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General Information

Hwa Fong Rubber (Thailand) Public Company Limited ("HFT") was established in 1987 with current registered and paid up share capital of Bt 658,434,300 and Bt 658,434,300 respectively. HFT's principal business is to manufacture and distribute the tire and tube of bicycle, motorcycle, small logistic equipment vehicle such as trolley forklift, golf cart and hiking cart under more than 23-years recognizably worldwide brand name dubbed "DURO" and "Q-UICK" together with brand "DUNLOP" possessed with Sumitomo Rubber, Japan with DURO stemmed from the technology and marketing support of Hwa Fong Rubber Industries company limited (hereinafter called "HFR"), majority shareholder who has been listed in the Taiwanese Stock Market for more than 16 years. The HFR's nature of business is to manufacture the tire and tube. In addition, HFT obtained the support from Sumitomo Rubber Industries Company (Sumitomo Rubber), another Japanese big shareholder of HFR under the brand name "DUNLOP". Moreover, HFT was approved with ISO 9001-2000 for its internationally excellent product quality.

HFT's sale portion is classified by the local and international sale in the percentage of 37.92% and 62.08% respectively. In the local sale, HFT distributes its products to the leading bicycle 's Original Equipment Manufacturer (OEM) such as LA BICYCLE, TURBO BICYCLE and SOMAR under the brand name "DURO" and motorcycle producers i.e. HONDA, YAMAHA, KAWASAKI including genuine parts to be distributed amongst licensed distributors under "DUNLOP". On top of OEM business, HFT has also concentrated in distribution on the Replacement Equipment Market (REP) business via Yoko Alloy Company Limited, June Chareonyon Limited Partnership and Q Tyre and Wheel International Company Limited. In the international sale, HFT distribute products via the network of HFT and HFR which are amongst group companies to market in USA, Europe, Asia and Japan, Africa and Middle East.

For overall performance, HFT reported its revenue from sale up to 2,241 MB in 2008 and 1,769 MB in 2009, a decrease of 21.10%, mainly attributable to the global economic downturn from the U.S.A. considered as the top country in terms of trading power as well as possessing the US Dollar currency. The crisis resulted in the customers' confidence which has ordered the products in advance decided to delay its trading. Hence, the Company was unable to sell its own products as planned. Nonetheless, our cost of goods sold has reduced 28.95% in tandem with the decrease in sale mainly attributable to the reduction in price of main raw material e.g. natural rubber, synthetic rubber. Our net profit was therefore reported at 115.41 MB equivalent to 0.18 Baht with respect of EPS.

Name of the Company	:	Hwa Fong Rubber (Thailand) Public Company Limited
Symbol	:	HFT
Type of Business	:	Manufacture and Distribution of tire tube of bicycle, Motorcycle and Small industrial vehicle
Registered capital	:	658,434,300 Baht consisting of 658,434,300 paid-up shares at par value of Baht 1
Head Office and Main Factory	:	317 Soi 6C Moo 4 Bangpu Industrial Estate Tombon Praksa, Amphor Muang, Samutprakarn 10280
Second Factory	:	865/1 Moo 4 Soi 11B Bangpu Industrial Estate Tombon Praksa, Amphor Muang, Samutprakarn 10280
Company Registration	:	0107545000152
Telephone No.	:	0-2709-6580
Facsimile No.	:	0-2324-0483, 0-2709-6589
E-MAIL	:	hwafong@duro.co.th
Website	:	www.duro.co.th
Auditor	:	Mr. Jetesada Hungsapreuk Certified Public Account Registration No.3759 Karin Audit Company Limited 138 Boonmitr Tower, 6 th floor, Room B1 Silom Road, Suriwong, Bangrak, Bangkok 10500

Message from Board of Directors

In the aftermath of global financial crisis in 2008, consequently, it constituted the global economic downturn, the higher degree volatility of the price of raw material. During the first half of 2009, the demand in raw material had declined, the sale of overall motorcycle also decreased accordingly. The circumstances started resume normal since the latter half of 2009.

In the year 2009, total sales of the company were 1,768 MB compared to the 2,241 MB representing 21.1% lower year-on-year despite the challenging situation. However, the outcome of business operation turned out to be successful which was deemed minimal external impact. Nonetheless, with the good inventory management and well-controlled cost of operation, the company managed to report the net profit up to 115 MB compared to 76 MB, an increase of 39 MB or 51% year-on-year growth.

Meanwhile, since the late 2009, Hwa Fong Rubber Industries Co.,Ltd, a parent company acting as majority shareholder has planned to sell TDR (Trust Depository Receipts) in Taiwan after having had full long-term support in January 2010 evidenced from the approval of the Taiwanese government. Subsequently, on 8 February 2010, the parent company succeeded in getting listed in Taiwanese bourse, which in turn raises the awareness in Taiwan. It is believed that in the future, it will be beneficial to the group to raise fund and business expansion. The group can reap the benefit of having listed in 2 countries i.e. Thailand and Taiwan and help shore up the sufficiency of fund raising activities to ensure the long-term source of fund.

The company would like to express our sincere gratitude for every shareholder for the continued support and concern on the company. With the full efforts from every employee, the company was able to manage to rage on the difficult time. With the economy recovery path to normal in 2010 notwithstanding the imbalance between demand and supply of raw material which constitutes the continued surge in raw material price, this may explicitly influence on the cost structure of rubber industry. Hence, the company has developed the production process and efficiently control the cost of production with tightened business collaboration amongst the group thereby widening and strengthening the purchasing power of raw material to help in some extent manage the production cost coupled with the façade of continuous changes in market environment to be ultimately growth platform of the company in the future.

A handwritten signature in dark ink, appearing to be 'Chen Heng-Yi'.

Mr. Chen Heng-Yi

Chairman of the Board

Report from Audit Committee

In the year 2009, the Board of audit committee set up 4 times of its respective meetings having the participation of Internal Audit Department, Management section and External Auditor to consider the topics as follows:

- A) Considered the quarterly and annually financial statement for bringing up to the Board of Directors for consideration and approval.
- B) Verified the internal control system with the internal audit section and the External Auditor together with giving advice and operational procedure pertinent to audit finding and operating management so that its internal control system should be adequate and appropriate. It was notified by the External Auditor that the Company had the remaining of the refunded import duty on raw material since 2006 to June 2008 amounting to 42.64 MB. The company has set provision for expected unpaid amount up to 18.18 MB. In addition, it was notified in relation to the inter-company sale transaction with the parent company and its affiliated companies which impacted on the gross profit amount. However, the company is somewhat exposed to the tax risk in relation to the sale price between parent company and its affiliates.
- C) Verified that the Company operated its business in compliance with the relevant rules and regulations as well as good corporate governance of the listed company in accordance with SET's regulations.
- D) Verified the related party transactions or the conflicted transactions to be duly disclosed in appropriate manner in which the Audit Committee has proposed to the Company to reduce or cease its policy to sell the products at loss.
- E) To consider and appoint the External Auditor and the appropriate remuneration which will be proposed in the annual general shareholders' meeting. In the year 2009, the Board of Audit Committee proposed Mr.Jatesada Hungsapreuk to be Certified Public Accountant for the FY2009 to be resolved by the annual general meeting.

The Audit Committee is of opinion that the company has an adequate internal control system to facilitate the preparation of financial statement. Thus, the financial report represented a true and fair view and in line with the generally accepted standard practice of accounts in Thailand. Disclosure of information is correctly shown in full and adequacy.

Necessary points for the company to run its operation in the future can be outlined as follows:

- A) To establish risk management committee in concrete manner
- B) Pertaining to the inter-company sale transaction with the parent company and its affiliates, albeit incurring gross profit, some products incurred gross loss from the sale notwithstanding small volume
- C) To set up the transfer pricing policy to be in accordance with its relevant regulations
- D) To develop and educate personnel in respect of verification and internal control system to meet with any associated risks of the business
- E) The allocation of the production cost and the cost accounting management
- F) The company should set up the respective staff to be in charge of tax refund in accordance with section 19 under the custom act to avoid the risk of being fined and penalized

A handwritten signature in blue ink, appearing to read 'Sareerat M.', with a horizontal line underneath.

Mrs. Sareerat Metheesuwapab

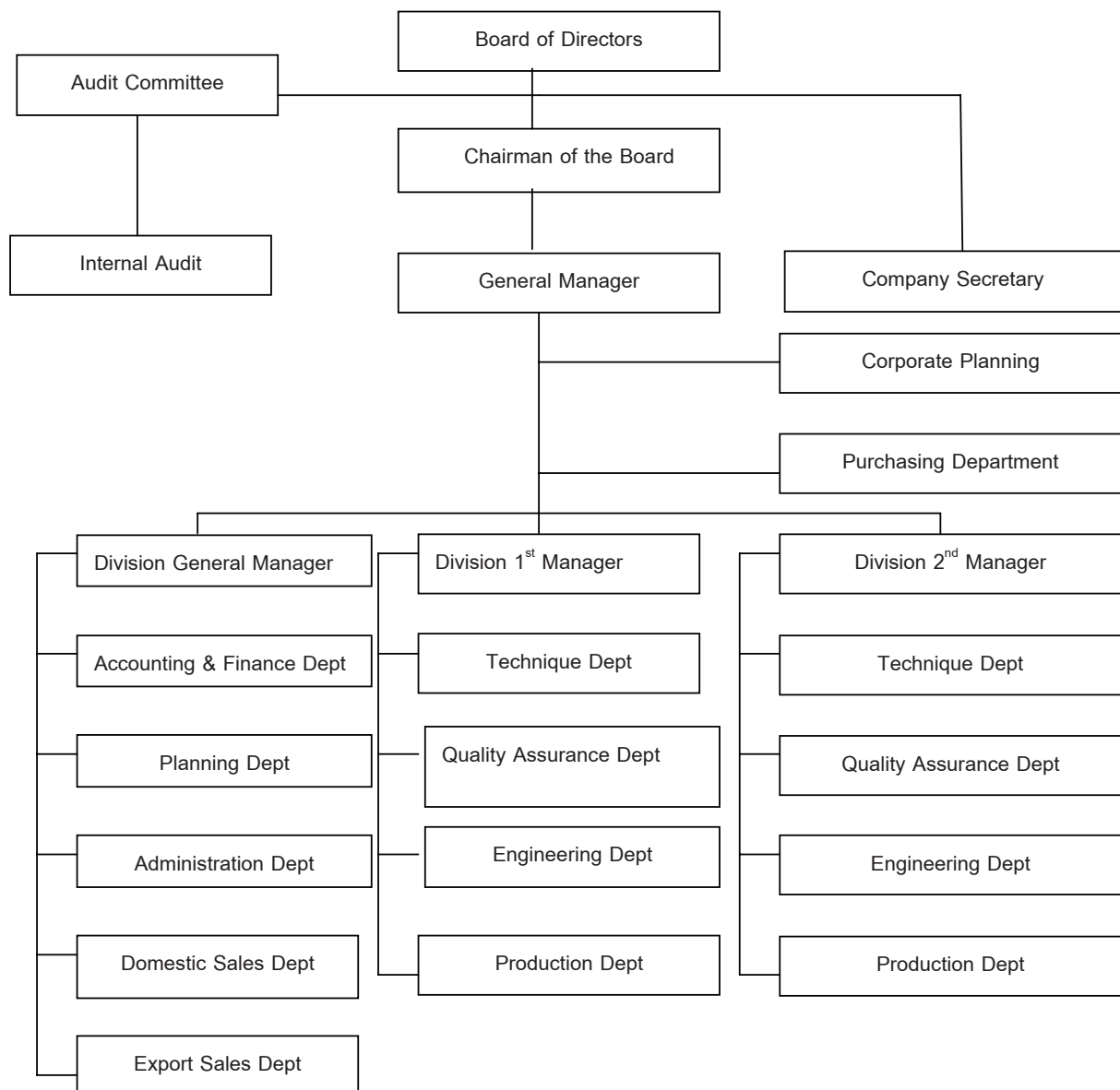
Chairman of Audit Committee

Financial Summary

Unit: THB Million (Unless otherwise stated)

Transaction	2009	2008	2007
Total Asset	1,796.07	1,883.58	2,064.29
Total Liabilities	459.33	530.55	705.24
Shareholder's Equity	1,336.74	1,353.03	1,359.05
Revenue from Sales	1,768.61	2,241.47	2,088.68
Total Revenue	1,777.25	2,257.09	2,098.35
Gross Profit	354.13	250.72	210.12
Total Expenses	1,609.56	2,174.09	2,067.05
Net Profit (Loss)	115.41	76.28	31.29
Earning Per share (Bt/share)	0.18	1.16	0.48
Return on Shareholder's Equity (%)	8.58%	5.63%	2.33%
Return on Total Asset (%)	6.27%	3.86%	1.51%

Organization Structure



Board of Directors and Management Team

Board of Directors

Name-Last name/Position	Age	Educational Background	Equity Holding in Company (%)	Working Experience for Past 5 Years		
				Period	Position	Name of Organization/ Company/Type of Business
1. Mr. Chen Heng-Yi Chairman and Managing Director	47	Doctoral Degree (Philosophy in marketing) Glasgow University USA	-	1996-2009 2009-present	Managing Director Chairman and Managing Director	REIT Company Hwa Fong Rubber (Thailand) Public Co.,Ltd.
2. Mr. Chang Chun Chuan Director	76	Vocational Certificate Taiwan	-	1997-present	Chairman Director	Tai Yien Industries Co., Ltd. Hwa Fong Rubber (Thailand) Public Co.,Ltd.
3. Mr. Chen Tai Director	59	Bachelor Degree (Engineering) Institute of Technology - Taiwan	-	2005-present 2009-present	General Manager Director	Hwa Fong Rubber (Zhu Chow) Co., Ltd. Hwa Fong Rubber (Thailand) Public Co.,Ltd
4. Mr. Ho Chia Chou Director	40	Vocational Certificate Taiwan	-	2005-present 2009-present	Managing Director Director	Fu Jee Tor Industrial Co., Ltd. Hwa Fong Rubber (Thailand) Public Co.,Ltd
5. Ms.Silvia Wu Director	50	Bachelor Degree (Management) Fu Jen Catholic University Taiwan - Obtained DAP course No.74/2008 - Obtained DCP course No.123/2009	-	2004-present 1999-present	Director Vice President	Hwa Fong Rubber (Thailand) Public Co.,Ltd. Hwa Fong Rubber (Thailand) Public Co.,Ltd.

Board of Directors (Continued)

Name-Last name/Position	Age	Educational Background	Equity Holding in Company (%)	Working Experience for Past 5 Years		
				Period	Position	Name of Organization/ Company/Type of Business
6. Ms. Oranuch Suratroongrojkul Director	51	Bachelor Degree Ramkhamhaeng University -Obtained DAP course No.81/2009	500	1997- present 2009-present	Audit Manager Director	Hwa Fong Rubber (Thailand) Co., Ltd. Hwa Fong Rubber (Thailand) Public Co.,Ltd.
7. Ms. Sajeerat Metheesuwapab Chairman of Audit Committee	62	-Bachelor Degree (Accounting) Chulalongkorn University, -Obtained DAP Course no.42/2005 - Obtained ACP Course no.24/2008 - Obtained DCP Course no.105/2008	-	Present 2008-present 1994-1997	Managing Director Chairman of Audit Committee Deputy Managing Director	S.J & M International Office Co.,Ltd. Hwa Fong Rubber (Thailand) Plc. Charoen Pokphand Group
8. Mr.Anupong Techaamnuayporn Audit Committee	46	Master Degree in Business Administration Thammasat University - Obtained DAP Course no.23/2004	-	2002-present 2009-present	Managing Director Audit Committee	Annuaey Porn Accounting Office Limited Hwa Fong Rubber (Thailand) Public Co.,Ltd.
9. Ms.Nutcharree Suriyasenee Audit Committee	39	- Vocational Certificate, Hotel management, Technic Vimol Pamich Prachacheun School	-	1999- present 2009-Present	Finance-Accounting manager Audit Committee	Nonthaburi Suriya Partnership Branch No.9 Hwa Fong Rubber (Thailand) Public Co.,Ltd.

