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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 24-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 17 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 9001-2008 for its internationally excellent product quality. HFT's sale portion is classified by the local and international sale in the percentage of 41.80% and 58.20% 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, Asia Pac Import Export (Thailand) Co.,Ltd., Comopart Co.,Ltd and Q-Tire and Wheel International Company Limited. In the international sales, HFT distribute products via the network of HFT and HFR which are among group companies to market in USA, Europe, Asia and Japan, Africa and Middle East.

For overall performance, HFT reported its revenue from sales up to 1,769 Million Baht in 2009 and 2,019 Million Baht in 2010 increase of 14.18%, mainly attributable to the worldwide economic recovered and became growing. In addition, the company was successful with the policy to expand the international trading such as Asia, Middle East and Africa market and Replacement Equipment Market for local market by selling product to the shop agent of bicycle part and accessory of motorcycle meanwhile the cost of production was increased 21.34 % which relate to company sales volume. Mainly raw material in the market are raising price such as natural rubber and synthetic rubber. In 2010 the company net profit was 119.17 Million Baht or earning per share 0.19 Baht.

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 Bangpoo Industrial Estate Tombon Praksa, Amphor Muang, Samutprakarn 10280
Second Factory	:	865/1 Moo 4 Soi 11B Bangpoo Industrial Estate Tombon Praksa, Amphor Muang, Samutprakarn 10280
Subsidiary company	:	HFT Holding Company Limited. 317 Soi 6C Moo 4 Bangpoo Industrial Estate Tombon Praksa, Amphor Muang, Samutprakarn 10280
Company Registration	:	0107545000152
Telephone No.	:	0-2709-6580
Facsimile No.	:	0-2709-6589, 0-2324-0483
E-MAIL	:	hwafong@duro.co.th
Website	:	www.duro.co.th
Auditors	:	Mr. Jetesada Hungsapreuk Certified Public Account Registration No.3759 Ms. Wimolsri Jongudomsombut Certified Public Account Registration No.3899 Ms. Kannika Wipanurat Certified Public Account Registration No.7305 Karin Audit Company Limited 138 Boonmitr Tower, 6 th floor, Room B1 Silom Road, Suriwong, Bangrak, Bangkok 10500

Message from Board of Directors

Although Thailand has been affected from the political protests and the flooding in 2010, the worldwide economic recovered with the good direction and the company's strategy in the market was successful. In the year 2010 total net profit of the company were 119.17 MB earnings per share 0.19 Baht compared to 115.41 MB in 2009 increasing 3.27 %.

In 2010 total sale of the company 2,019.33 MB increasing 250.72 MB when comparison with year 2009 an increase of 14.18 % year-on-year growth. The products of motorcycle tire increasing 30 % year-on – year growth parallel with the products of bicycle tire because rising income of consumer result the growth demands. Year 2010 total gross profit of the company 303.04 MB compared to 51.09 MB in 2009 or decreasing 14.43 % because of raw material price are raising and caused high cost of operation.

In the recent year the company continued campaign the environment protection by establish the department of safety and environmental for improvement the operation's safety and development the environment in factory in addition the Research and Development department has successful in develop the new formula which is an environmentally friendly in 2009 and received the standards certified for produce the environmentally friendly product by customer in 2010.

In the future the worldwide economy will recover continuously, this may explicitly influence increase. Hence, the company has developed new product, production process and product categories by efficiently control the cost of production, raw material price with tightened business for the growth of selling and the company's profit in the future.

In 2010 there are many situation changes which affected to the company's operation, however the company able to conduct business by smoothly. Finally the company would like to express our sincere gratitude for every shareholder, customer, sale executive and agency, full efforts from every employee and related government department for the continued support our business operation. We hope your continued support and guidance for ultimately growth platform of the company in the future.

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

Mr. Chen Heng-Yi
Chairman of the Board

Report from Audit Committee

In the year 2010, 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, working procedure of internal audit and the risk assessment with the internal audit section and the External Auditor together with giving advice and operational procedure pertinent to Financial, working procedure and operating management so that its internal control system should be adequate and appropriate
- C) Verified that the Company operated its business in compliance with the relevant rules and regulations as well as the Revenue Department, Department of Business Development and 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.
- 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 2010, the Board of Audit Committee proposed Mr.Jatesada Hungsapreuk to be Certified Public Accountant for the FY 2010 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) 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.
- B) To set up the transfer pricing policy to be in accordance with its relevant regulations
- C) The development of internal Auditor is not successful as Audit Committee advised because of a few operators and their experience not enough in internal control system and risk assessment.
- D) The allocation of the production cost and the cost accounting management has separated the product cost of plant 1 and plant 2 clearly



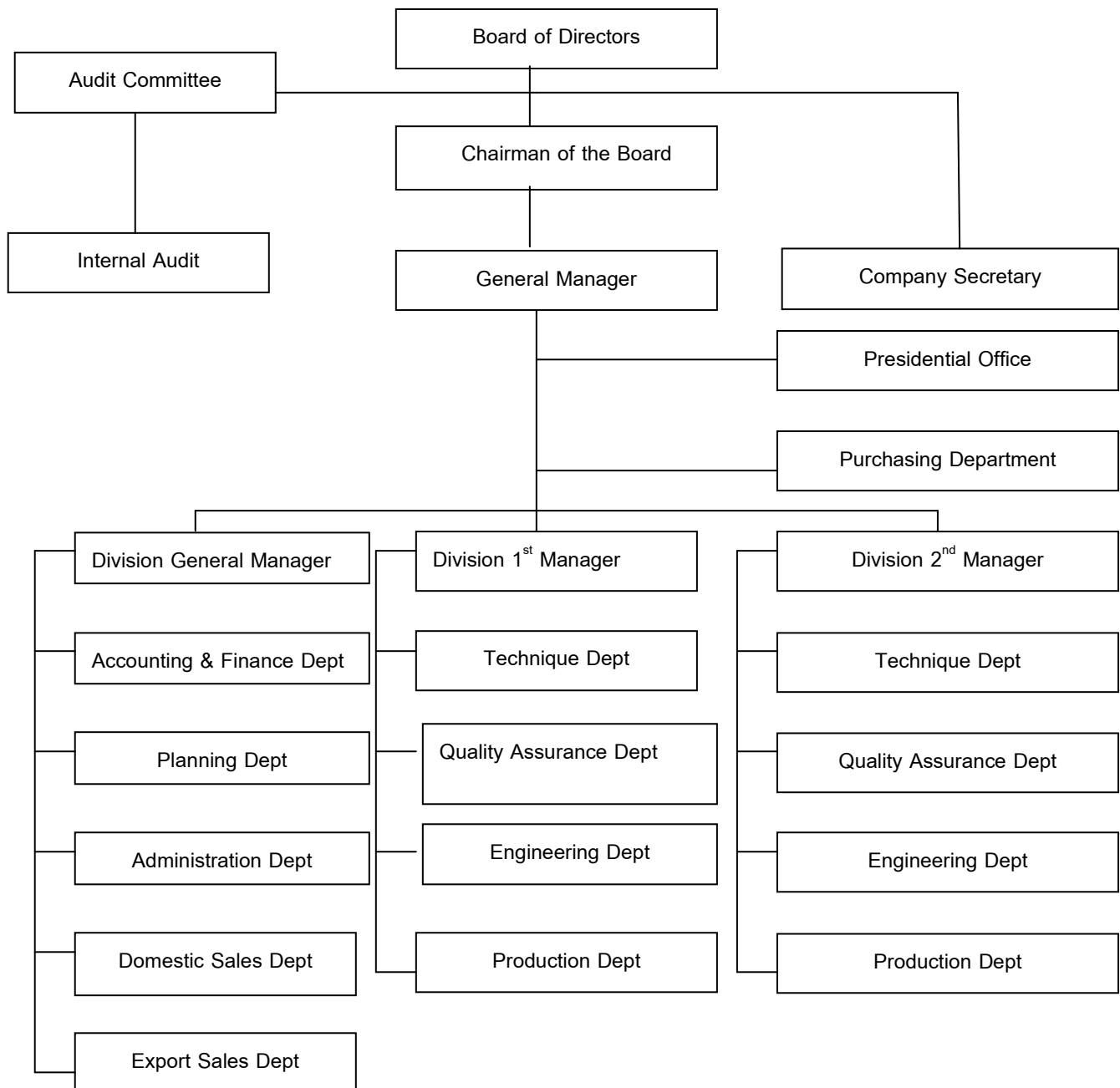
Mrs. Sareerat Metheesuwapab
Chairman of Audit Committee

