

DALIAN KOYO WAZHOU AUTOMOBILE BEARING CO., LTD.

-KWA-

1. Company Profile

Name	: Dalian Koyo Wazhou Automobile Bearing Co., Ltd.
Location	: Liaohe East Road 96, Double D port, Dalian City, Liaoning Province, China
Capital	: 2 390 million yen (after capital increase at the end of June 2005)
Major shareholders	: Koyo Seiko Co., Ltd. 51% Wafangdian Bearing Group Corp. 45% Toyota Tsusho Corp. 4%
Number of employees	: 154 (at the end of 2004, including 2 Japanese expatriates)



2. Introduction of the Area

1) Liaoning Province

China has provinces, autonomous regions, municipalities and special administrative regions. Liaoning Province, where Dalian Koyo Wazhou Automobile Bearing Co., Ltd. (KWA) is located, is at the western end of the northeast area in China. A part of its east side shares a border with the Democratic People's Republic of Korea. Provinces of China have great powers just as the states of the USA do. However, because development of the northern area of China lags far behind that of the southern area and the reconstruction of national companies is needed, the central government has enacted special laws for the revitalization of the northern area.

The capital of Liaoning Province is Shenyang, a city with a long history. The Qing dynasty built its capital there before moving to Beijing, and the royal palace of that time remains today. Of the 61 million people living in this province, 84 percent belong to the Han ethnic majority while the remainder belong to some 43 ethnic minority groups, including the Manchu, Mongolian, Hui and Korean ethnic minorities.

Foreign investment in the area is increasing because of the low labor cost in comparison with the eastern and southern areas of China and because of government measures to stimulate the economy.

2) Dalian

Dalian, considered an administrative center, is located on the southern end of the Liaodong Peninsula and has a population of 5.6 million. Its latitude is the same as that of Sendai in Japan.

Although the average temperature in Dalian is 10°C, with a maximum of 31°C and a minimum of -15°C, the humidity in the winter is so low that it hardly snows and you don't feel so cold. But when the winter wind blows hard, you feel severe pain in your ears as if they are being torn off. Because the city has been familiar to Japanese from long ago, numerous trading, financial and manufacturing companies have established local operations there. Recently, the local government has been concentrating efforts on software development. From an educational point of view, students can learn both the Japanese language and computer knowledge at the same time at the college. Not only software companies but also companies aiming to develop systems for their own products have set up local operations there. For this reason, there are quite a few twenty- and thirty-story buildings in the city. There are basically no earthquakes in the region, and when you look at the buildings under construction you get the impression that they are weak in structural strength compared with Japanese buildings. However, the completed buildings look magnificent and one does not feel any sense of insecurity when in them.

The Dalian city government is actively working to attract foreign investment by offering various incentives while improving the area's infrastructure. In particular, the government is concentrating on promoting Japanese language education. There are many schools offering Japanese languages classes, especially if we include specialized vocational schools. Consequently, the establishment of local operations by Japanese companies has been accelerated, and many Japanese live in the area. There is also a Japanese Consulate branch office.

Because the ocean around Dalian is very deep and it has a good natural harbor that doesn't freeze in the winter, the city has served since long ago as an ocean entrance for the three northeastern provinces (Liaoning, Jilin and Heilongjiang provinces). Currently 300 000-ton ships are able to dock at this port. Railways connected with the northeastern area have been developed and eight-lane highways have been built, enabling the city to play an important role as a transport center. Moreover, the ocean water is very clean, the fishing industry is thriving, fish cultivation is also carried out, and large quantities of fish and shellfish are shipped from here to

large cities of China. You can enjoy tasty seafood like raw flatfish, raw sea urchin, and crabs at many restaurants in Dalian. It is also famous for hot springs. There are some hotels with Japanese-style natural hot springs in Dalian and the nearby cities of Lushun and Wafangdian.