Audit Committee

Name-Last name/Position	Age	Educational Background	Equity Holding in Company (%)	Working Experience for Past 5 Years		
				Period	Position	Name of Organization/ Company/Type of Business
1. Ms. Sajeerat Metheesuwapab Chairman of Audit Committee	62	-Bachelor Degree (Accounting) Chulalongkorn University, -Obtained DAP Course no.42/2005 - Obtained ACP Course no.24/2008 - Obtained DCP Course no.105/2008	-	Present 2008-present 1994- 1997	Managing Director Chairman of Audit Committee Deputy Managing Director	S.J & M International Office Co.,Ltd. Hwa Fong Rubber (Thailand) Plc. Charoen Pokphand Group
2. Mr.Anupong Techaamnuayporn Audit Committee	46	Master Degree in Business Administration Thammasat University - Obtained DAP Course no.23/2004	-	2002-present 2009-present	Managing Director Audit Committee	Amnuay Porn Accounting Office Limited Hwa Fong Rubber (Thailand) Public Co.,Ltd.
3. Ms.Nutcharree Suriyasenee Audit Committee	39	- Vocational Certificate, Hotel management, Technic Vimol Pamich Prachacheun School	-	1999- present 2009-Present	Finance-Accounting manager Audit Committee	Nonthaburi Suriya Partnership Branch No.9 Hwa Fong Rubber (Thailand) Public Co.,Ltd.

Management Team

Name-Last name/Position	Age	Educational Background	Equity Holding in Company (%)	Working Experience for Past 5 Years		
				Period	Position	Name of Organization/ Company/Type of Business
1. Mr. Chen Heng-Yi Chairman and Managing Director	47	Doctoral Degree (Philosophy in marketing) Glasgow University USA	-	1996-2009 2009-present	Managing Director Chairman and Managing Director	REIT Company Hwa Fong Rubber (Thailand) Public Co.,Ltd.
2. Mr. Chen Tai General Manager	59	Bachelor Degree (Engineering) Institute of Technology - Taiwan	-	2000-2004 2005-present	General Manager General Manager	Hwa Fong Rubber (Zhu Chow) Co.,Ltd. Hwa Fong Rubber (Thailand) Public Co.,Ltd
3. Ms. Silvia Wu Division General manager	50	Bachelor Degree (Management) Fu Jen Catholic University Taiwan	-	1995-1999 1999-2005 2005- present	Financial Manager Financial Controller Division General manager	Falken Tec (Taiwan) Corp. Hwa Fong Rubber (Thailand)Public Co.,Ltd. Hwa Fong Rubber (Thailand)Public Co.,Ltd.
4. Miss Oranuch Suratroongrojkul Audit Manager	51	Bachelor Degree Ramkhamhaeng University	-	1997-2005 2005-present	Financial Manager Audit Manager	Hwa Fong Rubber (Thailand) Co., Ltd. Hwa Fong Rubber (Thailand)Public Co.,Ltd.
5. Mr. Hsu An Jen Sales Manager	50	Bachelor Degree (Business Administration) Tung Hai University Taiwan	-	1997-2002 2002-present	Quality Control Manager Sales Manager	Hwa Fong Rubber (Thailand) Co., Ltd. Hwa Fong Rubber (Thailand) PublicCo.,Ltd.

Business Overview

Company Background

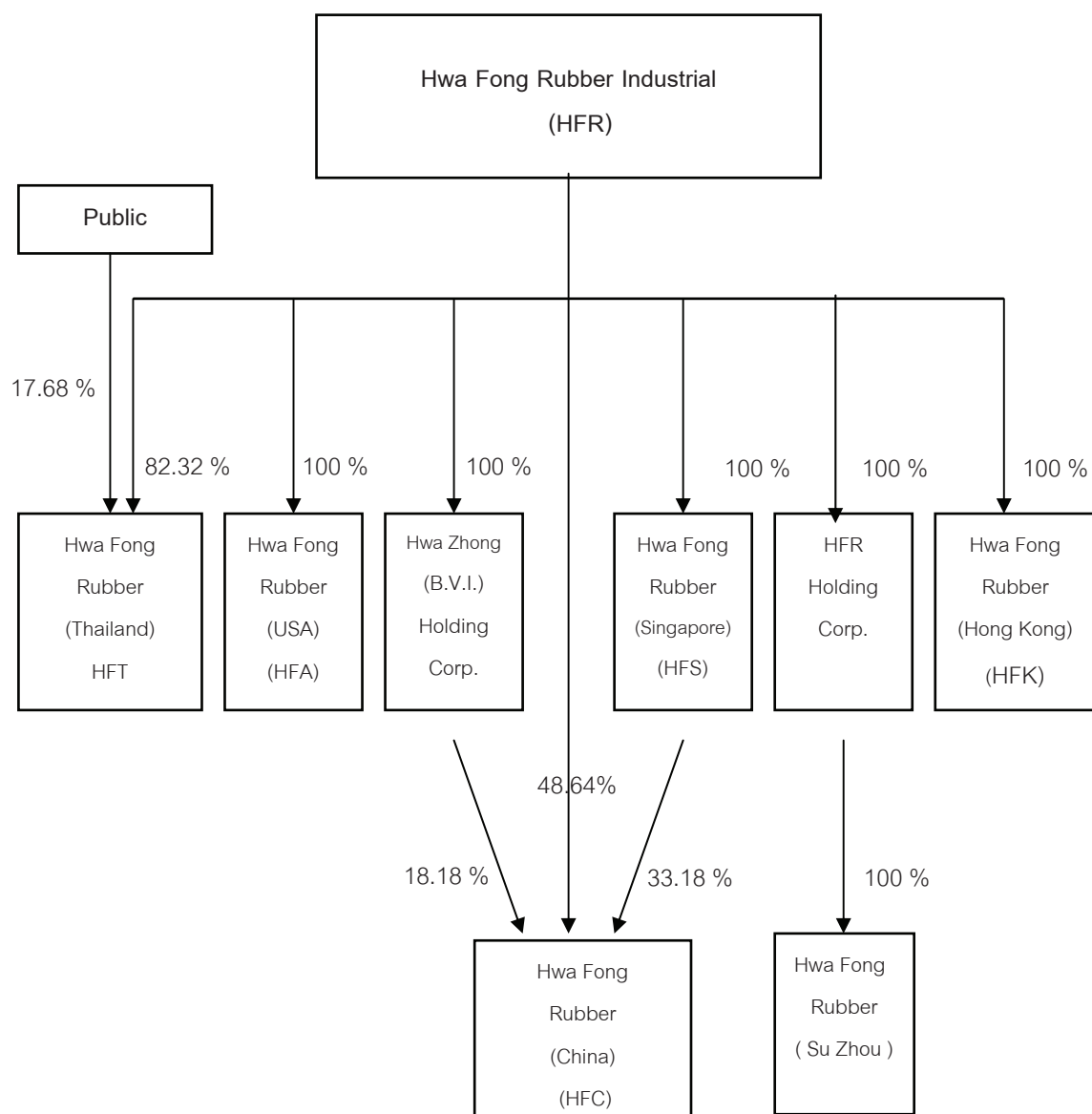
- 1989 HFT was established on June 2, 1987 with initial registered and paid-up capital to Bt 300 million. HFT is a wholly owned subsidiary of Hwa Fong Rubber Industries Co., Ltd. (Hereinafter called "HFR"), with 99.99% holding stake. Initially, the nature of business was to manufacture bicycle tire and tube under the brand name "Duro" and motorcycle tire and tube under the "DUNLOP"
- 1996 Obtained ISO 9002:1994
- 1998 Expanded the production line to the production of tire and tube of motorcycle
- 1999 First Launched motorcycle tire and tube for HONDA Motorcycle in form of OEM
- 2002 Obtained ISO 9001:2000
- 2002 Became Public Company on July 29, 2002
- 2003 Increased Registered Capital to 387,100,000 Baht and SET has granted a listing of Common shares of HFT
- 2004 Constructed the second factory in Bangpoo Industrial Estate Samutprakarn
- 2004 Obtained Thai Industrial Standards Institute (TISI) for Motorcycle tire for 4 sizes and Motorcycle tube for 3 sizes
- 2005 Commenced to run the second factory's operation in 2nd quarter for manufacturing the all terrain Vehicle tire
- 2006 Increased its registered capital up to 774,200,000 Baht with paid-up capital of 658,434,300 Baht
- 2006 Obtained SNI (Standard National of Indonesia)
- 2007 Registered Trademark "Q-UICK"
- 2008 Obtained Thai Industrial Standards Institute (TISI) for Motorcycle tube for 12 sizes
- 2008 Decreased Registered Capital from 774,200,000 Baht to 658,434,300 Baht with paid-up capital of 658,434,300 Baht
- 2009 Registered to change its par value from 10 baht to 1 Baht with registered capital amounting to 658,434,300 shares and paid-up capital at 658,434,300 Baht

HFT has been established and expertise in the tire and tube business for the period of 23 years with the technology support from HFR, parent company incorporated in Taiwan founded more than 64 years. HFT's product has been well recognized in the international standard i.e. "DOT" (Department of Transportation) in 1974 CNS (Chinese National Standard) in 1978, JIS (Japan Industry Standard) in 1989, QS-9000 in 1998, European

Union Standard (E-Mark) in the year 1992, ISO 14001 in 1994 and China Compulsory Certification (CCC-Mark) in 2006.

Group Structure

Currently, HFT's Major shareholder is HFR, the parent company located in Taiwan, in which the group structure is set out below:



Hwa Fong Rubber Industries – HFR: The Parent Company for the affiliates consisting of HFT, HFA, HFC, HFS, HFK and its subsidiaries. HFR is located in Taiwan. Having had the subsidiaries all around the world, HFR is the one who determines the production and marketing policy including the research and technological support for all affiliated companies, alliance with Sumitomo Rubber, their business partner (hold 13.15 % stake of HFR). HFR is a manufacturer and distributor of tire for bicycle and motorcycle under "DURO" mainly in Taiwanese market and European market as well as the industrial vehicle for worldwide market. The quality of product is regarded as medium to high-end compared to others.

Hwa Fong Rubber (Thailand) Plc. – HFT: Being Manufacturing and distributor center, HFT in addition manage and direct the marketing strategy in Thailand, South East Asia and international market especially Europe and North America. Having obtained full support from HFR, parent company and major shareholder, HFT manufactured the tire and tube for bicycle and motorcycle and small logistics equipment vehicles focusing on the medium to high quality compared to any other company in Hwa Fong universe. In addition, HFT produces the low-speed vehicle, which is the different product from the parent company's market in Taiwan manufactures, thus distinguishing HFT from other companies amongst group.

Hwa Fong Rubber (USA) - HFA: Trading center in North American Market and after sale service. HFA's main Business is to receive the products from variety affiliates and distribute in the United States of America.

Hwa Fong Rubber (China) - HFC: Manufacturer and distributor, its main market is penetrated in China, America, Africa and Middle-East. The quality of product is regarded as medium to low-end among the group.

Hwa Fong Rubber (Hong Kong) - HFK: Trading company set-up due to the Taiwanese law stipulated restriction of direct Taiwanese company investment in China taken effective since 1994. Therefore this entity has been established as BVI company to be conduit investment co. in China. There's no production activity.

Hwa Fong Rubber (Singapore) - HFS: Holding company, who's wholly, owns HFC on behalf of HFR to make trading with HFC. Due to the Taiwanese law stipulated restriction of direct Taiwanese company investment in China. This company has been emerged after the handover of Hong Kong to China in the year 1997.

HFR Holding Corp. Holding company owns the shares HF-Suzhou on behalf of HFR, parent company without any production and trading activities. HFR Holding has been founded by HFR for the investment in 2003.

Hwa Fong Rubber (SuZhou) Company Limited is a manufacturer and distributor of radial tire for worldwide market.

Hwa Zhong (B.V.I.) Holding Group - Trading company set-up due to the Taiwanese law stipulated restriction of direct Taiwanese company investment in China taken effective since 1994. Therefore this entity has been established as BVI company to be conduit investment co. in China. There are no production activities.

Revenue Structure

Value of Products categorized by the Product line in the year of 2007-2009 (THB Million)

Product	2009		2008		2007	
	(MB)	%	(MB)	%	(MB)	%
<u>Domestic Sale</u>						
1. Bicycle Tire and Tube	118.59	6.71	146.27	6.52	98.62	4.72
2. Motorcycle Tire and Tube	544.20	30.77	618.10	27.58	510	24.42
3. Small Logistics Equipment Vehicle Tire and Tube	5.21	0.30	6.41	0.29	7.74	0.37
4.Others (Raw Materials and Work-in-Process)	2.73	0.15	5.60	0.25	9.00	0.43
Subtotal Domestic Sale	670.73	37.92	776.38	34.64	625.36	29.94
<u>International Sale</u>						
1. Bicycle Tire and Tube	345.89	19.56	486.63	21.71	443.82	21.25
2. Motorcycle Tire and Tube	501.93	28.38	499.59	22.29	412.56	19.75
3. Small Logistics Equipment Vehicle Tire and Tube	246.46	13.94	468.45	20.90	451.28	21.61
4.Others (Raw Materials and Work-in-Process)	3.60	0.20	10.43	0.46	155.66	7.45
Subtotal International Sale	1,097.88	62.08	1,465.10	65.36	1,463.32	70.06
Total Revenue from Sale	1,768.61	100.00	2,241.48	100.00	2,088.68	100.00

Based on the figures above, international sale generally in 2009 accounted for 62.08% and domestic sale for 37.92%. Nonetheless, compared to the revenue in 2008, the total revenues from sale significantly declined up to 21.10% due mainly to the global economic downturn. For domestic sale, since 2007, the main revenue stream stemmed from the motorcycle tire and tube which was in consistence with the policy to expand the international trading. In addition, HFT intends to expand the domestic sale portion with the retaining the core international sale portion to increase its market share and to exploit the full utilization rate with full efficiency.

Business Goal

1. To enlarge the market share from both domestic and international market particularly from ASEAN Country, where the company is eligible to obtain the privilege of import tariff e.g. FTA and BIMSTEC Trading, thus expectedly gaining larger market share.
2. To continuously improve product quality for long-term competition and to employ as its selling point to compete with other competitors in terms of pricing strategy in the market
3. To continuously enhance the efficiency of production in order to deliver the product in timely manner and suit with customers' needs.
4. To maintain HFT's reputation in our main market with support from our parent company under the trademark namely DURO, Q-UICK and DUNLOP from Sumitomo Rubber of Japan
5. To capture higher gross margin of product
6. To develop the new product to serve the market demand and satisfy the customers
7. To emphasize on the public relation to build up the good image of our product in long term
8. To build the strengths to simultaneously respond the clients' requirement in accordance with other relevant rules which are beneficial to the society and organization, for instance, the manufacturing of products which have suitable attributes corresponding to Social Accountability or Corporate Social Responsibility thus making the product to be of acceptably quality in various countries. This offers the advantageous to sell the products in compliance with the governmental standard e.g. ISO Standard (Thailand), SNI (Indonesia), SIRIM (Malaysia) and E-MARK (EU Countries).

BUSINESS DESCRIPTION**Product Description**

HFT mainly engages in the business of manufacturing bicycle tire and tube categorized below:

- Bicycles, Mountain Bikes and Wheel Chair Tires and etc.
- Motorcycles, racing motorcycles, scooters and etc.
- Small logistics equipment vehicle i.e., wheel barrows, tow wagons, forklifts, tractors, farm vehicles, golf carts.
- All Terrains Vehicle

Tire Products

Tires are the product range that generates the highest income for the Company both on the domestic and overseas markets, in 2009 the company's revenue from sales of various types of tires accounted for 74.02% approximately of total sales.

Tube Products

Comprise a wide range of product types and range in order to satisfy various different groups of customers. In 2009, the company's revenue from sales of Inner Tubes constituted to approximately 25.63% of total revenue.