Financial Summary

Unit: THB Million (Unless otherwise stated)

Transaction	2010	2009	2008
Total Asset	1,738.69	1,796.07	1,883.58
Total Liabilities	435.54	459.33	530.55
Shareholder's Equity	1,303.15	1,336.74	1,353.03
Revenue from Sales	2,019.33	1,768.61	2,241.47
Total Revenue	2,042.66	1,777.25	2,257.09
Gross Profit	303.04	354.13	250.72
Total Expenses	1,889.02	1,609.56	250.72
Net Profit (Loss)	119.17	115.41	76.28
Earning Per share (Baht/share)	0.19	0.18	1.16
Return on Shareholder's Equity (%)	9.03%	8.58%	5.63%
Return on Total Asset (%)	6.74%	6.27%	3.86%

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	48	Doctoral Degree (Philosophy in marketing) Glasgow University USA	-	1996-2009 2009-present 2010-present	Managing Director Chairman and Managing Director Managing Director	REIT Company Hwa Fong Rubber (Thailand) Plc. HFT Holding Co., Ltd.
2. Mr. Chang Chun Chuan Director	77	Vocational Certificate Taiwan	-	1997-present	Chairman Director	Tai Yien Industries Co., Ltd. Hwa Fong Rubber (Thailand) Plc.
3. Mr. Chen Tai Director	60	Bachelor Degree (Engineering) Institute of Technology - Taiwan	-	2000-2004 2009-present 2010-present	General Manager Director Director	Hwa Fong Rubber (SuZhou) Co., Ltd. Hwa Fong Rubber (Thailand) Plc. HFT Holding Co.,ltd.
4. Mr. Ho Chia Chou Director	41	Vocational Certificate Taiwan	-	2005-present 2009-present 2010-present	Managing Director Director Director	Fu Jee Tor Industrial Co., Ltd. Hwa Fong Rubber (Thailand) Plc. HFT Holding Co., Ltd.
5. Ms.Silvia Wu Director	51	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 Division General manager	Hwa Fong Rubber (Thailand) Plc. Hwa Fong Rubber (Thailand) Plc.

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	52	Bachelor Degree Ramkhamhaeng University Obtained DAP course No.81/2009	500	2003 - 2009 2009 – present 2010 - present	Audit Manager Director Presidential Office Manager	Hwa Fong Rubber (Thailand) plc. Hwa Fong Rubber (Thailand) Plc. Hwa Fong Rubber (Thailand) Plc.
7. Ms. Sajeerat Metheesuwapab Chairman of Audit Committee	63	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	Managing Director Chairman of Audit Committee	S.J & M International Office Co.,Ltd. Hwa Fong Rubber (Thailand) Plc.
8. Mr.Anupong Techaamnuyaporn Audit Committee	47	Master Degree in Business Administration, Thammasat University Obtained DAP Course no.23/2004	-	2002-present 2010-present 2009-present	Managing Director Audit Committee Audit Committee	Amnuay Porn Accounting Co.,Ltd Thanasiri Group Plc. Hwa Fong Rubber (Thailand) Plc.,
9. Ms.Nutcharee Suriyasenee Audit Committee	40	- Vocational Certificate, Hotel management, Technic Vimol Pamich Prachacheun School	-	1999- present 2009- Nov. 2010	Finance-Accounting manager Audit Committee	Nonthaburi Suriya Partnership Branch No.9 Hwa Fong Rubber (Thailand) Plc.

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	63	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	Managing Director Chairman of Audit Committee	S.J & M International Office Co.,Ltd. Hwa Fong Rubber (Thailand) Plc.
2. Mr.Anupong Techaamnuyaporn Audit Committee	47	Master Degree in Business Administration Thammasat University Obtained DAP Course no.23/2004	-	2002-present 2010-present 2009-present	Managing Director Audit Committee Audit Committee	Amnuay Porn Accounting Co.,Ltd. Thanasiri group Plc. Hwa Fong Rubber (Thailand) Plc.
3. Ms.Nutcharee Suriyasenee Audit Committee	40	Vocational Certificate, Hotel management, Technic Vimol Pamich Prachacheun School	-	1999- present 2009-Nov. 2010	Finance-Accounting manager Audit Committee	Nonthaburi Suriya Partnership Branch No.9 Hwa Fong Rubber (Thailand) Plc.

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	48	Doctoral Degree (Philosophy in marketing) Glasgow University USA	-	1996-2009 2009-present 2010-present	Managing Director Chairman and Managing Director Managing Director	REIT Company Hwa Fong Rubber (Thailand) Plc. HFT Holding Co.,Ltd.
2. Mr. Chen Tai General Manager	60	Bachelor Degree (Engineering) Institute of Technology - Taiwan	-	2000-2004 2005-present 2010-present	General Manager General Manager Director	Hwa Fong Rubber (SuZhou) Co.,Ltd. Hwa Fong Rubber (Thailand) Plc. HFT Holding Co.,Ltd.
3. Mr. Chiang Jung -Tsong Vice general Manager	49	Vocational Certificate South Asia Engineering college. Taiwan	-	2005- 2009 2009- Present	Factory Manager Vice General Manager	Hwa Fong Rubber (Thailand) Plc. Hwa Fong Rubber (Thailand) Plc.
4. Ms. Silvia Wu Division General manager	51	Bachelor Degree (Management) Fu Jen Catholic University Taiwan	-	1995-1999 1999- present	Financial Manager Division General manager	Falken Tec (Taiwan) Corp. Hwa Fong Rubber (Thailand) Plc.

Management Team (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
5. Miss Oranuch Suratroongrojkul Presidential Office Manager	52	Bachelor Degree (political science) Ramkhamhaeng University	500	2003 - 2009 2010 – present	Audit Manager Presidential Office Manager	Hwa Fong Rubber (Thailand) plc. Hwa Fong Rubber (Thailand) Plc.
6. Mr. Hsu An Jen Sales Manager	51	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) Plc.
7. Ms.Radatorn Tanaasawapol Financial and Accounting Manager	46	Bachelor Degree (Marketing) Ramkhamhaeng University	1,500	2005- present	Financial and Accounting Manager	Hwa Fong Rubber (Thailand) Plc.

