) reviewed customers' claim reports (our customers are one of the China Top 500 machinery enterprise (中国机械500强));
- (iii) obtained full information from the management on the occurrence of the defective bearing; and
- (iv) obtained and assessed management's opinion on the reasonableness of the claim submitted by the customers.

The right for the claim of the product indemnification was contractually provided in the agreement. Management has also verified and investigated the extent of the claims and reviewed the verifications by the NBQIC and has reported the same to the Board.

Based on the information available and the review of the relevant documentation, the Board is satisfied with management's explanation and recommendations without the need to appoint additional independent investigators.

By order of the Board

LIM KEAN TIN
Non-Executive Chairman
4 April 2016