Raw Material & Semi-finished Products

In 2009 HFT generated the revenue from sales of raw materials and semi-finished products constituting to around 0.35% of total sales.

Contractual Agreements pertaining to the HFT's business

HFT has entered into Technical Cooperation Agreements with the Parent Company and with the other companies, with main purpose of entering into such arrangements being to improve product quality, upgrading of the production process as well as production machinery and equipment. The summary of material contract is set out below ;

1) Trademark License Agreement

DURO

<u>Counterparties in the Contract</u>	Hwa Fong Rubber Industries Company Limited ("HFR")
<u>Date of Contract Signing</u>	August 27, 2005
<u>Date of Contract Beginning and</u>	August 27, 2005 - December 31, 2008
<u>Contract Ending</u>	
<u>Contract Length</u>	3 years, with an automatically renewable Option in the year-on-year basis unless the Objection from either side.
<u>Essence of the Contract</u>	Use brand "DURO" for local and international sale
<u>Term and Condition</u>	HFT pays for the fee as much as 0.50 % of total Sale under brand name "DURO" to HFR.

2) Technical Cooperation Agreement

<u>Counterparties in the Contract</u>	Hwa Fong Rubber Industries Company Limited ("HFR")
<u>Date of Contract Signing</u>	August 27, 2005
<u>Date of Contract Beginning</u>	August 27, 2005 –December 31, 2008
<u>And Contract Ending</u>	
<u>Contract Length</u>	3 years, with an automatically renewable Option in the year-on-year basis unless the Objection from either side
<u>Essence of the Contract</u>	HFT employs the production technology from HFR such As the factory layout, production process, raw material Ingredient, training program, product development.
<u>Term and Condition</u>	HFT pays for the fixed fee as much as US\$ 50,000 per annum

3) Technical Aid Agreement

<u>Counterparties in the Contract</u>	Sumitomo Rubber Industries Ltd. (Sumitomo Rubber)
<u>Date of Contract Signing</u>	July 1, 2009
<u>Date of Contract Beginning</u> <u>and Contract Ending</u>	July 1, 2009 –June 30, 2010
<u>Contract Length</u>	1 year, with an automatically renewable Option in the year-on-year basis unless the Objection from either side.
<u>Essence of the Contract</u>	HFT employs the production technology from Sumitomo Rubber as to the factory layout, production process, raw material ingredient, training program, product Development in particular products i.e. forklift, Motorcycle tire and tube, scooter, high speed motorcycle, all terrain motorcycle

Term and Condition

- (i) Fixed fee for Sumitomo Rubber approximately 0.40% of total products sale (particular products) per annum,
- (ii) Trademark fee equivalent to 1.5%-3% of total revenue from sale from the product under brand name "DUNLOP" and
- (iii) Fee for technician 3,000,000 JPY/person/year

Remark: The product type under this contractual agreement indicates the motorcycle tire and tube whose size of wheel is more than 12" including beach tire and mountain tire

● **Marketing and Competitive Environment**

Marketing Strategies

Domestic Market

In domestic market, HFT's target customers can be categorized into 2 groups as follows:

1. Original Equipment Manufacturer more commonly referred to as the "OEM" of bicycles and motorcycles who are major manufacturers in the domestic market, whereby HFT sells directly to these major producers, namely LA BICYCLE, SIAM CYCLE and KAMAR MOBILITY, for instance, under the brand "DURO", while the major local motorcycle manufacturers include THAI HONDA, THAI YAMAHA, KAWASAKI and ASIAN HONDA etc., which in perspective, the products sold under the DUNLOP Brand Name holds a market share of approximately 12.73% of the domestic market in the year 2009.

2. Replacement Equipment Market or more commonly referred to as the “REP” in order to replace a new tire by selling via the Sales Agency, including YOKO ALLOY, JUNE CHAROENYON, ASIAPACK IMPORT EXPORT (Thailand) and Q TIRE AND WHEEL INTERNATIONAL LIMITED.

HFT manages its own marketing strategies in domestic market using several important tools, including placing special emphasis on Product Quality, whereby products manufactured by the Company has been granted the ISO 9001:2000 Quality Certification, and the use of the Brand Name and Logo which has been widely accepted, i.e. “DURO”, “Q-UICK” and “DUNLOP,” as well as relied upon the excellent relations forged with the major Japanese manufacturers of motorcycles within the country via a special connection channel through Sumitomo Rubber, which is a shareholder of the Company. HFT has forged excellent commercial relations with Sumitomo Rubber, which also has special relations with the major manufacturers of motorcycles, which are also Japanese companies, which gives our Company the best opportunity to receive Purchase Orders, which adds to the assurance that the Company can expand its sales volume of motorcycle tires on the domestic market.

HFT also directs the price of its own products on the domestic market, and this engagement has not been intruded upon by the Parent Company. Under such normal circumstances, HFT sets the price range of its products by means of its calculation on the Cost of Production, as well as taking the competition and the prevailing conditions of the domestic market as the major factors into consideration.

Overseas Market

Whereas the Company and the Affiliated Company within the Group are manufacturing similar products i.e. Tubes and Tires, in order not to cannibalize the target market and create conflict of interest amongst affiliated to the Parent company's Group, the product type and market sectors of the affiliated companies have therefore been segregated, a strategy which has been approved by the Board of Directors of the Parent Company, to be strictly implemented as follows:

The product type and market sectors of the affiliated companies

		<u>Product Categories/Segmentation</u>			<u>Market</u>		
		HFR	HFT	HFC	HFR	HFT	HFC
Bicycle Tires	Category	High-end	Middle-Low End	Middle-Low End	Taiwan, Europe	Thailand, Europe, Asia And worldwide	China, U.S.A.
	Type	skin wall tire, Tire without tube	black tire	black tire			
		High Quality	Color Tires	Color Tires			
Motorcycle Tires	Category	High-end	Middle-Low End	Middle-Low End	Taiwan, Middle East, Africa and Europe	Thailand, Asia, Middle East and Europe	China, Africa & Middle East
	Type	For high speeds Exceeding 180 km/h.	for speeds less than 180 km/h.	for speeds less than 180 km/h.			
Industrial Rubber Products	Category	High-end	Middle-Low End	Middle-Low End	Taiwan, Middle East, North America and worldwide	Thailand, Worldwide (America & Europe and Japan)	China
	Type	Heavy Truck	Wheel Barrow	Heavy Truck			
	Category	Middle-Low End (CL)	Middle-Low End (CD)	Middle-Low End (CL)			
	Type	For speeds exceeding 100 km/h.	For speeds slower than 60 km/h.	For speeds exceeding 60 km/h.			

Remarks

- HFR: Hwa Fong Rubber Industries Co., Ltd.
- HFT: Hwa Fong Rubber (Thailand) Plc.
- HFC: Hwa Fong Rubber (China) Co., Ltd.

- High-end Market refers to the tire market, including industrial rubber parts and components Which uses high technology for their production, i.e., Skin Wall Tire which has light weight and durable against impact tension, suitable for Racing Bikes, of which the 'Price Range' is also used for segregating the various quality levels.
- Mid-Low end Market indicates the motorcycle tire market and the motorcycle (including industrial rubber products) for customers in general, i.e., privately owned a motorcycle which does not use excessive speeds, affordable price, and the manufacturer need not take the Weight Factor into consideration like Racing Bikes. However, production is under international quality standard control, as earlier mentioned, offering a wide product range, including different designs for different speed requirements of vehicles, and therefore the Price Range becomes a clear segregator of both the product range and market segment.

Each affiliated company amongst group has established a clear-cut policy in terms of Target Group and Market Segment, in order to prevent the affiliated from vying for the same Target Group of Customers. Nonetheless, though that there are presumably overlaps among the affiliated companies, i.e., between HFT and HFC, which similarly produces motorcycle tires for the Mid-Low end Market, but their Customer Base is totally different, that is, HFT's customer Base is targeted on the domestic market and in Europe, while HFC has its Customer base in China (PRC) and U.S.A., whereas HFR has been expertise in bicycle and motorcycle tires as well as industrial rubber and components production required to have high-end technology in the manufacturing process, thus producing high quality products as well as differentiating the price range. As a result, the HFR's Target Customers become different from both HFT and HFC.

Like any other affiliate, the parent company (HFR) has a policy to determine and set out the target group of Customer for each of the affiliated companies, as well as setting the price range of the products to be marketed in HFA.

HFT's Export market can be categorized into 2 groups set out below:

1. Customer Groups provided by the Parent Company

The Parent Company is responsible for procuring the customer lists in accordance with the product range manufactured by the company, in line with what stated earlier in the chart. Whereby, the Company is responsible for delivering the products to the Customer and collecting payment directly from the said Customer, in this case the markets include Europe, North America and Africa etc. Among the company's high-profile customers are Ralf Bohle which is a Trading Company located in the Federal Republic of Germany participating in Product Design with the Company, and hires the Company to manufacture the products whereby Ralf Bohle absorbs expenses on cost of moulds including one of our valuable clients, Michelin, situated in France to procure from the company i.e. medium-high end Bicycle Tires and motorcycle tire as well. In addition to Michelin, there are a number of customers who obtained support from its respective parent companies and have been ranked top 10 customers for the Company.

2. International Customers individually acquired by HFT

The Company is allowed to seek for Customers on the international market as long as the export products and the market segment will not duplicate with the products and market segment already held by internal affiliated company i.e., the Indochina countries, ASEAN countries including the main customers i.e. Decathlon SA located in France. The company is responsible for setting the product price range for markets which will be reviewed by the Parent Company, but the Parent Company does not charge any fees for the provision of markets/customers, in this case, in order to prevent price competition between companies within the business grouping, and in order that the established product price range will be in line with the prevailing conditions of competition on the international market, and the important factors used for establishing the product price range include the cost of raw material, the type of product and the prevailing price range of similar products manufactured by competitors, the prevailing market price range and market conditions at that point in time etc.

Industry Overview and Competition

- **Industry overview**

Domestic Market

Demand for Bicycle and motorcycle tire and tube depends upon the production of bicycle and motorcycle as well as overall economy. The main structure of the manufacturing base in Thailand is dominated by the Japanese manufacturing group, over which our parent company wields influence in imposing both the role and direction of the strategy on marketing, product design and competition. The motorcycle manufacturers have nevertheless established R&D department so as to develop and research its respective products to suit the Thai market.

International Market

The domestic and international sale volumes of both motorcycle tires and tubes have continued to increase albeit the adverse impact from global state of economy in 2009. This was mainly attributable to the effort to increase our market share from other competitors coupled with the continuous endeavors to tap into the developing countries across Asean region. The Company has conducted research and development and attempted to seek for strategic alliance to encompass the impediments with regards to the legal, political, religion and culture to escalate the distribution channels to at most serve the customers' needs. The bicycle tire in addition has been integral part to drive the surge in sale in European market where is regarded as the members of countries who launch the campaign for energy saving and green environment which is evidenced by the continuous sale growth.

Based on the Company's operation, it is found that the global economy and political uncertainty have shaken the Company's confidence continuously notwithstanding manageably. Other notable factors including oil price, interest rate and foreign exchange rate also potentially influence on the Company's business operation.

- **Competition**

Domestic Competition

1. Original Equipment Manufacturer (OEM): According to the motorcycle production figure in 2009 up to 1,535,613 cars, a merely decrease of 10% y-o-y which was better than initially feared from adverse impact from global crisis since the beginning of 2009. Since the last quarter of 2009, the overall motorcycle market has continuously picked up due to the sustainable government stimulus package and fairly stable political situation. Thereby shoring up better consumer confidence back on track. In December alone, it was evidenced that the new registration car had surged as high as 127% from the same period of last year.

The Motorcycle market in “Automatic” gained its market share around 47% from 45% in 2008 since the manufacturer has adopted the marketing strategies by ways of the introduction of new major or minor changes in products which has refreshed and modernized the trend as well as the continued promotional campaigns throughout the year. In addition, with the new promotional campaign targeting new style of motorcycle, the family motorcycle's market share was therefore decreased from 51% to 49% y-o-y.

2. Replacement Equipment Market (REP): There are numerous types of products manufactured under many brand names competing within this market, and thus competition in this market is very stiff due to expected healthier status in the small and medium manufacturers. Hence, rubber products that have entered into this market vary in quality and price range which cover a wide spectrum of the Lower, Middle and High end markets. In the year 2009, the Company intended to focus on the high end market using Dunlop Brand and medium-end products with DURO Brand & Q-UICK Brand). The Company gained good impression from the end-users in which the Company aims to retain quality and continuously improve its products' attributes with the competitive price. This in turn helps the Company gain brand recognition and more confidence in the future.

However in the year 2009, a number of Low-price import items from China has been slower since the Thai Industrial Standards Institute (TISI) strictly enforces the quality standard of the motorcycle tube to be one of the controlling merchandised items list under TISI.

International Market Competition

HFT exports its related products to wide array of countries all over Asia, Europe, the United States of America, Africa and Middle East, with several supportive factors including:

- Possession of Brand Name that is recognized worldwide;
- Marketing support by the Parent Company and affiliated companies in the Group, which have long Experiences in operating this business;
- Being the globally recognized products to compete worldwide

Nonetheless, due to highly pricing competition attributable to Chinese manufacturers possessing excessive production capacity with low production cost, it appeared that the selling price from China can be kept in very low, on top of more intense competition from Asian market, thereby causing stiffer for pricing competitive. As such, the newly launched trademark will be designated to best correspond to the infancy factors aforementioned in order to reach the sale target. Besides, the company also determines the leeway to compete adopting the quality and excellent services, amongst other things to be key selling points to retain the existing customers while launching the public relation program to create brand awareness and global

recognition and aim to build the strengths to simultaneously respond the clients' requirement in accordance with other relevant rules which are beneficial to the society and organization, for instance, the manufacturing of products which have suitable attributes corresponding to Social Accountability or Corporate Social Responsibility thus making the product to be of acceptably quality in various countries. This offers the advantageous to sell the products in compliance with the governmental standard e.g. ISO Standard (Thailand), SNI (Indonesia), SIRIM (Malaysia) and E-MARK (EU Countries).

Capital Structure and Management

Capital Structure

8.1 Assets of the company

Registered capital of the company on 31st December 2009 the company had a registered capital of Baht 658,434,300 divided into 658,434,300 shares with a par value of Baht 1 and a paid-up capital of Baht 658,434,300 divided into 658,434,300 shares with a par value of Baht 1.

8.2 Shareholders

Names of the largest shareholders of the company on 31st December 2009

Name	Number of shares (shares)	Percentage (%)
1. Hwa Fong Rubber Industries Company Limited	542,000,000	82.32
2. RAFFLES NOMINEES (PTE) LIMITED	18,414,900	2.79
3. Mr. Steven Y. Chang	7,462,900	1.13
4. Thai NVDR	4,141,700	0.63
5. Ms. Chantara Cheowthanapinyo	3,400,000	0.52
6. Mr. Vorathep Srikuruwad	3,016,000	0.46
7. Mr. Surachai Fongamornkul	2,850,000	0.43
8. Mr. Chamran Rungwattanaset	2,200,000	0.33
9. Mrs. Amornrat Suwansingh	2,100,000	0.32
10 Mr. Weerasak Suthibutr	1,730,000	0.26

Management Structure

The management structure of the company is composed of the Board of Directors, the audit committee and the management team, details of which are as follows:

1. The Board of Directors as of December 31, 2009

No.	Name-Last Name	Position
1	Mr.Chen, Heng- Yi*	Chairman of the Board and Managing Director
2	Mr. Chang, Chun-Chuan	Director
3	Mr. Ho, Chia -Chou*	Director
4	Mr. Chen Tai*	Director
5	Mrs. Silvia Wu	Director
6	Ms.Oranuch Suratroongrojkul*	Director
7	Mrs. Sajeerat Metheesuwapab	Chairman of Audit Committee and Independent director
8	Mr.Anupong Techaamnuayporn*	Audit Committee and Independent director
9	Mrs.Nutcharee Suriyasenee*	Audit Committee and Independent director

Remark: *

- Mr.Chen, Heng -Yi was appointed to be director in place of Mr. Chang, Yun-Long on August 14, 2009 and appointed to be Chairman of the Board and Managing director on September 10, 2009
- Ms.Oranuch Suratroongrojkul was appointed to be director in place of Mr. Steven Y. Chang on September 10, 2009.
- Mr. Ho, Chia- Chou was appointed to be director on November 5, 2009.
- Mr. Chen Tai was appointed to be director in place of Ms. Yen, Jung- Ling on December 8, 2009.
- Mr.Anupong Techaamnuayporn was appointed to be audit committee in place of Mr. Yen, Jui -Hsien on December 8, 2009.
- Mrs.Nutcharee Suriyasenee was appointed to be audit committee in place of Ms. Yupadee Xu on December 8, 2009.