Business Overview

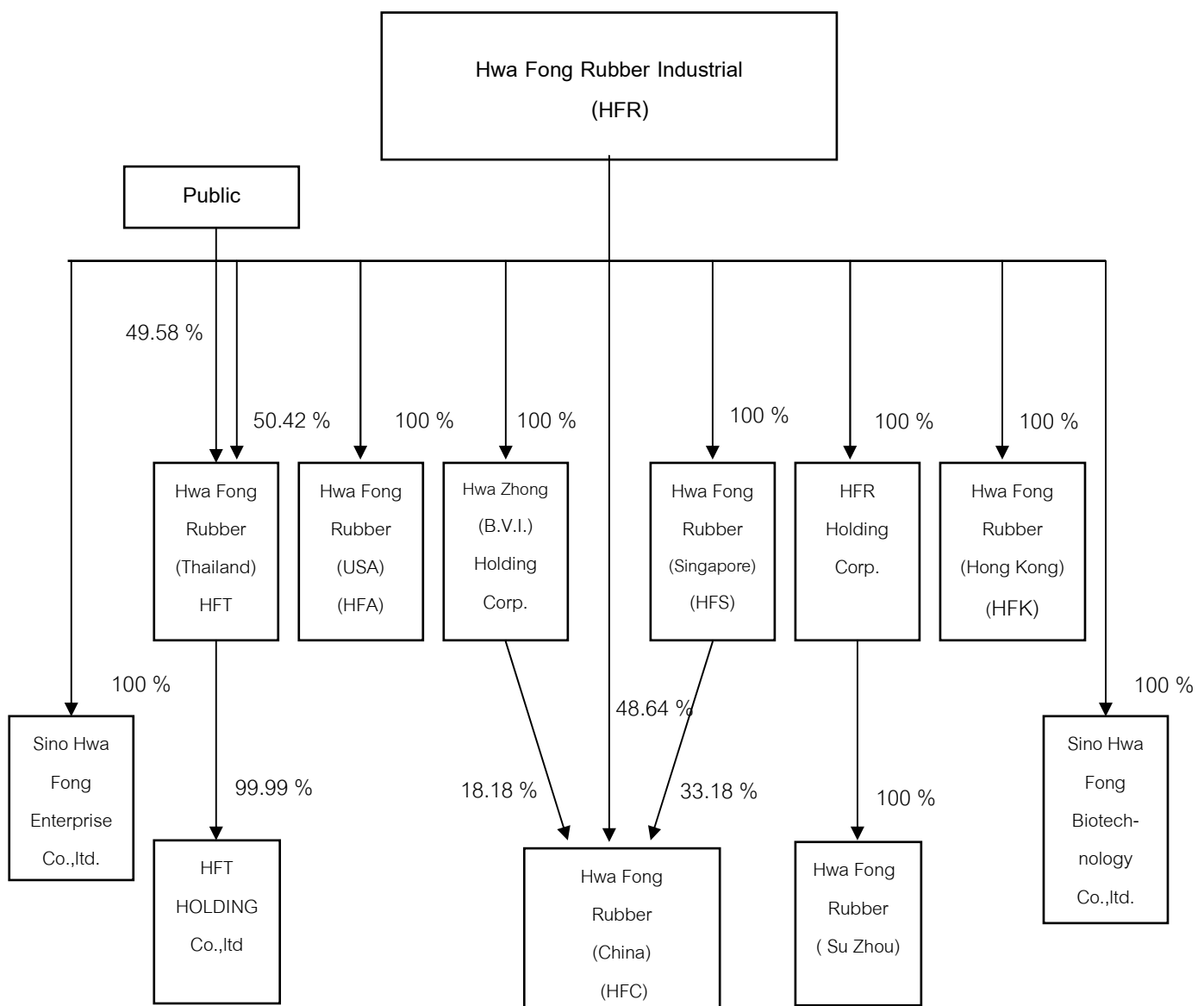
Company Background

- 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
- 2010 Obtained ISO 9001:2008
- 2010 HFT Holding was established registered capital up to 50,000,000 Baht with paid-up capital of 50,000,000 Baht
- 2010 HFT has a project to be offered for sales to the public in Taiwan as Taiwan Depositary Receipts (TDR) amount 210,000,000 shares that hold by Hwa Fong Rubber Industries (HFR)
- 2010 The company started Treasury Stock project with re-purchasing share amount 40,929,800 shares

HFT has been established and expertise in the tire and tube business for the period of 24 years with the technology support from HFR, parent company incorporated in Taiwan founded more than 65 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 sales 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.

Sino Hwa Fong Enterprise co.,ltd. Business operation of clothing, electric appliance, vehicle tire, Electronic appliance, wholesaler and retailer, Trading Company, Rental of Asset and International business.

Sino Hwa Fong Biotechnology Co., ltd. Business operation of alcohol, cigarette, Foods, Fertilization, Material for construction, cosmetic, electric and Electronic appliance and maintenance, wholesaler and retailer, wholesaler of beverage and Medicine without shop, International business, Investment consult, Interior design, Biotechnology service, marketing research.

HFT Holding Co., ltd. on behalf of Hwa Fong Rubber (Thailand) Plc., This company was established for trading finish goods and raw material ,Bond Investment, immovable property investment for selling ,leasing and for rental , wholesaler and retailer tire, tube and vehicle equipment , International Investment and support business of HFT.

Revenue Structure

Value of Products categorized by the Product line in the year of 2008 - 2010 (THB Million)

Product	2010		2009		2008	
	(MB)	%	(MB)	%	(MB)	%
<u>Domestic Sale</u>						
1. Bicycle Tire and Tube	122.22	6.05	118.59	6.71	146.27	6.52
2. Motorcycle Tire and Tube	647.00	32.04	544.20	30.77	618.10	27.58
3. Small Logistics Equipment Vehicle Tire and Tube	71.18	3.53	5.21	0.30	6.41	0.29
4.Others (Raw Materials and Work-in-Process)	3.69	0.18	2.73	0.15	5.60	0.25
Subtotal Domestic Sale	844.09	41.80	670.73	37.92	776.38	34.64
<u>International Sale</u>						
1. Bicycle Tire and Tube	432.32	231.41	345.89	19.56	486.63	21.71
2. Motorcycle Tire and Tube	451.36	22.35	501.93	28.38	499.59	22.29
3. Small Logistics Equipment Vehicle Tire and Tube	289.05	14.32	246.46	13.94	468.45	20.90
4.Others (Raw Materials and Work-in-Process)	2.51	0.12	3.60	0.20	10.43	0.46
Subtotal International Sale	1,175.24	58.20	1,097.88	62.08	1,465.10	65.36
Total Revenue from Sale	2,019.33	100.00	1,768.61	100.00	2,241.48	100.00

Based on the figures above, international sales generally in 2010 accounted for 58.20% and domestic sales for 41.80%. Nonetheless, compared to the revenue in 2009, the total revenues from sales significantly rising to 14.18% due mainly to the global economic recovered. For domestic sales, since 2010, the main revenue 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 sales 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 trademark namely Q-UICK and support from our parent company under the trademark namely DURO 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 2010 the company's revenue from sales of various types of tires accounted for 78.52% 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 2010, the company's revenue from sales of Inner Tubes constituted to approximately 21.18 % of total revenue.

Raw Material & Semi-finished Products

In 2010 HFT generated the revenue from sales of raw materials and semi-finished products constituting to around 0.30 % 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>	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>	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>	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 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>	January 1, 2011
<u>Date of Contract Beginning and Contract Ending</u>	January 1, 2011 –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
<u>Term and Condition</u>	(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 2,000,000 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 BANGKOK 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 holds a market, share of approximately 7.83% of the domestic market in the year 2010. In 2010 the company starts selling ATV tire to Kawasaki under DURO Brand.

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, ASIA PACK IMPORT EXPORT (Thailand) and Q TIRE AND WHEEL INTERNATIONAL LIMITED and COMOPART CO.,LTD

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 9001:2008 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

		Product Categories/Segmentation			Market		
		HFR	HFT	HFC	HFR	HFT	HFC
Bicycle Tires	Category	High-end	Middle-Low End	Middle-Low End	Taiwan, Europe	Thailand, Asia, Middle East and Europe	China, America
	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	Thailand, America, Europe and Japan	China, America
	Type	Heavy Truck Fork lift Skid loader	Hand cart, Lawn mower Small trailer	Light Truck, Mobil home, Utility trailers			
	Category	Middle-Low End	Middle-Low End	Middle-Low End			
	Type	For speeds exceeding 100 km/h.	For speeds less than 60 km/h.	For speeds exceeding 60 km/h.			
		All Terrains Vehicle	All Terrains Vehicle	All Terrains Vehicle	Taiwan, Middle East, America	America, Europe and Japan	China, America
	Type	For speeds less than 80 km/h.	For speeds less than 80 km/h.	For speeds less than 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 and Tire without tube suitable for All Terrains Vehicle 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, Asia, Europe, Middle East, Africa. 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 parents 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.