3) Dalian Economic and Technical Development Zone

This zone is located 27 km northeast of the center of Dalian across the Dalian Gulf. The area was previously an agriculture and fishing village. Development of the area started in 1984, when it was designated by the Central Government as a development zone (first zone to be so designated). Since that time, many Japanese manufacturing companies have established operations in this zone. Currently there are over 260 companies there, and the number of residents has swelled to 280 000. In recent years, companies from Korea and other countries have also established operations there. Trains connecting the center of Dalian, this development zone, and Jinshi began operating. It is now possible to commute to this develop zone from the city in 30 minutes, which many people are doing.



Development zone train station

There are nearly 1 000 Japanese, including those on business trips, who live in the development zone. It therefore is possible to communicate in Japanese at hotels, and there are many Japanese restaurants nearby that serve Japanese-style dishes such as *kaiseki-ryori* (seafood), lunch specials, *yakiniku* (grilled meat) and *okonomiyaki* (pancake with meat and vegetables inside), all dressed with Japanese seasoning. Basic Japanese is understood even at Chinese restaurants or Korean restaurants in the area (many Koreans live in the area because of its proximity to the Korean Peninsula). The same is true in regard to shopping. There are various specialty stores that sell noodles, seasonings and alcoholic drinks imported from Japan, and the area is very convenient for Japanese who live there or are visiting for the first time.

One particular enjoyment for Japanese is visiting the Japanese-style health spa that was built in 2004 in the development zone. In this facility the natural hot springs are used in saunas, open-air baths and rest areas, and it is possible to have a very relaxing time there with anyone regardless of nationality. It is also possible, for a fee, to enjoy a massage, view a play on a large stage, or spend the evening in a very Japanese-style *tatami* room. A massage after the bath is highly recommended.



Development zone central area

Furthermore, there is a beautiful scenic spot called Jishitan, which was designated as a resort area by the Central Government. Its beaches are very popular in the summer, when the area is lit up until 9 o'clock at night and there are many attractions, and many people gather here even on weekdays.

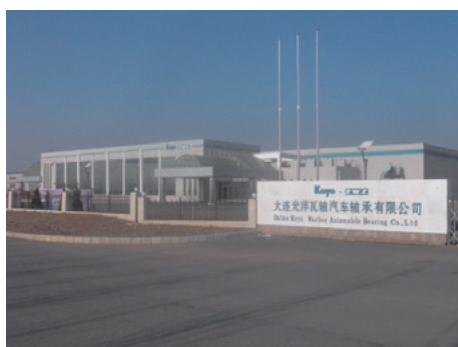


Jishitan coastline

3. Introduction of KWA

1) History

December 1995	KWA was jointly established by Koyo Seiko Co., Ltd. and Wafangdian Bearing Group Corp.
August 1996	Production started (in existing building of Wafangdian plant)
January 1997	ISO 9002 certification obtained
September 2000	QS-9000 certification obtained
January 2003	Moved to newly built plant at the DD port and started production
November 2003	TS16949 certification obtained
August 2004	Installed third-generation hub unit bearing manufacturing equipment



Dalian Koyo Plant

2) Products

KWA is a company jointly established by Koyo Seiko and Wafangdian Bearing Group Corp., the latter being one of China's largest bearing manufacturers, for the purpose of manufacturing wheel bearings for passenger cars. Hub unit bearings (2nd and 3rd generation) are being manufactured now at KWA in response to the requests from car manufacturers in China. While sales activities are handled by Koyo Seiko Co., Ltd. (Shanghai) and Wafangdian Bearing Group Corp., KWA concentrates on manufacturing.

It is said that there are 3 000 bearing manufacturers in China. The quality level is recently improving. Foreign companies cannot compete them in price when Chinese materials are used for all components. Particularly the aftermarket bearing prices are very competitive and sometimes are lower than OEM prices. The only way for KWA to stay in the market is to supply products that are designed by Koyo, manufactured by KWA, and evaluated by Koyo. In other words, KWA products must be supplied with the same quality as those made by Koyo in Japan at reasonable prices.

We started to supply third-generation hub unit bearings this year. Motivated by the knowledge that they are manufacturing products with leading technology, all of our employees are working hard day and night with the aim of creating products having the same quality as those made by Koyo in Japan in our products at a lower cost.