The scope of work and responsibilities of the Board of Directors

1. Responsible for making important or critical decisions on behalf of the Company, and give work assignments, objectives, guidelines and directional indicators as well as draw up the company's policies, including overall supervision of the business operations, production and performance, customer relations and be directly responsible to the Board of Directors.

2. Authorized and empowered to hire, appoint, discharge, force retirement and expulsion, setting the wage and salary scales, wage and salary adjustments / increases, granting bonuses and other financial rewards and incentives, including the appointment of representative(s) to represent the Employer in the company's Provisional Welfare Fund management committee, which involves all company employees.

3. Authorized to approve and transfer the power of attorney or the granting of authorization to a legal representative for the purpose of hire and procurement of assets and services for the interest and benefits of the company.

4. Empowered to issue orders, regulations, announcements and memorandums in order to ensure that the business operations and work assignments are carried out in strict compliance to instructions for the interest and benefit of the company, and in order to observe the rules and regulations within the organization.

5. Authorized to act in the capacity of the company's representative in dealing with outside persons in businesses and activities which are beneficial to the Company.

6. Grant approval for the appointment of advisors in various fields which are necessary for operating the business or for implementation of the work assignments.

7. Engage in managerial works which are involved with the general operations of the company.

8. Annual self estimation.

2. Audit Committee

The company has established the Audit Committee to supervise and monitor the company's internal operation to be in standardization. The Audit Committee, comprising of 3 directors as of December 31, 2009 are as follows:

No.	Name-Last Name	Position
1	Mrs. Sajeerat Metheesuwapab	Independent director / The chairman of the Audit Committee
2	Mr.Anupong Techaamnuyaporn	Independent director / Audit Committee
3	Mrs.Nutcharee Suriyasenee	Independent director / Audit Committee

Remark : No.1 and 2 are those who have Financial and accounting background and have experience to verify the financial statement

The scope of work and responsibilities of the Audit Committee

- 1) To review the accuracy, completeness, reliability of the company's financial reporting and the sufficiency of such disclosure.
 - 2) To review the adequacy and effectiveness of internal control systems and internal audit functions as well as to perform the independent duties of internal audit and to render the opinion to consider appointment or removal of Head of internal audit or other responsible relevant.
 - 3) To review compliance with the Securities and Exchange Act, regulations of the SET and any other relevant laws.
 - 4) To consider, propose appointment and propose compensation for auditor including to attend the meeting with the auditor without having management team at least once a year.
 - 5) To consider compliance with all connected transaction disclosures or conflict of interest disclosures to ensure the appropriateness and best interests of the Company.
 - 6) To report the activities of the audit committee in the company's annual report, which must be signed by the chairman of the audit committee and comprises the followings?
 - (a) Opinion on the accurateness and reliabilities of the financial report
 - (b) Opinion on the sufficiency of the internal control system
 - (c) Opinion on the compliance with the securities act, SET rules and regulations and other relevant laws
 - (d) Opinion on the suitability of external auditor
 - (e) Opinion on the connected transactions
 - (f) Number of attendance of Audit Committee as well as each respective attendance
 - (g) Opinion or overall observations from the audit committee in compliance with charter's specified duties
 - (h) Other relevant indicating what shareholders and investors should know in accordance with the scope of works and duties and responsibilities assigned by the Board of Director
 - 7) To perform other duties as assigned by the Board of Directors and approved by the audit committee.
- The audit committee will be directly supervised by the Board of Director whereas the Board of Director will be responsible for external parties.

3. Management Team

Names of the management team as at December 31, 2009

Name-Last Name	Position
1. Mr.Chen, Heng-Yi	Chairman of the Board and Managing Director
2. Mr. Chen Tai	General Manager
3. Ms.Silvia Wu	Division General Manager
4. Ms.Oranuch Suratroongrojkul	Internal Audit Manager
5. Mr.Hsu, An-Jen	Sales Manager

The scope of work and responsibilities of the Managing Director

1. Authorized and empowered to implement the policies of the Board of Directors provided that such business operations or work assignment is conducted in accordance with governing laws as well as the rules and regulations of the company.
2. Look after and supervise the business operations of the Company to ensure that such works are carried out in accordance with the policies and instructions given by the Board of Directors.
3. Take into consideration various issues and make recommendations for changing or improving various work regulations as deemed necessary and appropriate, and submit such recommendations to the Board of Directors for consideration and approval.
4. Pertaining to the granting of consent and/or approval for engagements or transactions which would legally obligate the Company in the capacity of the "Borrower." The managing Director shall be authorized to approve loans which do not exceed 1,100,000,000.00 Baht. If in excess of 1,100,000,000.00 Baht, such arrangement shall be approved by the Company Board of Directors.
5. Engage in other tasks as assigned by the Board of Directors.

4. Election of the Directors and the Management

Selection of persons to be appointed as directors of the company does not involve the process of nominating committee whatsoever. Nevertheless, the company has laid down guidelines on the appointment of board of directors in accordance with section 68 Public Limited Company Act. and the rule and regulation of SET as follows:

- (1) One shareholder is entitled to one vote per share.
- (2) Each shareholder must use all of his votes under (1) to vote for the election of one to be directors.
- (3) Shareholders must cast all of their votes for one nominee, and may not divide their votes.

The candidates obtaining the highest numbers of votes shall be appointed directors, until all vacancies are filled.

Should be a tie vote, the chairman of the Board of Directors will make the determination.

5. Remuneration and Benefits for Board of Directors and management

5.1 Director's remuneration 9 persons and Management 5 persons as at 31st Dec 2009 as follows

Type of remuneration	Director's remuneration 9 persons (Baht)	Managements remuneration 5 persons(Baht)
Salary	244,000	5,721,288
Bonus	-	359,037
Premium	960,000	-
Total	1,204,000	6,080,325

5.2 Other Remunerations

- None -

6. Supervision (Good Corporate Governance)

The Board of Directors has outlined the company's management and controls in accordance with directions prescribed by the Stock Exchange of Thailand which may be summarized as follows:

6.1 The Policy of Corporate Governance

The Board of Directors has noted the importance of good governance policy and passed a policy, which emphasizes operational transparency and accountability. Regular disclosure to the public and shareholders has been adopted as general practice of the Company. In addition, the Company adopted strict internal audits and controls in recognition of their importance. With regard to risk management, the Company has closely controlled and managed risk while keeping in mind a good relationship and business ethic towards business partners, shareholders and all concerned parties.

1. Shareholders Right

The company recognizes the importance of equal rights of all shareholders. The company considers all shareholders as owners of the company regardless of the percentage of shares owned. The company reports to shareholders regularly on progress of operations, it will report through the Stock Exchange of Thailand. The company recognizes that each shareholder is equally important as the owner of the company and therefore realizes every aspect or issue that the shareholder addresses as follows:

1.1 In 2009, the company convened the Annual General Meeting on April 22, 2009 at 10.00 a.m. at Four Wings Hotel 5th floor, Ginkanya room. The venue is located at 40, Sukhumvit 26, Klong Teoy, Bangkok. The meeting resolved all proposed agendas in appropriate order.

1.2 The shareholders were given 14 days advance notification including other supportive documents in sufficient manner prior to the meeting through the company's registrar. The disclosure of shareholders' notification was also conducted through the company's website prior to the meeting.

1.3 The company encouraged and offered the shareholders the opportunities to fully express the opinion. In case that the shareholders do not attend the meeting, the shareholders are able to give the proxy to other assignees to attend and vote on their behalves. The company publicizes the proxy form in the company website for shareholders' convenience.

1.4 During the meeting, the chairman offered the shareholders' opportunities to render their own opinion. Before the commencement of the meeting, the chairman announced the number of shareholders who physically attend the meeting and those who gave the proxy including the vote casting manner by counting the dissent shareholders only for convenience. In addition, the company provided the opinion form in case non-approval in every agenda.

2. Equality of Shareholders' Right

The Company recognizes the rights of all shareholders to receive accurate and complete information in sufficient time to enable them to make decisions in shareholders' meetings. Prior to all shareholders' meetings, the Company shall send a notice convening the meeting, together with an agenda, to the shareholders and include an opinion from the board of directors on each agenda. Such notice will be publicized in the daily newspaper no less than 3 consecutive days and no less than 3 days prior to any such meeting. The notice of shareholder meeting will notify the necessary documents for the meeting, proxy form A for shareholders who are not able to attend a Meeting in person and proxy form B and C please down load in the company website.

The Chairman will allow the shareholders rights to inspect the operations of the Company on an equal basis enquire and give opinions and other suggestions, and shall record issues that have been discussed and important opinions in the minutes of the meeting so that the shareholders will be able to examine them.

3. Related Party Rights

All related parties, including but not limited to customer, business partners, credits, employees and competitors will be treated fairly. For example, the company will procure the product specified by the customer. The customer will be looked after both for the quality of product and after sale services Confidentiality of the customer will always be honored while competitors will be treated fairly under normal competitive terms in the open market and without any illegal practices.

1. Shareholders and Investors

The company determines to operate its business to ensure the satisfactory outcome and best interests of shareholders and investors. The company also has policy to recognize the equality of the shareholders' rights in regard to the information in transparent and accountable manner.

2. Employees

The company realizes the importance of the employees and fairly treats them with respect of the welfare and compensation, good environment and work safety including their health as set out below.

- Provide the lunch welfare for every employee for free
- Provide the top-up compensation for employees who do not take leave or late to encourage the employees and practice the discipline for the employees
- Provide the provident fund for employees
- Provide campaign for clean environment within the office and factory to ensure cleanness and safety in accordance with 5S.
- Provide Funeral welfare benefit and wedding welfare benefit
- Provide annual health check-up
- Provide uniform
- Organize Annual festive activities
- Exercise activity before work to help shore up the health of the employees and to keep alert
- Offer Extra reward for the employees who achieve the target to stimulate the working environment
- Provide car pool service for the employee for transportation's convenience
- Provide the nursing home and emergency cars throughout 24 hours for accidental preparation

- Provide training to the employees every morning to be communication protocol and understand the employees' need as well as strengthen the employees' knowledge
- Organize the promotional activities for the outstanding employees by awarding them on yearly basis
- Offer the company's products' special price for the employees

3. Customers

The company recognizes the importance to manufacture the quality product to meet the customer's requirement since the Company's policy is quality comes first and customers' satisfaction matters the most. The company organizes the customer satisfactory survey form so as to after reviewing the outcome of the survey improve the quality of product and service. We determine to develop our products, machinery, employees and logistics system including the research & development to improve the quality of products

Furthermore, the Company conducts its business with integrity and places the importance of retaining the confidentiality of each customer to meet the business ethics in order to tighten the good relationship between the company and customers to ensure the sustainability of the business.

4. Suppliers or creditors

The company complies with the suppliers and creditors in fair manner in accordance with the agreed business arrangement and terms and conditions with best interests of the company to ensure that the suppliers and creditors will be given the fair treatment in payment and receiving merchandise items in accordance with the agreement in timely manner. Every counterparty will be equally treated and the company will not pay overdue or object any payments unless deemed necessary.

5. Competitors

The company conducts its business with ethics and transparency and complies with the rules without the unfair business conduct to ruin the competitors and does not seek for the trade secret in unfair or inappropriate treatment including avoiding the price war and tarnishing the trade competitors' image. Throughout the company's business operation, the company has never experienced any legal disputes with the trade competitors.

6. Society and environment

The company supports the social activities that give rise the benefit to the community in order to build the long-term relationship with those in community. In terms of the environment, the company supports the cultivation of forest at the Bangpoo's recreational area by offering the employees to participate in the cultivation of forest with

the cooperation with various organizations in both government and private agencies to conserve the forest area in compliance with government policy. The company sets up the health and sanitary committee for society and environment.

4. Disclosure of Information and Transparency

The company realizes the important of accurate and timely disclosure, including disclosure of financial information and other information which may affect the company's share price. Such disclosures will be done through direct communication to shareholders and through Stock Exchange of Thailand, the Form 56-1 and Annual Report including other incumbent reports required to submit to the Securities Exchange and Commission (SEC) and disclosure at www.duro.co.th

The Company has also established formal investor relations function deputized for any communication to disseminate the company news and activities for shareholders, investors, analysts and citizens. Further information regarding the company can be obtained by contacting the company at the e-mail address: hwafong@duro.co.th or tel. 0-2709-6580 ext 103, 118

The company also recognizes the importance of information dissemination in relation to the financial report to ensure the accurateness and in accordance with the general accounting standard verified by the certified accountant and reviewed by the audit committee of the company.

5. Responsibility of the Board of Directors

5.1 Board of Director's Structure

The company's directors consist of 9 directors as follows:

Executive Directors	4 persons
Non Executive Directors	2 persons
Independent Directors	3 persons

The Executive Directors are capable of industry knowledge for a long period of time from the parent company located at Republic of Taiwan. The 3 independent Directors are considered as no conflict of interest and free to express their view and observations in case that the opinion from the Audit Committee is different from the Board of Directors to strike the balance of the Executive Directors. Furthermore, the chairman of the Audit Committee is competent in financial and accounting background and fully understands the company's business and its respective financial report.

5.2 Sub Committee

The Company has appointed an audit committee in 3 years' term, consisting entirely of Independent Directors as follows:

No.	Name-Last Name	Position
1	Mrs. Sajeerat Metheesuwapab	The chairman of the Audit Committee
2	Mr.Anupong Techaamnuayporn	Audit Committee
3	Mrs.Nutcharee Suriyasenee	Audit Committee

All audit committee members has requisite qualification under relevant SET rules and guidelines, (specifically, that such members have accounting or finance backgrounds).

The Audit Committee meets and reports to the Board of Directors on following matters:-

- To review financial reports before submitting them to the Board of Directors.
- To co-ordinate with internal auditors on report of internal controls assessments.
- To review transactions that involves conflicts of interests.
- To contemplate the risk management.

5.3 Role and Responsibility of the Board of Directors

The Board of Directors is responsible for the company's financial reports and performs the financial projection in accordance with the accounting standard, the financial information. In addition, the Board of Directors obtains help from audit committee and internal control unit to supervise inspect the internal control system whereby the members of audit committee are prohibited to be management team and must be independent.

In addition, the Board of Director also emphasizes on the importance of efficient operation as well as the risk management taking the best interests of shareholders into consideration.

5.3.1 Leadership and vision

The board of director is eligible to endorse the vision, business goal and mission including the company budget. In addition, the boards of director's duties are to supervise the management team to conduct the business as set out in the company's policy with accountability and integrity to achieve the target. Furthermore, the board of director recognizes the importance of the internal control system and internal audit to ensure the

business conducted in productivity and efficient manner including the prudent risk management for the best interests of shareholders.

5.3.2 Business Ethics

The board of director and management team has cultivated the business ethics for every employee to comply with integrity and be responsible to all stakeholders, shareholders and all concerned parties to build the organizational culture in relation to business ethics which are made accountable and recognizable for general public.

5.3.3 Conflict of Interest

The company has given the policy to manage the conflict of interest with caution and transparency of which the transactions are to be proposed to the board of director for consideration. The connected party is not eligible to cast the vote to ensure the fairness and best interests of the company. The company will comply with the rules and regulations set forth by the Stock Exchange of Thailand and disclosure the information with sufficiency, accurateness containing the value of the transaction, the parties involved with further disclosure to be conducted in the annual report.