In 2010, the manufacture of motorcycle in the local are increase production volume meanwhile the company must be consider about main factor of overall business condition from outside country also as well as worldwide economic. The company must be strong organize marketing and selling strategy in 2011 by keeping the currently customer with high latency in local and foreign customers. We will stress of the product quality standard and control price of selling for good competition in the market and avoid using pricing for competition that cause negative in long term market. The company expected to increase the sales volume by using as mention market strategy in the future.

In 2011, the Company intends to increase the sale volume to the customer which is the group of Original Equipment by present the product for new model of motorcycle that will be selling in the local market in the future

And the consumer will know our product brand image by continually. In addition the company has cooperated with Sumitomo Rubber Industries to develop the new product into the market also.

Manufacturer

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. 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 Asians region, Middle East and Africa. 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. Mainly factors are natural rubber rising price which cause the production cost of company increasing but 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 2010 Continually increase since the last quarter of 2009, due to the sustainable government stimulus package and fairly stable political situation thereby shoring up better consumer confidence back on track. The political situation during April – May in 2010 and flooding in many areas of the Central and the Northeast of Thailand especially of the south of Thailand, Hatyai Province, the flooding has damaged most of their economic nevertheless the overall of motorcycle business in the country growing 20 % y-o-y.

The Motorcycle market in “Automatic” gained its market share around 51 % from 47% in 2009 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 49 % to 46 % y-o-y.

3. Replacement Equipment Market (REP): In 2010 there are numerous types of products manufactured under many brand names competing within this market, and competition in pricing is very strength due to economic crisis, political situation and natural disaster make the worries to consumer. Hence, the small manufacturer use sale price for push the sales volume and stimulate the demand of consumer. However the company can keep the sales volume in the market and customer retention under trust of quality product and brand image.

In 2010, the company intended to focus on the motorcycle store and accessories which is major store. The company expanded brand line for increasing the market share together 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.

Although a number of Low-price import items from China has been slower, the customer still not confident with the quality standard of the China product.

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 2010 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 2010

Name	Number of shares (shares)	Percentage (%)
1. Hwa Fong Rubber Industries Company Limited	332,000,000	50.42
2. CITIBANK NOMINEES SINGAPORE PTE LTD - MEGA INTERNATIONAL COMMERCIAL BANK CO., LTD. - TDR	210,000,000	31.89
3. RAFFLES NOMINEES (PTE) LIMITED	10,574,100	1.61
4. Mr.Wanchai Lertkumpeesil	5,409,100	0.82
5. Mr. Vorathep Srikuruwad	2,000,000	0.30
6. Mrs. Amornrat Suwansingh	1,600,000	0.24
7. Thai NVDR	1,512,700	0.23
8. Mrs.Piyanuch Korsawatworakul	1,430,000	0.22
9. Mr.Vichou Rukpongpaioj	1,415,000	0.21
10. Ms.Pranee Autawasirilert	1,361,000	0.20

Remark; The company repurchased share total 40,929,800 shares equal to 6.22 %

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, 2010

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.	Ms. Silvia Wu	Director
6.	Ms. Oranuch Suratroongrojkul	Director
7.	Ms. Sajeerat Metheesuwapab	Chairman of Audit Committee and Independent director
8.	Mr.Anupong Techaamnuayporn	Audit Committee and Independent director
9.	Ms.Nutcharee Suriyasenee*	Audit Committee and Independent director

Remark: *

- Ms.Nutcharee Suriyasenee was resignation from audit committee and Independent Director on November 15, 2010
- Mr. Athisit Worachote is the company secretary.

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, 2010 are as follows:

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

Remark :

- Ms.Nutcharee Suriyasenee was resignation from audit committee and Independent Director on November 15, 2010
- No.1 and 2 are those who have Financial and accounting background and have the 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, 2010

Name-Last Name	Position
1. Mr.Chen, Heng-Yi	Chairman of the Board and Managing Director
2. Mr. Chen Tai	General Manager
3. Mr.Chiang Jung Tsung	Vice General Manager
4. Ms.Silvia Wu	Division General Manager
5. Ms.Oranuch Suratroongrojkul	Presidential Office Manager
6. Mr.Hsu, An-Jen	Sales Manager
7. Ms.Radatorn Tanaasawapol	Financial and Accounting 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 7 persons as at 31st Dec 2010 as follows

Type of remuneration	Director's remuneration 9 persons (Baht)	Managements remuneration 7 persons(Baht)
Salary	251,000	6,195,347
Bonus	-	448,455
Premium	780,000	-
Total	1,031,000	6,643,802

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 concert.

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 2010, the company convened the Annual General Meeting on April 22, 2010 at 10.00 a.m. at Ball Room , Bangpoo Golf and Sport No. 191 Moo. 3, Bangpoo Industrial Estate Soi 9, T. Preaksamai, A. Muangsamutprakarn, Samutprakarn. 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's 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.

- The welfare

- Provide the lunch welfare for every employee for free.
- Provide the top-up compensation for employees who do not take leave or be late to encourage the employees and practice the discipline for the employees.
- Provide the provident fund for employees.
- 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.
- Organize the promotional activities for the outstanding employees by awarding them on yearly basis.
- Offer the company's products' special price for the employees.

- **Safety and Environmental**

- Provide campaign for clean environment within the office and factory to ensure cleanness and safety in accordance with 5S.
- Provide the nursing home and emergency cars throughout 24 hours for accidental preparation.
- Provide Fire Fighting Training to employee every year.
- Employee who has the risk of accident as well as Engineer the company will provide safety equipment for protection an accident.
- Morning talk via amplifier to inform the safety knowledge for the employees every morning.
- Set up Safety Committee for support and take care employee's safety.

- **Development and course training for Employee**

- Provide training to the employees every Monday morning to be communication protocol and understand the employees' need as well as strengthen the employees' knowledge.
- Sent the employee to training in Taiwan and Japan for development the product standard.
And keep customer's confidential with our product.
- Sent the employee to training as related field and by necessity such as Training with the Stock Exchange, government office and Department of Skill Development for development working skill of employee.

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 raise the benefit to the community in order to build the long-term relationship with those in community. In terms of the environment, the company has set up the committee of safety and environmental for society and environment as following;

- Society

- Developed the new compound by eliminated entirely use of Polycyclic Aromatic Hydrocarbon: PAH, a chemical substance under low acute toxicity Category and probable cancer-causing. The Company use PAHs Free raw materials, which is same standard of the new regulation of European Tyre.
- Made a donation to help flood victims via Red Cross Society
- Support Bangpoo Industrial Estate activity such as sent employee to participate the sport game by getting the men's volleyball championship in 2010.

- Environment

- Set up saving energy group for control energy usage with the best profit and reduce energy usage which is not accessories by divided to 3 groups. The group of Electric energy, Water energy and wind energy
- Separate the kind of garbage and assign one staff to recheck before discard.
- Use Natural Gas energy instead of fuel oil in the process for reduce to release Carbon Dioxide.
- Installation the ventilation fan for freshening and down temperature air in the building.
- Growing the tree in factory area and office building for the freshen atmospheres and reduce global warming
- Provide an activity campaign for saving energy to employee and showing the benefit of energy such as competition of the board decoration each section.
- Set up energy team for check energy turn on - turn off during rest time and after finished work.

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 and 118 (Ms.Oranuch and Mr.Athisit)

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 and Audit Committee	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	Ms. Sajeerat Metheesuwapab	The chairman of the Audit Committee
2	Mr.Anupong Techaamnuayporn	Audit Committee
3	Ms.Nutcharee Suriyasenee	Audit Committee

Remark ; Ms.Nutcharee Suriyasenee was resignation on November 15, 2010

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 2010, the Board of Directors and Board of Audit Committees convened the meeting 5 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	4/5	-	
2. Mr. Chang, Chun-Chuan	2/5	-	
3. Mr. Chen Tai	5/5		
4. Ms. Silvia Wu	4/5	-	
5. Mr. Ho, Chia - Chou	5/5	-	
6. Ms.Oranuch Suratroongrojkul	5/5	-	
7. Ms. Sajeerat Metheesuwapab	5/5	4/4	
8. Mr.Anupong Techaamnuyaporn	4/5	4/4	
9. Ms.Nutcharee Suriyasenee	3/5	2/4	Resigned on 15 November 2010

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 2010, 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.

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 2010 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 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 108). 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 62.08 % and 58.20 % in 2009 and 2010 respectively. The main trading currencies include USD dollar and Euro, of which USD has appreciated throughout the third quarter the year 2010, which had affected the revenue performance from export volume due to lower Baht-denominated revenue. However, on the contrary if baht becomes appreciate, it will be good to the company for imported raw material from international countries. 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 financial loan risk in the international currency because fluctuation in exchange rate. However it is a few financial loan risks because of short –term loan.

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

In 2010 pricing of natural rubber were strong due to many uncontrollable and continue rising. The main factors are high demand from automotive industry in China. The sales volumes of cars were increased 30 % from the previous year by nearly 18 million cars including of demand in the local are higher. The business analysis from Kasikorn-research expected automotive market will be speed sale volume up to 44 % moreover natural rubber supply in the local were decreased that effected from the rubber plantation area got rainy a lot in middle of October until end of the year especially flooding and depression in the south of Thailand. Year 2010 the price of natural rubber rising from 102.45 Baht/ Kgs. in January to 142.50 Baht / Kgs. in December. Therefore for the risk management with the price of natural rubber the company will try to increase the price of product and made the purchasing contract of raw material in the future market with the supplier and improving on production processes to reduce waste as much as possible.

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 50.42% 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 2010, the raw material purchased from HFR accounts for only 1.08% 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

The company is the affiliated company of Hwa fong Rubber Industries which is the parent company in Taiwan and hold 50.42 % of company's share. The company is tire and tube manufacture under brand name "DURO", "Q-UICK" and "DUNLOP", 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 41.80% in 2010. 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 2010

During the year 2010, 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 2010 (MB)	Pricing policy	Appropriateness
1. Hwa Fong Rubber Industries Co., Ltd. (HFR)	Major shareholder holding 50.42%	- Product sale	14.11 MB (462,652 units)	- Pre-determined market price, which incurred gross profit compared to previous-quarter average cost	The price can be compared to the market and normal business conditions
		- Account receivables	1.44	- Credit 60 days	
		- Raw material purchase	13.61	- Cost plus margin	For Production under standard and normal business conditions
		- PP&E investment	6.88	- Cost plus margin (Purchase on machinery for production)	For complying the same production technology and normal business condition
		- Spare part purchase	5.85	- Cost plus margin (Purchase on the spare part for production)	For complying the same production technology and normal business condition
		- Technical assistance fee	1.89	50,000 USD per year	Contractual agreement
		- Product trademark fee	4.98	0.5% of the value of products sold	Contractual agreement
		- Trade payable	1.14	Credit 60 days	
		- Other trade creditors	4.84	Credit 60 days in accordance with trade agreement	

Transaction	Relationship	Description	Value of related transaction in 2010 (MB)	Pricing policy	Appropriateness
2. Hwa Fong Rubber (USA) Co.,Ltd. (HFA)	Affiliate company (same parent company)	- Product sale	3.06 (44,776 units)	Predetermined 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 and normal business conditions
		- Account receivables	1.55	Credit 90 days	
3. Hwa Fong Rubber (Hong Kong) Co.,Ltd. (HFK)	Affiliate company (same parent company)	-Product sale	6.29 (151,270 units)	Predetermined 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 and normal business conditions
		- Account receivables	2.30	Credit 60 days	
4. Hwa Fong Rubber (China)Co.,Ltd. (HFC)	Affiliate company (same parent company)	- Raw material purchase	1.21	Cost plus margin	The price can be compared to the market price including terms and conditions
		- PP&E Investment	0.07	- Cost plus margin (Purchase on machinery for production)	The price can be compared to the market price including terms and conditions

Transaction	Relationship	Description	Value of related transaction in 2010 (MB)	Pricing policy	Appropriateness
4. Hwa Fong Rubber (China) Co.,Ltd. (HFC) Continue	Affiliate company (same parent company)	- Product purchase	2.14	- Cost plus margin (for resale as distributor)	The price can be compared to the market price including terms and conditions
		- Trade payable	0.25	Credit 60 days	
		- Other trade creditors	1.13	Credit 60 days	
5. Sumitomo Rubber Industries Co.,Ltd.	- Related company holding the shares in parent company (HFR) up to 13.15%	- Product sale	393.75 MB (1,009,507 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	20	- Credit 30 days	
		- Raw material purchase	5.38	- Cost plus margin	The price can be compared to the market price including terms and conditions
		- Permanent Asset purchase	1.59	- Cost plus margin	
		- Technical assistance fee	3.14	0.4% of the value of products sold	Contractual agreement
		- Technical fee	0.73	2 million yen per staff per year	Contractual agreement
		- Product trademark fee	5.55	1.5%-3% of the value of products sold	Contractual agreement
		- Trade payable	0.44	Credit 60 days	
		- Other trade creditors	3.83	Credit 60 days in accordance with trade agreement	

As shown above, the company has a sales transaction with affiliated company by sales for HFR 0.70% HFA 0.15% , HFK 0.31 % and Sumitomo Rubber Industries 19.50 % of total sale. The selling price amongst connected company is based on fair market price in accordance with the connected company agreement which incurred profit (compared to the average cost from previous quarter).

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 2010, 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 sales up to 2,019 MB in 2010, a decrease of 14.18% y-o-y compared to the revenue of 1,769 MB in 2009, total sales increasing 250 MB from mainly attributable to the global economic recovered and The company has a marketing successful with the policy to expand the international trading such as Asia, Middle East and Africa market. Hence the company reported its net profit 119.17 MB, an increase of 3.27% from 3.77 MB in the year 2009, equivalent to 0.19 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 1,175.24 MB and 844.09 MB for domestic one increase of 7.05% and 25.85% in 2009 respectively, the factor of sales volume continually increase because of The company has a marketing successful with the policy to expand the international trading such as Asia, Middle East and Africa market and expanded the tire and tube of bicycle market in Europe that campaign for energy saving and environment protection. For domestic sales the company expanded to replacement equipment Market by selling to the motorcycle and part shop and started selling the product of all terrain vehicles to Kawasaki under DURO brand also.

The company concentrates with the quality standards and develops product efficiency by continually Therefore keep popularity and respectfully by customer.

2. Other revenues

Other revenues comprised miscellaneous income, interest received and any reversal of allowance totaling 23.33 MB, increasing 14.69 MB higher than those in 2009 mainly due to reversal of allowance for diminution in value of inventories total 8.00 MB and reversal of allowance for estimated unclaimed import duty total 7.17 MB which including on other income nevertheless the other income of company has not affected with the operation performance that total 1.14 % of total income of 2010.

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

In year 2010, the cost of sales amounted to 1,716 MB whilst it represented 1,414 MB in 2009, higher 302 MB or 21.34 % year-on-year. The cost of sale which increased mainly based on the main raw material price continues rising especially natural rubber which is requested from expansion in China's Automobile Industry. The Production of Natural rubbers in the worldwide market are decrease because of climate change so natural rubber doesn't enough as the market demand and cause rising price since year 2010 until year 2011. In addition the prices of other main raw material are raising also e.g. synthetic rubber, wire and other chemical.