5.3.4 Internal control system and Internal audit

The company has its own functional internal audit department to have duties to examine the business operation and important financial activities to ensure the proper conduct in accordance with the guideline and procedure set forth by the company. The company has established its own internal audit and continuously improved the functionality to ensure that the procedural system is conducted in productivity and efficiency manner with periodical monitoring system. The monitoring system includes the examination of the procedure for implementation. On the contrary, the inspected department will be given the evaluation and recommendation feedback to improve the auditing and monitoring procedure including the modernization of IT system.

5.4 Directors Meeting

The Board of Directors will have annual schedule of meetings. Typically, a meeting is convened every 3 months with extraordinary meetings convened as required. The Chairman or other directors assigned by the chairman will issue a notice of the meeting with agenda and enclose all information related to the agenda. The notice of meeting will be sent out to all directors seven days in advance. In 2009, the Board of Directors and Board of Audit Committees convened the meeting 8 times and 4 times respectively. Details of Attendance of the Board of Directors and Board of Audit Committee can be summarized below:

Board of Director's meeting

Name	Number of Attendance / Number of Meetings		Remark
	Board of Director	Board of Audit Committee	
1. Mr.Chen, Heng-Yi	5/8		Appointed to be director on 14 August 2009
2. Mr. Chang, Yun- Long *	2/8		Resigned on 14 August 2009
3. Mr. Chang, Chun-Chuan	3/8		-
4. Ms. Silvia Wu	8/8		-
5. Ms. Sajeerat Metheesuwapab	6/8	4/4	-
6. Ms.Oranuch Suratroongrojkul	3/8		Appointed to be director on 10 September 2009
7. Mr. Steven Y. Chang *	5/8		Resigned on 10 September 2009
8. Mr. Ho, Chia - Chou	1/8		Appointed to be director on 5 November 2009
9. Mr. Yen, Ya - Nan	3/8		Resigned on 14 August 2009
10. Mr. Yen, Jui - Hsien	4/8		Resigned on 5 December 2009
11. Mr. Chen Tai			Appointed to be director on 8 December 2009
12. Ms. Yen, Jung- Ling	1/8		Resigned on 5 December 2009
13. Mr. Yen, Ming -Shan	3/8		Resigned on 14 August 2009
14. Ms.Nutcharee Suriyasenee	-	-	Appointed to be independent director/audit committee on 8 December 2009
15. Ms. Yupadee Xu	7/8	3/4	Resigned on 8 December 2009
16. Mr.Anupong Techaamnuaiporn	-	-	Appointed to be independent director/audit committee on 8 December 2009
17. Ms.Marisa Naovaratanophas	3/8	3/4	Resigned on 9 September 2009

5.5 Self assessment of the Board of Directors

The company has established self assessment for the Board of Directors for the past year in compliance with SET's rule and regulation in which the Board of Directors employs to enhance and improve the efficiency and productivity. For the evaluation result for the period 2009, the overall performance of the Board of Directors is fairly good.

5.6 Directors and Managements Remuneration

Director's remuneration guidelines have been clearly established based on workload, assignments, responsibility and the basis of company operation and the performance of their management. Both Directors remuneration and management's remuneration has been disclosed in the section of remuneration and Benefits for Board of Directors and management.

5.7 The development of the Directors and Management Team

The company gives support to the Directors and Management Team to take part in the seminar so as to improve the operational skill and enhance its capacity as well as business vision. In the year 2009, the two directors who participated in the curriculum related to the director organized by the IOD include Ms. Silvia Wu – Director Certification Program (DCP) 123/2009 and Ms.Oranuch Suratroongrojkul – Director Accreditation Program (DAP) 81/2009.

7. Supervision of Internal Information

The company has a policy on supervision of usage of internal company information by its executives, staff including their spouses and the minor child for their own benefit. The executives, staff and the spouse and minor child of such person who come to possess internal company information are not permitted to disseminate such internal information on prior to the company announcing its results of operations (financial statements) to public. Such persons are not permitted to buy or sell the securities of the company prior to the company's public disclosure.

8. Internal Control System

The Company Board of Directors had established the policy and procedure for all business engagements to be conducted with transparency and efficiency, and has instituted and developed a system for conducting internal audits as evidenced in the company's Internal Audit Manual. The internal audit and control

system has been introduced to ensure that the company's business engagements are executed with utmost prudence and awareness, and in order to manage and minimize the risk factor associated with such business Activities to an acceptable level. The provisions of the company's Internal Audit Manual provides a coverage over Internal Audit & Control Procedures which are enforced upon and strictly adhered by both the managerial level staff members and all company employees under heading in the year 2009 as follows

1. sales and receipt of payment
2. purchase and payment
3. production
4. personnel & human resources management
5. procurement of investment capital
6. procurement of fixed assets
7. procurement of IT management
8. control and supervision of internal operations,

According to the internal audit system, should the deficiency of the operation be found, the internal audit department will report and give the recommendation to its respective high-level senior managements as well as its related departments to seek for the conclusion and improve the operation continuously. In addition, the internal audit periodically convenes the meeting with the audit committee and propose the audit findings to the audit committee and certified accountant in every quarter. However, should the deficiency of audit findings be not significantly found, it is conducive that the internal control system has been sufficient and efficiency.

9. Opinion from Board of Directors

The Board of Directors is of the opinion that the company's Internal Audit System is sufficient and satisfactory and, to a certain extent is considered suitable. The company has set Operational Targets which can be factually achieved, and company performance is consistently monitored and regularly appraised and assessments made, as well as the close monitoring and follow-up of all company business engagements and activities, and for this purpose the Internal Audit Committee had been appointed as a totally independent entity tasked with the responsibility to follow-up, appraise and assess work results and performance of the company

Risk Factors

Risk factors mentioned in this section are considered as the critical risk factors that may potentially influence on the business operation. It is incumbent upon the investors to contemplate these risk factors that may arise in addition to those stipulated in these documents.

● Business Operation Risk

1. Risk related to the large competitors and new competitors

Presently, the main competitors for motorcycle and bicycle tire and tube consummate to be 5-6 persons locally. It is important to concern on the new entry of other competitors depending on the expected surging demand. However, the new comers are lack of capital, technology, human resources, and marketing and trademark to be recognized, which reduced the likelihood of new entry of competitors. Also, the long-term establishment can be beneficial to the existing players, which created so-called barrier of entry.

For the sake of potential international competitors, with the umbrella of HFR, incorporated in Taiwan for a period of time coupled with being the producer and distributors in many countries, HFT can automatically enhanced the distribution channel, which sustain the competitive edge worldwide. However, the company has faced the pricing issue which is deemed to be higher than sale price quoted by other competitors, particularly Chinese rivals having their competitive edges in terms of production cost. The generally higher selling price stemmed from the higher price from main raw materials i.e. nylon, synthetic rubber and chemical, most of which had been procured from China since the merchandized items from China are cheaper than those in other sources together with the reasons from fewer suppliers. Nonetheless, since the company has changed its stance to review and hike the selling price in tandem with higher cost pressure, which may adversely impact on the company's competitive advantage. However, with the globally recognized standard, the company is confident that its selling point in terms of quality is still second to none, thus helping retain the customer base.

2. Risk incurred from the cannibalization among company groups

Since groups of company are in the same industry, the parent company therefore requires establishing the inter-company policy to separate the products and marketing in transparent manner (Please see the product type and market sectors of the affiliated companies page 107). In addition, the company requires monitoring

the affiliate companies to ensure the compliance as set out in the guideline. The segregation of the markets hinges on the unique competitive advantage depending on the location, import duties, type of products and price in order to balance the companies under the group with each respective customer and avoid any cannibalization.

3. Risks related to the competition from Sumitomo Rubber

For Sumitomo Rubber as HFR's majority shareholder, with expertise in the manufacturing of the motorcycle tire and tube and as long-term business alliance with the company, Sumitomo Rubber has therefore acts as business partner rather than the competitor. Currently, the motorcycle tires produced from the company are unique to those from Sumitomo Rubber which were produced in other factories. Hence, it is difficult to compete within the same market coupled with the long-term established relationship. For the company's point of view, the company has consistently received the strong support from Sumitomo Rubber to develop the products under "Dunlop" licensed with Sumitomo Rubber and the company can therefore exploit such know-how to indirectly improve other products under the group.

4. Risk associated with Foreign Exchange Risk

- Risk from Trading

The revenue attributable from export accounted for 65.36% and 62.08% in 2008 and 2009 respectively. The main trading currencies include USD dollar and Euro, of which USD has appreciated throughout the first half of the year 2009, which had positively affected the revenue performance from export volume due to higher Baht-denominated revenue. However, on the contrary if baht becomes depreciated, it will be adverse to the company for partial imported raw material from international countries, which was seen during the latter half of the year where the Baht was slid into 33.6 Baht/USD on average. Nonetheless, the company has endeavored to match the same currency with assets and liabilities to ensure the natural hedge which can in some extent reduce the foreign exchange risk.

- Risk from the financial loan

The company has no policy and tendency to borrow in the international currency, thus having no foreign exchange exposure against such volatility.

5. Risk related to the uncertainty in price of product and raw material

The risk associated with the price of natural rubber, main raw material represents the key risk factor. In 2009, the price of natural rubber had surged in line with the global demand pick up as a result of stronger-than-expected consumers' purchasing power thanks to the government stimulus packages from worldwide Central banks' efforts to inject the liquidity into the system. This caused the economy has had momentum to recover particularly in the U.S.A., China, Germany. Furthermore, other countries adopted the import tariffs reduction for the car buyers to have an incentive to replace the cash for clunker. On the natural rubber's supply side, the production had dropped in 2008 due to weather exaggerated by the increase in global demand as mentioned, thus making the natural rubber's inventory drop significantly and therefore the higher price. However, the company has closely monitored the trend of price of natural rubber and anticipated the raw material price coupled with the effort to control the most effective use of such raw material as well as diversify source of raw material to continuously save the overall cost.

6. Risk from the deficiency machinery

With the 24-hours operation, it might be the case that the malfunction of machinery and Equipment can happen, thus potentially halting the company's operation. With this regard, the company usually sets the maintenance program to ameliorate the machine to be in place. As a matter of fact, the company prepare for the large maintenance program twice a year by means of holiday event such as Songkran, New Year, thus ensuring the continuity of the operation.

● Management Risk

1. Risk related to the independent HFT's management policy

HFR, parent company holds the stake of 82.32% of total Paid-up shares. As a result of this, HFR can effect company matters that require a supermajority vote of shareholders and entirely control the company. However, the parent company i.e. HFR has no policy to manipulate the HFT's policy. Rather, HFR will help support for instance, the sale order from HFR's orders together with the support to procure the international clients to HFT. In the process of raw material purchase, HFT is free to buy any suppliers who provide the fair price. In 2009, the raw material purchased from HFR accounts for only 1.14% of total raw material. Additionally, it might be concern on the change in the management policy among group, generating adverse impact to HFT for instance, lower

margin, decreased orders from HFR. However, it is very unlikely to be that way according to the past record; it has been clearly stated by the HFR among groups in terms of the market segmentation. In addition, the HFR, parent company is also listed Taiwanese company and is obliged to comply with the relevant rules and regulations.

2. Risk from reliance on the management of the parent company

Under brand name "DURO", "Q-UICK" and "DUNLOP" from HFR and Sumitomo Rubber respectively, it has created the identical quality and standard among groups for a period of time. The companies amongst its group have adopted the mutual technology support whereas the marketing policy and price determination are agreed upon the HFT and its parent company since the policy must be adhere from the parent company. Therefore, the classification of product can be clearly broken down by the product quality, the price and market segment determined by the parent company's Board of Director.

The possible risk is related to HFR's existing shareholders, if any changes in shareholder structure take place, in turn triggering the significant change in the policy. However, after this IPO process, it will be clearly viewed to be the same shareholder group to create the strength and support the competitiveness among groups. HFT, in addition, can focus more on the domestic and international without any intervention from HFR and its affiliates.

For Sumitomo Rubber, another HFR's majority shareholder, 13.15 % stake, it can be seen as one of main shareholders to generate the adverse impact if they are to pull out since one of revenue stream stemmed from the brand "Dunlop" and its technology support. However, with the long-term relationship with the company group coupled with the fact that Sumitomo Rubber has transformed from the supplier partner to the shareholder indicated the tightened relationship and its stronger business collaborations in the future.

In the case of no cooperation from two majority shareholders mentioned above, HFT can ensure the Era of Success, evidenced by the increase in domestic sale to 37.92% in 2009. In addition, the long-term relationship amongst groups including HFT, parent company and Sumitomo Rubber more than 30 years will ensure the long commitment.

Connected Transaction

- Related Transaction for the Year 2009

During the year 2009, the company has entered into connected transaction with persons/parties. The detail of each transaction is set out below;

Transaction	Relationship	Description	Value of related transaction in 2009 (MB)	Pricing policy	Appropriateness
1. Hwa Fong Rubber Industries Co., Ltd. (HFR)	Major shareholder holding 82.32%	- Product sale	10.76 MB (297,749 units)	- Pre-determined market price, which incurred gross profit compared to previous-quarter average cost	The price can be compared to the market price including terms and conditions
		- Account receivables	3.44	- Credit 60 days	
		- Raw material purchase	9.94	- Cost plus margin	For Production under standard and normal business conditions
		- PP&E investment	8.01	- Cost plus margin (Purchase on machinery for production)	For complying the same production technology and normal business condition
		- Spare part purchase	2.92	- Cost plus margin (Purchase on the spare part for production)	For complying the same production technology and normal business condition
		- Technical assistance fee	1.70	50,000 USD per year	Contractual agreement
		- Product trademark fee	3.98	0.5% of the value of products sold	Contractual agreement
		- Trade payable	2.27	Credit 60 days	
		- Other trade creditors	3.87	Credit 60 days in accordance with trade agreement	

Transaction	Relationship	Description	Value of related transaction in 2009 (MB)	Pricing policy	Appropriateness
2. Hwa Fong Rubber (USA) Co.,Ltd. (HFA)	Affiliate company (same parent company)	- Product sale	1.31 (8,254 units)	- Pre-determined market price, which incurred from the gross loss (compared to previous-quarter average cost and the loss from the sale for obsolete products)	The price can be compared to the market price including terms and conditions
3. Hwa Fong Rubber (China) Co.,Ltd. (HFC)	Affiliate company (same parent company)	- Raw material purchase	0.59	Cost plus margin	The price can be compared to the market price including terms and conditions
		- PP&E Investment	0.4	- Cost plus margin (Purchase on machinery for production)	The price can be compared to the market price including terms and conditions
		- Product purchase	0.71	- Cost plus margin (for resale as distributor)	The price can be compared to the market price including terms and conditions
		- Trade payable	0.18	Credit 60 days	
		- Other trade creditors	0.37	Credit 60 days	

Transaction	Relationship	Description	Value of related transaction in 2009 (MB)	Pricing policy	Appropriateness
4. Sumitomo Rubber Industries Co.,Ltd.	- Related company holding the shares in parent company (HFR) up to 13.15%	- Product sale	413.81 MB (996,778 units)	- Pre-determined market price, which incurred gross profit compared to previous-quarter average cost - Credit 30 days	The price can be compared to the market price including terms and conditions
		- Account receivables	3.40		
		- Raw material purchase	4.23	- Cost plus margin	The price can be compared to the market price including terms and conditions
		- Technical assistance fee	2.29	0.4% of the value of products sold	Contractual agreement
		- Technical fee	0.67	3 million yen per staff per year	Contractual agreement
		- Product trademark fee	5.14	1.5%-3% of the value of products sold	Contractual agreement
		- Trade payable	0.59	Credit 60 days	
		- Other trade creditors	3.84	Credit 60 days in accordance with trade agreement	

As shown above, the sale transaction between HFR and Sumitomo Rubber Industries, they accounted for 0.61% and 23.40% of total sale. The selling price amongst inter-company transactions are based on fair market price in accordance with the inter-company agreement which incurred profit (compared to the average cost from previous quarter).