The cost of raw material increase as mention affected to the gross profit in 2010 decrease 5.01 % from the previous year . In 2010, 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 expense of sales meanwhile increased 23.1 MB from 104.31 MB in 2009 to 127.40 MB in 2010 mainly as a result of the provision in Sales volume are higher then cause the expense of selling higher together. And the expense of administration decrease 40.68 MB because of without the import duties of imported raw material retrospect such as year 2009.

● Financial Status

1. Asset

In 2010, HFT had total assets of 1,796 MB, a decrease of 57.38 MB from the end of 2009 owing to the interim dividend payment amounting to 52.67 MB, the repayment of long-term loan up to 50 MB and payment of treasury stock amounting to 100.09 MB. 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 15.67%, 12.67%, 25.73% and 44.10% respectively.

The collection capacity showed signs of improvement as the day's collection period in 2010 were 38 days and 48 days in 2009. Typical credit policy is set average 30-60 days for normal clients. 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 2010 decreased from 3.32 times to 2.66 times and the quick ratio decrease from 2.01 times in 2009 to 1.35 times in 2010 due to the payment of treasury stock amounting 100.09 MB include rising of current liabilities. The company's trade accounts receivables increasing with the amounting 27.56 MB from the previous year and current portion of long-term loan increase to 50 MB.

3. Sources of Funds

In 2010, the debt to equity ratio showed the conservative level with ratio was 0.34. The current capital structure exhibited in 2010 and 2009 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 consolidated balance sheet of Hwa Fong Rubber (Thailand) Public Company Limited and its subsidiary as at December 31, 2010, and the related consolidated statements of income, changes in shareholders' equity and cash flows for the year then ended. I have also audited the separate balance sheets of Hwa Fong Rubber (Thailand) Public Company Limited as at December 31, 2010 and 2009, and the related separate 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 consolidated financial positions of Hwa Fong Rubber (Thailand) Public Company Limited and subsidiary as at December 31, 2010 the results of their operations and their cash flow for the year then end, and the financial position of Hwa Fong Rubber (Thailand) Public Company Limited as of December 31, 2010 and 2009 the results of its operations and cash flows for the years then ended in conformity with generally accepted accounting principles.



(Mr. Jadesada Hungsapruet)

Certified Public Accountant (Thailand)

Registration No. 3759

Karin Audit Company Limited

Bangkok, Thailand

February 24, 2011

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

		Baht		
		Consolidated	Separate	
		As at	As at	As at
	Notes	December 31, 2010	December 31, 2010	December 31, 2009
CURRENT ASSETS				
Cash and cash equivalents	6	272,471,226	222,687,258	371,941,565
Trade accounts receivable				
Unrelated parties - net	7	194,921,966	194,921,966	175,433,363
Related parties	5, 7	25,286,983	25,286,983	33,666,963
Other receivable - related parties	5	47,837	47,837	43,711
Inventories - net	8	447,363,791	447,363,791	343,913,754
Other current assets	9	31,348,475	31,314,115	34,237,686
TOTAL CURRENT				
ASSETS		971,440,278	921,621,950	959,237,042
NON-CURRENT ASSETS				
Investments in subsidiary - net	10	-	50,000,000	-
Property, plant and equipment - net	11	766,742,178	766,742,178	836,325,171
Other non-current assets		510,000	510,000	510,000
TOTAL NON-CURRENT				
ASSETS		767,252,178	817,252,178	836,835,171
TOTAL ASSETS		1,738,692,456	1,738,874,128	1,796,072,213

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

HWA FONG RUBBER (THAILAND) PUBLIC COMPANY LIMITED AND SUBSIDIARY

BALANCE SHEETS (cont.)

LIABILITIES AND SHAREHOLDERS' EQUITY

		Baht		
		Consolidated	Separate	
		As at	As at	As at
Notes		December 31, 2010	December 31, 2010	December 31, 2009
CURRENT LIABILITIES				
Short-term loans from financial institutions	12	19,692,595	19,692,595	-
Trade accounts payable				
Unrelated parties		156,445,424	156,445,424	127,674,054
Related parties	5	1,824,247	1,824,247	3,037,112
Other payable - related parties	5	9,798,779	9,798,779	8,075,866
Current portion of long-term loans	13	100,000,000	100,000,000	50,000,000
Other current liabilities	14	77,777,978	77,737,478	100,540,342
TOTAL CURRENT LIABILITIES		365,539,023	365,498,523	289,327,374
NON-CURRENT LIABILITIES				
Long-term loans - net of current portion	13	70,000,000	70,000,000	170,000,000
TOTAL NON-CURRENT LIABILITIES		70,000,000	70,000,000	170,000,000
TOTAL LIABILITIES		435,539,023	435,498,523	459,327,374

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

HWA FONG RUBBER (THAILAND) PUBLIC COMPANY LIMITED AND SUBSIDIARY

BALANCE SHEETS (cont.)

LIABILITIES AND SHAREHOLDERS' EQUITY

	Notes	Baht		
		Consolidated	Separate	
		As at	As at	As at
		December 31, 2010	December 31, 2010	December 31, 2009
Share capital				
Registered				
658,434,300 ordinary shares				
of Baht 1 each	15	658,434,300	658,434,300	658,434,300
Issued and fully paid				
658,434,300 ordinary shares of Baht				
1 each		658,434,300	658,434,300	658,434,300
Treasury shares	17	(100,090,114)	(100,090,114)	-
Share premium		222,105,000	222,105,000	222,105,000
Retained earnings				
Appropriated - Legal				
reserve	16	56,124,061	56,124,061	50,124,061
Appropriated - Treasury				
share reserve	17	100,090,114	100,090,114	-
Unappropriated		366,490,072	366,712,244	406,081,478
Shareholders' equity of the				
Company - net		1,303,153,433	1,303,375,605	1,336,744,839
Minority interest in				
subsidiary		-	-	-
TOTAL SHAREHOLDERS'				
EQUITY		1,303,153,433	1,303,375,605	1,336,744,839
TOTAL LIABILITIES AND				
SHAREHOLDERS' EQUITY		1,738,692,456	1,738,874,128	1,796,072,213

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

HWA FONG RUBBER (THAILAND) PUBLIC COMPANY LIMITED AND SUBSIDIARY

INCOME STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	Notes	Baht		
		Consolidated	Separate	
		2010	2010	2009
Revenues from sales	5,22	2,019,332,169	2,019,332,169	1,768,610,226
Cost of sales		(1,716,295,175)	(1,716,295,175)	(1,414,479,383)
Gross Profit		303,036,994	303,036,994	354,130,843
Other incomes	18	23,330,160	23,172,885	8,644,715
Profit before expenses		326,367,154	326,209,879	362,775,558
Selling expenses	20	(127,404,169)	(127,404,169)	(104,305,522)
Administrative expenses		(32,932,973)	(32,553,526)	(73,614,153)
Management benefit		(7,674,802)	(7,674,802)	(7,284,325)
Total expenses		(168,011,944)	(167,632,497)	(185,204,000)
Profit before finance costs and income tax		158,355,210	158,577,382	177,571,558
Finance costs		(4,710,958)	(4,710,958)	(9,881,156)
Profit before income tax		153,644,252	153,866,424	167,690,402
Income tax		(34,470,800)	(34,470,800)	(52,285,086)
NET PROFIT		119,173,452	119,395,624	115,405,316
Net income attributable to				
The Company 's shareholders		119,173,452	119,395,624	115,405,316
Minority interests of the subsidiary		-	-	-
NET PROFIT		119,173,452	119,395,624	115,405,316
Basic earnings per share (Baht / Share)	21	0.19	0.19	0.18
Weighted average number of ordinary shares (Thousand shares)	21	639,992,097	639,992,097	658,434,300

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

HWA FONG RUBBER (THAILAND) PUBLIC COMPANY LIMITED AND SUBSIDIARY

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2010

Baht									
Consolidated									
Equity attributable to the Parent Company									
Notes	Retained earnings						Equity attributable to the Parent Company	Minority Interests	Total
	Issued and fully paid share capital	Share premium	Appropriated		Treasury shares				
			Legal reserve	Treasury share reserve					
						Un appropriated			
Balance as of									
January 1, 2010	658,434,300	222,105,000	50,124,061	-	406,081,478	-	1,336,744,839	-	1,336,744,839
Appropriated legal reserve	-	-	6,000,000	-	(6,000,000)	-	-	-	-
Net profit for the year	-	-	-	-	119,173,452	-	119,173,452	-	119,173,452
Dividend paid	23	-	-	-	(52,674,744)	-	(52,674,744)	-	(52,674,744)
Increase in treasury shares	17	-	-	-	-	(100,090,114)	(100,090,114)	-	(100,090,114)
Treasury share reserve		-	-	-	100,090,114	(100,090,114)	-	-	-
Balance as at									
December 31, 2010	658,434,300	222,105,000	56,124,061	100,090,114	366,490,072	(100,090,114)	1,303,153,433	-	1,303,153,433

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

HWA FONG RUBBER (THAILAND) PUBLIC COMPANY LIMITED AND SUBSIDIARY
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

		Baht					
		Separate					
		Retained earnings					
		Appropriated					
Notes	Issued and fully paid share capital	Share premium	Legal reserve	Treasury share reserve	Un appropriated	Treasury shares	Total
Balance as of January 1, 2009	658,434,300	222,105,000	44,124,061	-	428,363,022	-	1,353,026,383
Appropriated legal reserve	-	-	6,000,000	-	(6,000,000)	-	-
Net profit for the year	-	-	-	-	115,405,316	-	115,405,316
Dividend paid 23	-	-	-	-	(131,686,860)	-	(131,686,860)
Balance as at January 1, 2010	658,434,300	222,105,000	50,124,061	-	406,081,478	-	1,336,744,839
Appropriated legal reserve	-	-	6,000,000	-	(6,000,000)	-	-
Net profit for the year	-	-	-	-	119,395,624	-	119,395,624
Dividend paid 23	-	-	-	-	(52,674,744)	-	(52,674,744)
Increase in treasury shares 17	-	-	-	-	-	(100,090,114)	(100,090,114)
Treasury share reserve	-	-	-	100,090,114	(100,090,114)	-	-
Balance as at December 31, 2010	658,434,300	222,105,000	56,124,061	100,090,114	366,712,244	(100,090,114)	1,303,375,605

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

HWA FONG RUBBER (THAILAND) PUBLIC COMPANY LIMITED AND SUBSIDIARY

CASH FLOW STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	Baht		
	Consolidated	Separate	
	2010	2010	2009
Cash flows from operating activities			
Net profit	119,173,452	119,395,624	115,405,316
Adjustments to reconcile net profit (loss) to net cash provided by (paid from) operating activities :-			
Depreciation	113,592,469	113,592,469	120,483,607
Net loss on diminution in value of inventories	746,022	746,022	2,903,421
Reversal of Allowance for diminution in value of inventories	(8,746,022)	(8,746,022)	-
Reversal of Allowance for estimated unclaimed import duty	(7,171,120)	(7,171,120)	18,175,907
Write-off liabilities	(48,256)	(48,256)	-
(Gain) Loss on disposal of equipment	(626,231)	(626,231)	(2,552,218)
Unrealised loss (Gain) on exchange	1,119,445	1,119,445	1,447,937
Interest received	(1,734,874)	(1,497,599)	(2,081,969)
Interest expenses	4,439,049	4,439,049	9,602,779
Income tax	34,470,800	34,470,800	52,285,086
Net Profit (Loss) Provided by Operating Activities before changes in Operating Asset and liabilities	255,214,734	255,674,181	315,669,866
Decrease (increase) in operating assets			
Trade accounts receivable	(12,173,114)	(12,173,114)	54,745,943
Inventories	(95,450,037)	(95,450,037)	186,323,207
Other current assets	9,972,869	9,978,601	(36,261,446)
Receipt from tax refunded	44,267	44,267	1,169,217

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

HWA FONG RUBBER (THAILAND) PUBLIC COMPANY LIMITED AND SUBSIDIARY

CASH FLOW STATEMENTS (cont.)

FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	Baht		
	Consolidated	Separate	
	2010	2010	2009
Increase (decrease) in operating liabilities			
Trade accounts payable	27,434,889	27,434,889	47,650,331
Other current liabilities	(2,283,894)	(2,324,395)	6,112,767
Other non-current liabilities	-	-	(4,299,293)
Income tax paid	(53,113,105)	(53,110,997)	(24,880,704)
Net cash flows from provided by operating activities	129,646,609	130,073,395	546,229,888
Cash flows from investing activities			
Interest received	1,776,003	1,565,249	2,094,966
Cash received from disposal fixed assets	1,494,760	1,494,760	6,413,765
Cash paid for purchase fixed assets	(44,878,005)	(44,878,005)	(35,783,458)
Cash paid for purchase investment	-	(50,000,000)	-
Net cash flows used in investing activities	(41,607,242)	(91,817,996)	(27,274,727)
Cash flows from financing activities			
Interest expense paid	(4,442,181)	(4,442,181)	(9,949,758)
Increase (decrease) in short - term loans from financial institutions	19,692,595	19,692,595	-
Increase (decrease) in long-term loans	(50,000,000)	(50,000,000)	(150,000,000)
Dividend paid	(52,670,006)	(52,670,006)	(131,586,863)
Cash paid for treasury shares	(100,090,114)	(100,090,114)	-
Net cash flows used in financing activities	(187,509,706)	(187,509,706)	(291,536,621)
Net increase (decrease) in cash and cash equivalents	(99,470,339)	(149,254,307)	227,418,540
Cash and cash equivalents at beginning of years	371,941,565	371,941,565	144,523,025
Cash and cash equivalents at end of years	272,471,226	222,687,258	371,941,565

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

NOTES TO FINANCIAL 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.

As at December 31, 2010 Hwa Fong Rubber Industrial Company Limited, held at 50.42%

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 nine-month periods ended December 31, 2010 and 2009 are as follows:

	Million Baht		
	Consolidated	Separate	
	2010	2010	2009
Employees cost	258	258	210

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 accordance with Thai Financial Reporting Standards (“TFRS”) and guidelines promulgated by the Federation of Accounting Professions (“FAP”) and with generally accepted accounting principles 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.

The consolidated interim financial statements include the accounts of Hwa Fong Rubber (Thailand) Public Company Limited and the following subsidiaries for which more than 50% of capital shares with voting right are owned by the Company :

Subsidiaries	Type of Business	Baht		Percentage of	
		Paid-up share capital		Shareholding	
		December 31, 2010	December 31, 2009	December 31, 2010	December 31, 2009
H F T Holding Co., Ltd. (Registered as a limited company on May 4, 2010)	Investment in bonds and securities, wholesales and retail trading of tires and tubes and equipments for vehicles	50,000,000	-	99.99	-

Material intercom any balances and transactions between the Company and subsidiary have been eliminated from the consolidated financial statements.

2.2 During 2010, the FAP announced the re-numbering of the following TFRS.

Former no.	Revised no.	Topic
TAS 11	TAS 101	Doubtful Account and Bad Debts
TAS 48	TAS 107	Financial Instruments Disclosure and Presentation

The Company has adopted the revised Framework for the Preparation and Presentation of Financial Statements (revised 2009), which was issued by the FAP during 2010 and became effective on 26 May 2010. The adoption of the revised framework does not have any material impact on the Company's financial statements.

The FAP has issued during 2010 a number of new and revised TFRS which are not currently effective and have not been adopted in the preparation of these financial statements. These new and revised standards and interpretations are disclosed in note 28.