For the sale to HFA, it accounted for 0.07% of total sale, which incurred gross loss (compared to the average cost from previous quarter) as a result of the sale of obsolete products. However, after taking into account provision in those products, the company was able to generate the gross profit.

In relation to the credit term, the company gives the payable period for both parent company and affiliate companies around 30-90 days in accordance with normal course of business.

In relation to the raw material and machinery purchase from parent company, the company was obliged to pay the management fee in addition to the raw material price and machinery. This is in compliance with the normal market practice amongst the group whereas the parent company determines the guideline and conducts across the companies under the group. However, the company may only purchase the integral raw material and machinery for identical standardization amongst the group.

- **Necessity and Appropriateness of Connected transaction**

The above inter-company transactions were undertaken for the maximum benefit of the Company and were subject to the normal terms and conditions of business relationships. For instance, to make the standard among groups identical and machinery in which it is required to obtain the supportive know-how from parent company, it is as a result incumbent upon HFT to purchase the same quality of raw material among groups, in which purchasing from the parent company can be the good solution for this. Apart from that, the arrival and need of the raw material are also critical to save the inventory cost. In 2009, HFT purchased the machinery and equipment from HFR, parent company considerable volume to be installed in second factory, so the parent company is able to provide the technological support and give the instruction use. Apart from that reason, Taiwan ranked amongst top in terms of the export of bicycle and motorcycle tire, implying globally recognized standard.

- **Measures/Procedures of approving connected transaction**

The Company has complied with the Securities act (No.4) enacted in 2008 which stipulates and regulates the execution of interrelated transactions between the Company and other affiliated companies within the Group and the transactions with the directors, executives and related persons must be approved by the Board of Directors or the approval in principle from the Board of Directors prior to undertaking the transaction.

- Policy or trend of connected transaction

The company expects to continue to engage in existing inter-company transactions carried out in the normal course of business in fair market price basis. In purchase of the machinery, equipment and spare part via the parent company and affiliate companies, the basis will be cost plus the management fee which will be conducted due to the identical standardization amongst the group and the immediate necessity to procure some types of raw material, thus making the company essentially procure through the parent company and affiliate company albeit probably more expensive than direct purchase. In any case, in conducting of connected transactions, the company will comply with the inter-company policy in accordance with normal course of business.

Management Discussion & Analysis

● Overall Performance

For overall performance, HFT reported its revenue from sale up to 1,769 MB in 2009, a decrease of 21.10% y-o-y compared to the revenue of 2,241 MB in 2008, total sale decreasing 472 MB from mainly attributable to the global economic slowdown. However, the company still has profitability capabilities partially due to the decrease in cost of main raw materials which consist of natural rubber and synthetic rubber coupled with the continued monitoring system of production process to reduce the overlapped indirect production process. As a result, the company reported its net profit 115.41 MB, an increase of 51.29% from 39.12 MB in the year 2008, equivalent to 0.175 Baht with respect of EPS.

1. Revenue from Sales

The revenue from Sales can be categorized into the domestic and international sales, with the international side taking up 1,097.88 MB and 670.73 MB for domestic one, a decrease of 25.03% and 13.61% in 2008 respectively, mainly due to the global financial crisis which directly impacted the company thereby making the international and domestic customers delay their purchase orders. The delay resulted from the uncertainty in consumer confidence. As a result, the company was unable to sell down its stocks as expected. Nevertheless, the company can retain the sale of processed finished goods in the market thereby able to encompass the crisis albeit the fact that the overall performance dropped from the level seen last year.

2. Other revenues

Other revenues comprised miscellaneous income and interest received totaling 8.64 MB, representing 6.98 MB lower than those in 2008 mainly due to one-time gain from foreign exchange arising during the year 2008. However, as far as other revenues are concerned, it will not play an important role affecting overall company performance, merely accounting for 0.49% of total revenue in 2009.

3. Cost of Sales and Selling and administrative expenses (SG&A)

In year 2009, the cost of sales amounted to 1,414 MB whilst it represented 1,991 MB in 2008, 576.27 MB lower or 28.95% year-on-year. The cost of sale which decreased mainly based on the decline in main raw material price e.g. natural rubber, synthetic rubber, wire and other chemistries, mainly dictating the cost of goods sold to the revenue from sales which increased by 8.8% in 2009.

In year 2009, the company has implemented the inspection of the production control to reduce the indirect production procedure as well as the development of the production formula for both tire and tube to

improve the production efficiency. The SG&A meanwhile increased 23.66 MB from 49.95 MB in 2008 to 73.61 MB in 2009 mainly as a result of the provision in the import duties that are expected to be non-refundable 18.18 MB and the increase in the import duty approx 18.52 MB owing to the change in production formula for some products filed with custom department for tax refund under section 19 in accordance with the custom act. The ensuing outcome incurred additional expenses. Aside from that, the SG&A decreased in line with the decrease in sales.

- **Financial Status**

- 1. Asset**

In 2009, HFT had total outstanding assets of 1,796 MB, a decrease of 87.50 MB from the end of 2007 owing to the interim dividend payment amounting to 131.59 MB, the repayment of long-term loan up to 150 MB and slow down additional investment in PP&E as a result of uncertainty in state of economy in 2009. The major items of asset comprised the cash and cash equivalent, trade account receivables, inventory and fixed asset as a percentage to total asset amounting to 20.71%, 11.64%, 19.15% and 46.56% respectively.

The collection capacity showed signs of improvement as the day's collection period in both 2009 and 2008 were 48 days. Typical credit policy is set to be 60 days for both normal clients and related companies excluding Hwa Fong Rubber (USA) stating 90 days. In addition, the company sets the viable policy to manage the account receivables and closely monitor the process as well.

- 2. Liquidity**

The current ratio in the year 2009 decreased from 3.74 times to 3.32 times. However, the quick ratio improved from 1.66 times in 2008 to 2.01 times in 2009 due to higher cash on hand approx 227.42 MB or 157.36% resulting from the inventory management during late 2008 to manufacture during the year 2009 as well as the improvement in inventory management.

- 3. Sources of Funds**

In 2009, the debt to equity ratio showed the conservative level. This ratio was 0.34, steadily lower from 0.39 times in 2008. This was due to the fact that HFT repaid its long-term loan up to 150 MB. The current capital structure exhibited that the company can be well equipped for further business expansion.

REPORT OF CERTIFIED PUBLIC ACCOUNTANT**To the Shareholders of Hwa Fong Rubber (Thailand) Public Company Limited**

I have audited the accompanying balance sheets of Hwa Fong Rubber (Thailand) Public Company Limited as at December 31, 2009 and 2008, and the related statements of income, changes in shareholders' equity and cash flows statements for the years then ended. These financial statements are the responsibility of the Company's management as to their correctness and completeness of the presentation. My responsibility is to express an opinion on these financial statements based on my audits.

I conducted my audits in accordance with generally accepted auditing standards. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. 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. I believe that my audits provide a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hwa Fong Rubber (Thailand) Public Company Limited as of December 31, 2009 and 2008 the results of its operations and cash flows for the years then ended in conformity with generally accepted accounting principles.



(Mr. Jadesada Hungsapuek)

Certified Public Accountant (Thailand)

Registration No. 3759

Karin Audit Company Limited

Bangkok, Thailand

24 February, 2010

Financial Statement**HWA FONG RUBBER (THAILAND) PUBLIC COMPANY LIMITED****BALANCE SHEETS****ASSETS**

		Baht	
		As at	As at
	Notes	December 31, 2009	December 31, 2008
CURRENT ASSETS			
Cash and cash equivalents	6	371,941,565	144,523,025
Trade accounts receivable			
Unrelated parties - net	7	175,433,363	213,832,805
Related parties	5, 7	33,666,963	51,328,911
Other receivable - related parties	5	43,711	1,626,535
Inventories - net	8	343,913,754	533,140,382
Other current assets	9	34,237,686	13,728,066
TOTAL CURRENT ASSETS		959,237,042	958,179,724
NON-CURRENT ASSETS			
Property, plant and equipment - net	10	836,325,171	924,886,867
Other non-current assets		510,000	510,000
TOTAL NON-CURRENT ASSETS		836,835,171	925,396,867
TOTAL ASSETS		1,796,072,213	1,883,576,591

Notes to the financial statements are an integral part of these statements.

HWA FONG RUBBER (THAILAND) PUBLIC COMPANY LIMITED
BALANCE SHEETS (cont.)
LIABILITIES AND SHAREHOLDERS' EQUITY

		Baht	
		As at	As at
	Notes	December 31, 2009	December 31, 2008
CURRENT LIABILITIES			
Trade accounts payable			
Unrelated parties		127,674,054	77,297,961
Related parties	5	3,037,112	5,572,032
Other payable - related parties	5	8,075,866	13,501,550
Current portion of long-term loans	11	50,000,000	100,000,000
Other current liabilities	12	100,540,342	59,879,372
TOTAL CURRENT LIABILITIES		289,327,374	256,250,915
NON-CURRENT LIABILITIES			
Long-term loans - net of current portion	11	170,000,000	270,000,000
Other non-current liabilities		-	4,299,293
TOTAL NON-CURRENT LIABILITIES		170,000,000	274,299,293
TOTAL LIABILITIES		459,327,374	530,550,208

Notes to the financial statements are an integral part of these statements.

HWA FONG RUBBER (THAILAND) PUBLIC COMPANY LIMITED

BALANCE SHEETS (cont.)

LIABILITIES AND SHAREHOLDERS' EQUITY

		Baht	
		As at	As at
	Notes	December 31, 2009	December 31, 2008
Share capital			
Registered			
65,843,430 ordinary shares of Baht 10 each	13		658,434,300
658,434,300 ordinary shares of Baht 1 each		658,434,300	
Issued and fully paid			
65,843,430 ordinary shares of Baht 10 each			658,434,300
658,434,300 ordinary shares of Baht 1 each		658,434,300	
Share premium		222,105,000	222,105,000
Retained earnings			
Appropriated - Legal reserve	14	50,124,061	44,124,061
Unappropriated		406,081,478	428,363,022
TOTAL SHAREHOLDERS' EQUITY		1,336,744,839	1,353,026,383
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		1,796,072,213	1,883,576,591

Notes to the financial statements are an integral part of these statements.

HWA FONG RUBBER (THAILAND) PUBLIC COMPANY LIMITED

INCOME STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

	Notes	Baht	
		2009	2008
Revenues from sales	17	1,768,610,226	2,241,472,612
Cost of sales		(1,414,479,383)	(1,990,749,320)
Gross Profit (Loss)		354,130,843	250,723,292
Other incomes	18	8,644,715	15,622,051
Profit before expenses		362,775,558	266,345,343
Selling expenses		(104,305,522)	(107,415,412)
Administrative expenses		(73,614,153)	(49,949,908)
Management benefit		(7,284,325)	(8,294,710)
Total expenses		(185,204,000)	(165,660,030)
Profit before finance costs and income tax		177,571,558	100,685,313
Finance costs		(9,881,156)	(17,678,950)
Profit before income tax		167,690,402	83,006,363
Income tax		(52,285,086)	(6,725,156)
NET PROFIT		115,405,316	76,281,207
BASIC EARNINGS PER SHARE (Baht / Share)	20	0.18	1.16
Weighted average number of ordinary shares (shares)		658,434,300	65,843,430

Notes to the financial statements are an integral part of these statements.

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

		Baht				
		Retained earnings				
	Notes	Issued and fully paid share capital	Share premium	Appropriated- Legal reserve	Un appropriated	Total
Balance as of January 1, 2008		658,434,300	222,105,000	40,310,000	438,200,164	1,359,049,464
Appropriated legal reserve	14	-	-	3,814,061	(3,814,061)	-
Net profit for the year		-	-	-	76,281,207	76,281,207
Dividend	22	-	-	-	(82,304,288)	(82,304,288)
Balance as at January 1, 2009		658,434,300	222,105,000	44,124,061	428,363,022	1,353,026,383
Appropriated legal reserve	14	-	-	6,000,000	(6,000,000)	-
Net profit for the year		-	-	-	115,405,316	115,405,316
Dividend	22	-	-	-	(131,686,860)	(131,686,860)
Balance as at December 31, 2009		658,434,300	222,105,000	50,124,061	406,081,478	1,336,744,839

Notes to the financial statements are an integral part of these statements.

HWA FONG RUBBER (THAILAND) PUBLIC COMPANY LIMITED
CASH FLOW STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

	Baht	
	2009	2008
Cash flows from operating activities		
Net profit	115,405,316	76,281,207
Adjustments to reconcile net income (loss) to net cash provided by (paid from) operating activities :-		
Depreciation	120,483,607	129,016,463
Net loss on diminution in value of inventories	2,903,421	20,100,000
Loss on estimated unclaimed import duty	18,175,907	-
(Gain) Loss on disposal of equipment	(2,552,218)	(850,997)
Unrealised loss (Gain) on exchange	1,447,937	(1,762,819)
Interest received	(2,081,969)	(2,627,776)
Interest expenses	9,602,779	17,216,657
Income tax	52,285,086	6,725,156
	315,669,866	244,097,891
Decrease (increase) in operating assets		
Trade accounts receivable	54,745,943	71,233,090
Inventories	186,323,207	(79,414,495)
Other current assets	(36,261,446)	1,716,719
Receipt from tax refunded	1,169,217	-
Increase (decrease) in operating liabilities		
Trade accounts payable	47,650,331	(157,327,703)
Other current liabilities	6,112,767	(23,108,055)
Other non-current liabilities	(4,299,293)	(4,320,000)
Income tax paid	(24,880,704)	(20,718)
Net cash flows from provided by operating activities	546,229,888	52,856,729

Notes to the financial statements are an integral part of these statements.

HWA FONG RUBBER (THAILAND) PUBLIC COMPANY LIMITED

CASH FLOW STATEMENTS (cont.)

FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

	Baht	
	2009	2008
Cash flows from investing activities		
Interest received	2,094,966	2,597,252
Cash received from disposal equipments	6,413,765	1,527,434
Cash paid for purchase equipments	(35,783,458)	(65,095,012)
Net cash flows used in investing activities	(27,274,727)	(60,970,326)
Cash flows from financing activities		
Interest expense paid	(9,949,758)	(17,187,361)
Increase (Decrease) in short-term loans from financial institutions	-	(7,020,961)
Increase (Decrease) in long-term loans	(150,000,000)	10,000,000
Dividends paid	(131,586,863)	(82,304,288)
Net cash flows used in financing activities	(291,536,621)	(96,512,610)
Net increase(decrease) in cash and cash equivalents	227,418,540	(104,626,207)
Cash and cash equivalents at beginning of years	144,523,025	249,149,232
Cash and cash equivalents at end of years	371,941,565	144,523,025

Notes to the financial statements are an integral part of these statements.

1. GENERAL INFORMATION

(a) Legal Status and address for company

Hwa Fong Rubber (Thailand) Public Company Limited (“the Company”) was incorporated as a limited company under Thai laws and registered to change its status to a public company under the Public Limited Company Act on July 29, 2002, and its parent company is Hwa Fong Rubber Industrial Company Limited, a company existing under Taiwanese laws.

The Company’s registered address is 317 Moo 4, Soi 6C, Bangpoo Industrial Estate, Muang, Samutprakarn.

(b) Nature of the Company’s business

The Company is principally engaged in the manufacture and distribution of tires and tubes for bicycle, motorcycles and small logistics vehicles.

(c) Employees

The Company’s employees cost for the years ended December 31, 2009 and 2008 are at Baht 210 million and Baht 250 million, respectively. Employee costs consist of salary, bonus, staff welfare, social fund and provident fund etc.

2. BASIS OF PREPARATION

2.1 The Company financial statements were prepared in accordance with the generally accepted accounting principles under the Accounting Act B.E. 2543 which implied the accounting standard set by the Federation of Accounting Professions established in accordance with the Accounting Professions Act B.E. 2547 which is presently in effect.

The financial statements are prepared under the historical cost convention (except as disclosed in the accounting policies).

The Company prepared its statutory financial statements in the Thai language in accordance with the generally accepted accounting principles as applied in Thailand which the accounting principles used may be different, in certain aspects, from generally accepted accounting principles applied in other countries. For the convenience of the readers, the financial statements were translated into English from the statutory financial statements in Thai which are issued for the domestic reporting purpose.

2.2 Adoption of new accounting standards

In June 2009, the Federation of Accounting Professions has issued Notification No. 12/2552, regarding the renumbering of Thai Accounting Standards to match the corresponding International Accounting Standards. Therefore the numbers of Thai Accounting Standards as used in these financial statements are corresponding to those per this notification.

The Federation of Accounting Professions has issued Notification No. 86/2551 and 16/2552, mandating the use of new accounting standards, financial reporting standard and accounting treatment guidance as follows.

- a) Accounting standards, financial reporting standard and accounting treatment guidance which are effective for the current year

Framework for Preparation and Presentation of Financial Statements (revised 2007)

TAS 36 (revised 2007)

Impairment of Assets

TFRS 5 (revised 2007)

Non-current Assets Held for Sale

and Discontinued Operations (the former No. TAS 54)

Accounting Treatment Guidance for Leasehold right

Accounting Treatment Guidance for Business Combination under Common Control

These accounting standards, financial reporting standard and accounting treatment guidance became effective for the financial statements for fiscal years beginning on or after 1 January 2009. The management has assessed the effect of these accounting standards, financial reporting standard and accounting treatment guidance will not have any significant impact on the financial statements for the current year.

- b) Accounting standards which are not effective for the current year

		<u>Effective date</u>
TAS 20	Accounting for Government Grants	1 January 2012
	and Disclosure of Government Assistance	
TAS 24 (revised 2007)	Related Party Disclosures	1 January 2011
TAS 40	Investment Property	1 January 2011

However, TAS 24 (revised 2007) and TAS 40 allows early adoption by the entity before the effective date.

The management has assessed the effect of these accounting standards and believes that they will not have any significant impact on the financial statements for the year in which they are initially applied.

3. SIGNIFICANT ACCOUNTING POLICIES

The Company prepared the financial statements for the year ended December 31, 2009 with same accounting policies used in the preparation of the annual financial statements for the year ended December 31, 2008 excepted for the using of revised Thai Accounting Standards (TAS) as described in Note 2.2.

3.1 Revenue recognition

Sales of goods

Sales of goods are recognized when the significant risks and rewards of ownership of the goods have passed to the buyer. Sales are the invoiced value, excluding value added tax, of goods supplied after deducting discounts and allowances.

Interest income

Interest income is recognized on an accrual basis based on the effective interest rate.

3.2 Cash and cash equivalents

Cash and cash equivalents consist of cash in hand, cash at banks, and all highly liquid investments with an original maturity of three months or less and not subject to withdrawal restrictions.

3.3 Trade accounts receivable

Trade accounts receivable are stated at their net realizable value. Allowance for doubtful accounts is provided for the estimated losses that may be incurred in collection of receivables. The allowance is generally based on collection experiences and analysis of debtor aging.

3.4 Inventories

Finished goods and work in process are valued at the lower of average cost and net realizable value. Cost includes all production cost and attributable factory overheads.

Raw materials, spare parts and supplies are valued at the lower of average cost and net realizable value and charged to production cost whenever consumed.

Allowance for diminution in inventory value necessary for obsolete, slow-moving and deteriorated inventories and for the cost higher than net realizable value.

3.5 Property, plant and equipment / Depreciation

Land is stated at cost. Plant and equipment are stated at cost less accumulated depreciation and allowance for loss on impairment of assets (if any). Depreciation of plant and equipment is calculated by reference to their costs on the straight-line basis over the following estimated useful lives:-

Buildings and building improvements	10-40 year
Machinery and equipment	5-20 year
Furniture, fixtures and office equipment	5-10 year
Motor vehicles	5-10 year

Depreciation is included in determining income.

No depreciation is provided on land, land improvements and assets under installation.

3.6 Related party transactions

Related parties comprise enterprises and individuals that control, or are controlled by, the Company, whether directly or indirectly, or which are under common control with the Company.

They also include individuals which directly or indirectly own a voting interest in the Company that gives them significant influence over the Company, key management personnel, directors and officers with authority in the planning and direction of the Company's operations.

3.7 Foreign currencies

Foreign currency transactions are translated into Baht at the exchange rates ruling on the transaction dates. Assets and liabilities denominated in foreign currencies outstanding at the balance sheet date are translated into Baht at the exchange rates ruling on the balance sheet date.

Gains and losses on exchange are included in determining income.

3.8 Impairment of assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, the Company makes an estimate of the asset's recoverable amount. Where the carrying amount of the asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Impairment losses are recognized in the income statement. An asset's recoverable amount is the higher of fair value less costs to sell and value in use.

3.9 Employee benefits

Salaries, wages, bonuses and contributions to the social security fund and provident fund are recognized as expenses when incurred.

3.10 Provisions

Provisions are recognized when the Company has a present obligation 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.

3.11 Income tax

Income tax is provided for in the accounts bases on taxable profits determined in accordance with tax legislation.

3.12 Forward exchange contracts

Receivables and payables arising from forward exchange contracts are translated into Baht at the rates of exchange ruling on the balance sheet. Unrealized gains and losses from the translation are included in determining income. Premiums or discounts on forward exchange contracts are amortized on a straight-line basis over the contract periods.

3.13 Use of accounting estimates

Preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions in certain circumstances, affecting amounts reported in these financial statements and related notes. Actual results could differ from these estimates.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles at times requires management to make subjective judgments and estimates regarding matters that are inherently uncertain. These judgments and estimates affect reported amounts and disclosures and actual results could differ. The significant accounting judgments and estimates are as follows:

Allowance for doubtful accounts

Allowances for doubtful accounts are intended to adjust the value of receivables for probable credit losses. The management uses judgment to establish reserves for estimated losses for each outstanding debtor. The allowances for doubtful accounts are determined through a combination of specific reviews, collection experience, and analysis of debtor aging, taking into account changes in the current economic conditions. However, the use of different estimates and assumptions could affect the amounts of allowances for receivable losses and adjustments to the allowances may therefore be required in the future.

Depreciation

In calculating depreciation of plant and equipment, the management estimates useful lives and salvage values of the plant and equipment and reviews estimated useful lives and salvage values if there are any changes.

Intangible assets

Intangible assets are systematically amortized over their estimated useful lives, and are subject to impairment if there is an indication they may be impaired.

5. RELATED PARTY TRANSACTIONS

For the years ended December 31, 2009 and 2008, the Company had significant business transactions with related parties, which have been concluded on the commercial terms and basis as determined by the Company and those companies. Below is a summary of those transactions.

	Million Baht		
	For the years ended December 31,		
	2009	2008	Transfer pricing policy
<u>Transactions with parent company</u>			
Sales of goods	10.8	15.9	Please see detail below (a)
Other income	0.1	-	Cost plus margin
Purchases of raw materials	9.9	20.4	Cost plus margin
Purchases of machinery and equipment	8.0	28.5	Cost plus margin
Repair expenses	1.6	4.6	Cost plus margin
Other expenses	1.4	2.0	Cost plus margin
Technical assistance fee expenses	1.7	1.7	USD 50,000 per annum
Trademark usage fee expenses	3.9	4.1	0.5% of the selling prices of the products sold
<u>Transactions with related parties</u>			
Sales of goods	415.1	624.6	Please see detail below (b)
Other income	6.4	1.3	Cost plus margin
Purchases of raw materials	4.8	7.6	Cost plus margin
Purchases of machinery and equipment	0.4	0.5	Cost plus margin
Other expenses	0.8	1.9	Cost plus margin
Technical assistance fee expenses	2.3	3.3	0.4% of the selling prices of the products sold
Technician fee expenses	0.7	2.5	USD 43,000 per person per year (For the year 2008) JPY 3 Million per year (For the year 2009, see Note no.24.2 C)
Trademark usage fee expenses	5.1	7.4	1.5-3% of the selling prices of the products sold

Sales to Parent Company and related parties are summarized, below.

- a) Sales of goods to the parent company for the year ended December 31, 2009, has amounting baht 10.8 million, including the mutually agreed price in the amount of Baht 10.3 million, which incurred gross profit and the mutually agreed price in the amount of Bath 0.5 million which incurred gross loss (based on the comparison with costs of the previous quarter). Total sales of goods to the parent company shown gross profit.

b)	Million Baht			
	For the year ended December 31, 2009			
	SRI GROUP	Hwa Fong		
	(b.3)	Rubber Group	Total	
Selling price at cost plus margin	411.6	0.1	411.7	Please see detail below (b.1)
Selling price at mutually agreed price	2.2	1.2	3.4	Please see detail below (b.2)
	413.8	1.3	415.1	

- b.1) Sales of goods to three overseas related parties for the year ended December 31, 2009, amounting Baht 411.7 million, made at a mutually agreed price, which received gross margin (based on the comparison with costs of the previous quarter) on which the sales ratio is 96.7%, (compared to total sales to parent company and related parties). Major products sold were not the same as products sold to unrelated parties.
- b.2) Sales of goods to two overseas related parties for the year ended December 31, 2009, amounting Baht 3.4 million, made at a mutually agreed price, shown net gross loss (based on the comparison with costs of the previous quarter) on which the sales ratio is 0.8%, (compared to total sales to parent company and related parties), Major products sold were not the same as products sold to unrelated parties
- b.3) Sales to Sumitomo Rubber group for the year ended December 31, 2009 incurred gross profit at 25.8% of total sale.
- b.4) There is gross margin for total sales to parent company and related parties

Credit terms granted to the parent company and related parties ranged from 30 to 90 days in the ordinary course of business.

As at December 31, 2009, there is no long-term contract or agreement whereby selling prices are agreed in advance.

The balances of the accounts as at December 31, 2009 and 2008 between the Company and those related parties are as follows:

		Baht	
		As at	As at
	Relationship	December 31, 2009	December 31, 2008
<u>Trade accounts receivable - related parties</u>			
Hwa Fong Rubber Industrial Company Limited	Parent company	3,438,330	4,219,206
Hwa Fong Rubber (USA) Inc. **	Common shareholder	-	3,807,866
Sumitomo Rubber Industries Limited *	The parent company's shareholder	29,138,071	39,618,549
Sumitomo Rubber Asia (Tyres) PTE.*	Subsidiary of the parent company's shareholder	1,090,562	3,683,290
		<u>33,666,963</u>	<u>51,328,911</u>
<u>Other receivable – from related parties</u>			
Hwa Fong Rubber Industrial Company Limited	Parent company	4,670	-
Hwa Fong Rubber (China) Company Limited	Common shareholder	-	787,713
Sumitomo Rubber Industries Limited	The parent company's shareholder	39,041	838,822
		<u>43,711</u>	<u>1,626,535</u>
<u>Trade accounts payable - related parties</u>			
Hwa Fong Rubber Industrial Company Limited	Parent company	2,269,244	3,489,990
Hwa Fong Rubber (China) Company Limited	Common shareholder	182,499	822,917
Sumitomo Rubber Industries Limited	The parent company's shareholder	585,369	1,259,125
		<u>3,037,112</u>	<u>5,572,032</u>
<u>Other payable - related parties</u>			
Hwa Fong Rubber Industrial Company Limited	Parent company	3,867,149	8,104,975
Hwa Fong Rubber (China) Company Limited	Common shareholder	365,552	-
Sumitomo Rubber Industries Limited	The parent company's shareholder	3,832,072	5,396,575
Sumitomo Rubber Asia (Tyres) PTE.*	Subsidiary of the parent company's shareholder	11,093	-
		<u>8,075,866</u>	<u>13,501,550</u>

* presented as SRI GROUP

** presented as HWA FONG RUBBER GROUP

Directors and management's remuneration

For the year ended December 31, 2009 the Company paid salaries, bonuses and meeting allowances to its directors and management totaling Baht 7.28 million (For the year ended December 31, 2008: Baht 8.29 million).

6. CASH AND CASH EQUIVALENTS

Consists of :

	Baht	
	As at December 31, 2009	As at December 31, 2008
Cash	15,000	136,305
Saving deposit accounts	196,033,732	103,483,077
Current deposit accounts	591,107	919,893
Short-term investments	175,301,726	39,983,750
<i>Total</i>	<u>371,941,565</u>	<u>144,523,025</u>

Short-term investments represent Bill of exchange with local branch of a foreign bank and a local bank which will be due during January 4, 2010 to January 28, 2010 and bear interest at rate of 1.3% p.a.

7. TRADE ACCOUNTS RECEIVABLE

The outstanding balances of trade accounts receivable as at December 31, 2009 and 2008 are aged, based on due date, as follows :-

	Baht	
	As at December 31, 2009	As at December 31, 2008
<u>Unrelated parties</u>		
Not yet due	127,243,370	125,337,094
Past due receivables		
Less than 3 months	48,019,965	87,996,129
3 - 6 months	193,484	503,786
More than 6 - 12 months	-	19,252
More than 12 months	276,544	276,544
Total	175,733,363	214,132,805
<u>Less Allowance for doubtful accounts</u>	(300,000)	(300,000)
Net	175,433,363	213,832,805
<u>Related parties</u>		
Not yet due	33,643,796	47,588,049
Past due receivables		
Less than 3 months	23,167	2,774,266
3 - 6 months	-	844,780
More than 6 - 12 months	-	12,704
More than 12 months	-	109,112
Total	33,666,963	51,328,911

8. INVENTORIES - NET

	Baht	
	As at	As at
	December 31, 2009	December 31, 2008
Finished goods	113,328,932	170,804,803
Work in process	33,456,845	33,168,509
Raw materials	163,187,368	315,597,602
Spare parts and supplies	31,840,776	35,071,659
Merchandise goods	1,014,244	1,213,939
Raw materials in transit	39,085,589	12,380,449
Total	381,913,754	568,236,961
<u>Less</u> Allowance for diminution in value of inventories	(38,000,000)	(35,096,579)
Net	<u>343,913,754</u>	<u>533,140,382</u>

Allowance for obsolete stock is changed during the year as follows:-

	Baht	
	As at	As at
	December 31, 2009	December 31, 2008
Beginning balance	35,096,579	14,996,579
Increase	19,087,105	20,100,000
Decrease	(16,183,684)	-
Ending balance	<u>38,000,000</u>	<u>35,096,579</u>

During the period of year 2009, the Company has reversed allowance for inventory devaluation due to such inventory were produced and/or sold during the year.

9. OTHER CURRENT ASSET

	Baht	
	As at	As at
	December 31, 2009	December 31, 2008
Input tax refundable	2,085,297	1,183,858
Other current assets	7,687,975	5,564,639
Import duty on raw materials refundable	42,640,321	6,979,569
<u>Less</u> Allowance for estimated unclaimed import duty	(18,175,907)	-
Total	<u>34,237,686</u>	<u>13,728,066</u>

10. PROPERTY, PLANT AND EQUIPMENT – NET

As at December 31, 2009, Property, Plant and Equipment Consists of:

	Baht					Total
	Land	Buildings and building improvements	Machinery and equipment	Furniture, fixtures and office equipment	Motor vehicles	Machinery under installation
<u>Cost</u>						
January 1, 2009	112,151,657	323,826,125	1,525,578,843	13,915,236	51,430,823	6,436,037
Additions	-	1,552,400	7,331,476	890,709	1,440,655	24,568,218
Disposals/written off	-	-	(266,721)	(1,621,622)	(5,307,120)	(3,587,924)
Transfers in (out)	-	-	23,401,247	-	-	(23,401,247)
December 31, 2009	112,151,657	325,378,525	1,556,044,845	13,184,323	47,564,358	4,015,084
<u>Accumulated depreciation</u>						
January 1, 2009	-	93,449,535	967,802,542	11,524,148	35,675,629	-
Depreciation	-	11,192,644	104,369,784	823,391	4,097,787	-
Disposals/written off	-	-	(217,107)	(1,621,574)	(5,083,158)	-
December 31, 2009	-	104,642,179	1,071,955,219	10,725,965	34,690,258	-
<u>Net book value</u>						
December 31, 2008	112,151,657	230,376,590	557,776,301	2,391,088	15,755,194	6,436,037
December 31, 2009	112,151,657	220,736,346	484,089,626	2,458,358	12,874,100	4,015,084

As at December 31, 2008, Property, Plant and Equipment Consists of:

	Baht					
	Land	Buildings and building improvements	Machinery and equipment	Furniture, fixtures and office equipment	Motor vehicles	Machinery under installation
Cost						Total
January 1, 2008	112,151,657	346,250,947	1,446,234,317	13,588,179	51,158,801	6,491,700
Additions	-	3,051,178	11,607,189	441,629	1,554,300	48,440,716
Disposals/written off	-	-	(4,899,455)	(133,390)	(2,226,647)	(372,400)
Transfers in (out)	-	(25,476,000)	72,636,792	18,818	944,369	(48,123,979)
December 31, 2008	112,151,657	323,826,125	1,525,578,843	13,915,236	51,430,823	6,436,037
Accumulated depreciation						
January 1, 2008	-	84,631,102	858,029,701	10,854,665	32,875,378	-
Depreciation	-	8,818,433	114,368,263	802,871	5,026,896	-
Disposals/written off	-	-	(4,595,422)	(133,388)	(2,226,645)	-
December 31, 2008	-	93,449,535	967,802,542	11,524,148	35,675,629	-
Net book value						
December 31, 2007	112,151,657	261,619,845	588,204,616	2,733,514	18,283,423	6,491,700
December 31, 2008	112,151,657	230,376,590	557,776,301	2,391,088	15,755,194	6,436,037
Depreciation for the year ended December 31						
2009 (Baht 117.5 million included in manufacturing cost, and the balance in selling and administrative expenses)						120,483,607
2008 (Baht 125.3 million included in manufacturing cost, and the balance in selling and administrative expenses)						129,016,463

As at December 31, 2009, certain plant and equipment items have been fully depreciated but are still in use. The original cost of those assets amounted to approximately Baht 535.60 million (As at December 31, 2008: Baht 411.58 million).

The Company has mortgaged certain land with structures thereon with a total net book value as at December 31, 2009 of Baht 108.55 million (As at December 31, 2008: Baht 112.15 million) to secure credit facilities granted by one financial institution.

11. LONG-TERM LOANS

As at December 31, 2009 and 2008, long-term loans represent the loan facilities obtained from a bank as detailed belows :-

	Baht	
	As at December 31, 2009	As at December 31, 2008
Long-term loans	220,000,000	370,000,000
<u>Less: Current portion of long-term loans</u>	<u>(50,000,000)</u>	<u>(100,000,000)</u>
Long-term loans - net of current portion	<u>170,000,000</u>	<u>270,000,000</u>

Baht loan facility of Baht 400 million, carrying interest at BKIBOR+0.8% per annum. Repayable in semi-annual installments commencing 3.5 years from the date of the first drawdown and the final installment due in 2012.

The loans are secured by the mortgage of the Company's land with structures thereon with a total net book value as at December 31, 2009 of Baht 108.55 million (As at December 31, 2008: Baht 112.15 million). (See notes 10). This collateral is secured for all the credit facility lines obtained from the bank at Baht 400 million.

12. OTHER CURRENT LIABILITIES

As at December 31, 2009 and 2008, other current liabilities Consists of:

	Baht	
	As at December 31, 2009	As at December 31, 2008
Accrued Expenses	56,672,166	46,768,697
Income tax payable	36,132,328	6,704,438
Other current liabilities	<u>7,735,848</u>	<u>6,406,237</u>
Total	<u>100,540,342</u>	<u>59,879,372</u>

13. REGISTERED CAPITAL

At the ordinary shareholders meeting no. 1/2009 held on April 22, 2009, the alteration of the Company's par value 10 per share for 65,843,430 shares to Baht 1 per share for 658,434,300 shares and the objective of the this changes was increasing liquidity in Stock Exchange. The Company has already registered the mentioned alteration of par value with Ministry of Commerce since May 4, 2009.

As per the resolution of The Extraordinary General of Shareholder Meeting 1/2008 on November 13, 2008, the meeting unanimously approved to deduct the registered capital which has not been distributed yet from Baht 774,200,000 to Baht 658,434,300 by cut off the ordinary share which have not been distribution yet amount 11,576,570 shares. The Company has already registered the deduction of registered capital on November 18, 2008 with the Ministry of Commerce.

During year 2008 The Company has a project to be offered for sale to the public in Taiwan as Taiwan Depository Receipts (TDR).amount share 35,000,000 units each of share unit is a common share of the company and one unit of share equal to six shares therefore total shares of selling are 210,000,000 shares (hold by Hwa Fong Rubber Industry). Hwa Fong Rubber (Thailand) Public Company Limited has reported to Securities and Futures Bureau, Financial Supervisory Commission, Executive Yuan, R.O.C (SFB). The report was completed the date for consider and was approved by SFB since January 13, 2010 (Approve a letter no. 0980070875) and received the approved letter on January 15, 2010. The selling price each of unit share is 12.5 NTD. (Baht 12.89 per unit) and the TDRs will be listed on the Taiwan Stock Exchange and trading of the TDRs on the Taiwan Stock Exchange on February 8, 2010.

14. LEGAL RESERVE

Pursuant to Section 116 of the Public Limited Companies Act B.E. 2535, the Company is required to set aside to a legal reserve at least 5 percent of its net income after deducting accumulated deficit brought forward (if any), until the reserve reaches 10 percent of the registered capital. The legal reserve is not available for dividend distribution.

15. SELLING AND ADMINISTRATIVE EXPENSES

Selling and administrative expenses for 2007 included additional electricity from October 2004 to September 2007 of approximately Baht 12.1 million, for which the Company has received invoices from the Metropolitan Electricity Authority ("MEA") in January 2008, because the electricity during the period was charged lower than actual usage as the electrical meter did not work properly. The Company asked for a grace period for this obligation from MEA and was approved by the MEA to pay such electricity fee in 36 monthly installments at Baht 360,000 each from January 2008 to December 2010. In the Balance Sheet of year 2009 and 2008, such accrued electricity expenses amounting to Baht 4.3 million and Baht 4.3 million, respectively are presented under the caption of "Accrued expenses" and the remaining amount of year 2008 of Baht 4.3 million are presented under the caption of "Other non-current liability"

16. CORPORATE INCOME TAX

Corporate income tax is calculated on the earnings of the Company after adding back certain expenses and provisions for expenses not yet currently allowable for tax computation purposes and after deducting tax loss brought forward from prior years.

17. PROMOTIONAL PRIVILEGES

The Company has received promotional privileges from the Board of Investment for the manufacture of tires and tubes of bicycles, motorcycles and industrial vehicles, pursuant to the promotion certificate No. 1373(2)/2546 issued on July 28, 2003. Subject to certain imposed condition, the privileges include an exemption from corporate income tax for a period of 3 years from the date the promoted operations commenced generating revenues (June 21, 2005) which has maturity date on June 20, 2008.

The Company's operating revenues for the year are below shown divided according to promoted and non-promoted operations for the years ended December 31, 2009 and 2008 as following:

	Baht					
	For the years ended December 31,					
	Promoted operations		Non-promoted operations		Total	
	2009	2008	2009	2008	2009	2008
Domestic sales	-	86,023,997	670,726,303	690,355,565	670,726,303	776,379,562
Export sales	-	171,229,687	1,097,883,923	1,293,863,363	1,097,883,923	1,465,093,050
Total sales	-	257,253,684	1,768,610,226	1,984,218,928	1,768,610,226	2,241,472,612

18. OTHER INCOME

	Baht	
	For the years ended December 31,	
	2009	2008
Other income	8,644,715	7,629,056
Gain on exchange rate	-	7,992,995
Total	8,644,715	15,622,051

19. EXPENSES CLASSIFIED BY NATURE OF EXPENSES

Significant expenses by nature are as follows:

	Baht	
	For the years ended December 31,	
	2009	2008
Salary and wages and other employee benefits	209,982,847	250,109,309
Depreciation and amortization	120,483,607	129,016,463
Change in inventories and work in process	73,844,181	12,684,079
Raw materials and supplies used	948,225,633	1,486,919,660
Selling expenses	104,305,522	107,415,412
Import duty on raw materials and surcharge (a.)	18,521,805	-
Penalty on imported hazardous materials (b.)	4,594,500	-
Loss on estimated unclaimed import duty	18,175,907	-

(a.) In 2008, the Company submitted changes in the production formulas of some products retrospectively to the Customs Department for duty return under section 19 bliss of the Customs Act. Such production formulas have been used for computation of the quantity of raw materials consumed for producing the exported products. Because of changes in production formulas and changes in estimated production volume of exported products, the Company has to pay additional import duty and surcharge in 2009 approximately amounting to Baht 18.6 million for some raw materials imported between 2005 and 2007. The Company has recorded such import duty and surcharge in the financial statements of the year 2009.

(b.) In 2009, the Company was re-assessed for penalty on imported certain hazardous materials totaling amount of Baht 4.6 million. The Company has recorded such penalty in the income statements in this year.

20. BASIC EARNINGS PER SHARE

Basic earning per share is calculated by dividing the net income for the period by the weighted average number of ordinary shares in issue during the year.

21. SEGMENT INFORMATION

The Company's operations involve a single industry segment i.e. manufacture and distribution of tire and tube of bicycle, motorcycle and small logistics vehicles. As a result, all of the revenues, operating income (loss) and assets reflected in these financial statements pertain to the aforementioned industry segment.

The Company's operation reported by geographic area for the years ended December 31, 2009 and 2008, are as follows:

	Baht	
	For the years ended December 31,	
	2009	2008
Revenue from sales - Local	670,726,303	776,379,562
Revenue from sales - Foreign		
Asia	514,561,496	739,453,783
Europe	441,436,994	503,960,616
American	96,413,828	128,982,964
Other	45,471,605	92,695,687
Total	1,768,610,226	2,241,472,612

22. DIVIDEND PAYMENT

At the 2009 ordinary shareholders meeting held on April 22, 2009 the shareholders resolved to appropriate the net profit from the operation for shareholders as dividend in amount of Baht 131,686,860 (Common shares 65,843,430 shares, at Value Baht 2 per share, at par value Baht 10 per share).Whereby presently the dividend has already been paid to the shareholders on May 20, 2009.

At the 2008 ordinary shareholders meeting held on April 22, 2008 the shareholders resolved to appropriate the net profit from the operation for shareholders as dividend in amount of Baht 82,304,288 (Common shares 65,843,430 shares, at Value Baht 1.25 per share, at par value Baht 10 per share).Whereby presently the dividend has already been paid to the shareholders on May 20, 2008.

23. PROVIDENT FUND

The Company and its employees have participated in the registered Thanakarn Provident Fund under the Provident Fund Act B.E. 2530. Both employees and the Company contributed to the fund monthly at the rate of 2-4 percent of basic salary. The fund, which is managed by BT Asset Management Company Limited, will be paid to the employees upon termination in accordance with the fund rules. For the year ended December 31, 2009, the Company contributed approximately Baht 0.6 million (For the year ended December 31, 2008: Baht 0.9 million) to the fund.

24. COMMITMENTS AND CONTINGENT LIABILITIES

24.1 Commitments

- (a) As at December 31, 2009, the Company had commitments of approximately Baht 33.29 million and USD 1.66 million, relating to purchases of raw materials (As at December 31, 2008: Baht 6.95 million and USD 0.94 million).
- (b) As at December 31, 2009, the Company had commitments totaling approximately Baht 1.37 million under service contracts (As at December 31, 2008: Baht 1.94 million).

24.2 Technical assistance and trademarks license agreements

- (a) The Company entered into an agreement with its parent company to obtain technical assistance, etc., whereby the Company is committed to pay a fee of USD 50,000 per annum. The term of the agreement is 3 years (being terminated on December 31, 2009) and this automatically extended for terms of 1 year each.
- (b) The Company entered into an agreement with its parent company to obtain right to use its trademarks to manufacture certain products, whereby the Company has to pay a fee equal to 0.5% of the selling prices of the products sold. The term of the agreement is 3 years (being terminated on December 31, 2009) and this automatically extended for terms of 1 year each.
- (c) Under the agreement between the parent company and Sumitomo Rubber Industries Limited (SRI), the Company had commitments to pay fee and technician fee to the related company for the manufacture of certain products as follows:
 - Technical assistance fee (0.4% of the net selling prices of the products sold).The term of the agreement is 1 year (being terminated on June 30, 2010) and it can be extended by mutual agreement.
 - Technician fee (JPY 3 million per year).The term of the agreement is 1 year (being terminated on June 30, 2010) and it can be extended by mutual agreement. During the year 2009 The Company and SRI agreed to temporarily terminate such agreement for the period during September 1, 2009 to December 31 2009. New agreement was entered by the Company and Sumitomo Rubber (Thailand) Co.,Ltd. (which is wholly owned subsidiary of SRI), the service fee set as JYP 2 million per year starting for January 1,2010 – December 31,2010, such technician fee for and after 2011 may be revised in writing by mutual agreement which the term is year – to – year basis.
 - Trademark usage fee (1.5 - 3% of the selling prices of the products sold).The term of the agreement is 3 years (being terminated on June 30, 2012) and this automatically extended for terms of 3 years each.

24.3 Guarantees

As at December 31, 2009, there were outstanding bank guarantees of approximately Baht 30.50 million (December 31, 2008 : Baht 29.68 million) issued by banks on behalf of the Company in respect of certain performance bonds as required in the normal course of its business. These included letters of guarantee for purchase natural gas agreement amounting to Baht 10.00 million and Baht 20.50 million to guarantee electricity use, among others.

25. FINANCIAL INSTRUMENTS**25.1 Financial risk management**

The Company's financial instruments, as defined under Thai Accounting Standard No. 32 (Formerly No. 48) "Financial Instruments: Presentations", principally comprise cash and cash equivalents, temporary investments, trade accounts receivable, receivable related parties, trade accounts payable, payable related parties, short-term and long-term loans. The financial risks associated with these financial instruments and how they are managed in described below.

Credit risk

The Company is exposed to credit risk primarily with respect to trade accounts receivable. The Company manages the risk by adopting appropriate credit control policies and procedures and therefore does not expect to incur material financial losses. In addition, the Company does not have high concentration of credit risk since it has a large customer base. The maximum exposure to credit risk is limited to the carrying amounts of receivables as stated in the balance sheet.

Interest rate risk

The Company considers itself being exposed to low risk from changes in interest rate because the Company has most of the financial assets and liabilities carrying floating interest rate which will fluctuate in line with the market interest rates.

Foreign currency risk

The Company's exposure to foreign currency risk arises mainly from trading transactions that are denominated in foreign currencies.

The balances of financial assets and liabilities denominated in foreign currencies as at December 31, 2009 are summarized below.

Foreign currency	Financial assets(Million)	Financial liabilities(Million)
US dollar	5.50	2.82
Euro	1.02	0.01
Yen	-	0.27

As of December 31, 2009 the Company has no any forward exchange contract.

25.2 Fair values of financial instruments

Since the majority of the Company's financial assets are short-term in nature and loans bear floating interest rates, their fair value is not expected to be materially different from the amounts presented in the balance sheets.

A fair value is the amount for which an asset can be exchanged or a liability settled between knowledgeable, Willing parties in an arm's length transaction. The fair value is determined by reference to the market price of the financial instrument or by using an appropriate valuation technique, depending on the nature of the instrument.

26. CAPITAL MANAGEMENT

The primary objectives of the Company's capital management are to maintain their abilities to continue as a going concern and to maintain an appropriate capital structure.

As at 31 December 2009, debt to equity ratio in the financial statements is 0.34: 1

27. RECLASSIFICATIONS

As a result of reclassifications of certain items in financial statements as at December 31, 2008 the comparative figures for financial statements as at December 31, 2009 have been amended accordingly

28. APPROVAL OF FINANCIAL STATEMENTS

These financial statements have been approved by the Company's Management on February 24, 2010