3. SIGNIFICANT ACCOUNTING POLICIES

The Company prepared the financial statements for the year ended December 31, 2010 with same accounting policies used in the preparation of the annual financial statements for the year ended December 31, 2009 excepted for the using of revised Thai Accounting Standards (TAS) as described in Note 2.2., 3.5 and 3.7

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 Investments in subsidiary

Investments in subsidiary under the company only financial statement is stated in Balance sheet at cost less allowance for impairment in value (if any). The devaluation of investment is presented as impairment loss of investment, which reflected in the statement of income.

Investment in subsidiary under the consolidated financial statements are stated in Balance sheet by equity method

3.6 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	years
Machinery and equipment	5-20	years
Furniture, fixtures and office equipment	5-10	years
Motor vehicles	5-10	years

Depreciation is included in determining income.

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

3.7 Treasury share

Treasury shares are recognised initially at cost and presented as a deduction from equity. An equal amount is appropriated from retained earnings and taken to a reserve for treasury shares within equity. When treasury shares are sold, the amount received is recognised as an increase in equity by crediting the cost of the treasury shares sold, calculated using the weighted average method, to the treasury shares account and transferring the equivalent amount to the cost of shares sold back from reserve for treasury shares to retained earnings. Surpluses on the sale of treasury shares are taken directly to a separate category within equity ("Surplus on treasury shares"). Net deficits on sale or cancellation of treasury shares are debited to retained earnings after setting off against any remaining balance of surplus on treasury shares and the reserve for treasury shares are credited at the equivalent amount to the cost of shares sold back to retained earnings.

3.8 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.

3.9 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.

3.10 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.

3.11 Employee benefits

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

3.12 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.

3.13 Income tax

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

3.14 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.

3.15 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.

Impairment of investments

The Company and its subsidiary treat investments as impaired when there has been a significant or prolonged decline in the fair value below their cost or where other objective evidence of impairment exists. The determination of what is “significant” or “prolonged” requires management judgement.

5. RELATED PARTY TRANSACTIONS

For the years ended December 31, 2010 and 2009, 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		
	Consolidated and Separate		
	For the years ended December 31,		
	2010	2009	<u>Transfer pricing policy</u>
<u>Transactions with parent company</u>			
Sales of goods	14.1	10.8	Please see detail below (a)
Other income	0.8	0.1	Cost plus margin
Purchases of raw materials	13.6	9.9	Cost plus margin
Purchases of machinery and	6.9	8.0	Cost plus margin
Repair expenses	3.7	1.6	Cost plus margin
Other expenses	2.1	1.4	Cost plus margin
Technical assistance fee expenses	1.9	1.7	USD 50,000 per annum
Trademark usage fee expenses	5.0	3.9	0.5% of the selling prices of the
<u>Transactions with related parties</u>			
Sales of goods	403.1	415.1	Please see detail below (b)
Other income	0.3	6.4	Cost plus margin
Purchases of raw materials	6.6	4.8	Cost plus margin
Purchases of machinery and	1.7	0.4	Cost plus margin
Other expenses	2.3	0.8	Cost plus margin
Technical assistance fee expenses	3.1	2.3	0.4% of the selling prices of the
Technician fee expenses	0.7	0.7	JPY 2 Million per year
Trademark usage fee expenses	5.5	5.1	1.5-3% of the selling prices of the

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

- a) Sales of goods to the parent company for the year ended December 31, 2010, has amounting Baht 14.11 million, including the mutually agreed price in the amount of Baht 13.69 million, which incurred gross profit and the mutually agreed price in the amount of Baht 0.42 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			
	Consolidated and Separate			
	For the year ended December 31, 2010			
Sold to	SRI GROUP	Hwa Fong		
	(b.3)	Rubber Group	Total	
Selling price at cost plus margin	292.67	7.79	300.46	Please see detail below (b.1)
Selling price at mutually agreed	101.08	1.56	102.64	Please see detail below (b.2)
	393.75	9.35	403.10	

- b.1) Sales of goods to four overseas related parties for the year ended December 31, 2010, amounting Baht 300.46 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 72.02%, (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, 2010, amounting Baht 102.64 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 24.60%, (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, 2010 incurred gross profit at 12.76% 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, 2010, there is no long-term contract or agreement whereby selling prices are agreed in advance.

The balances of the accounts as at December 31, 2010 and 2009 between the Company and those related parties are as follows:

		Baht		
		Consolidated	Separate	
		As at	As at	As at
	Relationship	December 31, 2010	December 31, 2010	December 31, 2009
<u>Trade accounts receivable - related parties</u>				
Hwa Fong Rubber Industrial Company Limited	Parent company	1,437,808	1,437,808	3,438,330
Hwa Fong Rubber (USA) Inc.**	Common shareholder	1,548,144	1,548,144	-
Hwa Fong Rubber (Hong Kong) Inc.**	Common shareholder	2,296,640	2,296,640	-
Sumitomo Rubber Industries Limited *	The parent company's shareholder	20,004,391	20,004,391	29,138,071
Sumitomo Rubber Asia (Tyres) PTE.*	Subsidiary of the parent	-	-	1,090,562
		<u>25,286,983</u>	<u>25,286,983</u>	<u>33,666,963</u>
<u>Other receivable – from related parties</u>				
Hwa Fong Rubber Industrial Company Limited	Parent company	47,837	47,837	4,670
Sumitomo Rubber Industries Limited	The parent company's shareholder	-	-	39,041
		<u>47,837</u>	<u>47,837</u>	<u>43,711</u>
<u>Trade accounts payable - related parties</u>				
Hwa Fong Rubber Industrial Company Limited	Parent company	1,139,582	1,139,582	2,269,244
Hwa Fong Rubber (China) Company Limited	Common shareholder	249,339	249,339	182,499
Sumitomo Rubber Industries Limited	The parent company's shareholder	435,326	435,326	585,369
		<u>1,824,247</u>	<u>1,824,247</u>	<u>3,037,112</u>
<u>Other payable – related parties</u>				
Hwa Fong Rubber Industrial Company Limited	Parent company	4,835,442	4,835,442	3,867,149
Hwa Fong Rubber (USA) Inc.	Common shareholder	-	-	-
Hwa Fong Rubber (China) Company Limited	Common shareholder	1,133,930	1,133,930	365,552
Sumitomo Rubber Industries Limited	The parent company's shareholder	3,829,407	3,829,407	3,832,072
Sumitomo Rubber Asia (Tyres) PTE.	Subsidiary of the parent	-	-	11,093
		<u>9,798,779</u>	<u>9,798,779</u>	<u>8,075,866</u>

* presented as SRI GROUP

** presented as HWA FONG RUBBER GROUP

Directors and management's remuneration

For the year ended December 31, 2010 the Company paid salaries, bonuses and meeting allowances to its directors and management totaling Baht 7.67 million (For the year ended December 31, 2009: Baht 7.28 million).

6. CASH AND CASH EQUIVALENTS

As at December 31, 2010 and 2009, cash and cash equivalents consist of:

	Baht		
	Consolidated	Separate	
	As at	As at	As at
	December 31, 2010	December 31, 2010	December 31, 2009
Cash	374,092	367,492	15,000
Saving deposit accounts	201,433,275	186,655,907	196,033,732
Current deposit accounts	663,859	663,859	591,107
Short-term investments	70,000,000	35,000,000	175,301,726
<i>Total</i>	<u>272,471,226</u>	<u>222,687,258</u>	<u>371,941,565</u>

Short-term investments represent Bill of exchange with local branch of a foreign bank which will be due during January 12, 2010 to January 27, 2011 and bear interest at rate of 1.53% - 1.60% p.a.

7. TRADE ACCOUNTS RECEIVABLE

The outstanding balances of trade accounts receivable as at December 31, 2010 and 2009 are aged, based on due date, as follows :-

	Baht		
	Consolidated	Separate	
	As at December 31, 2010	As at December 31, 2010	As at December 31, 2009
<u>Unrelated parties</u>			
Not yet due	149,435,891	149,435,891	127,243,370
Past due receivables			
Less than 3 months	42,714,871	42,714,871	48,019,965
3 - 6 months	2,118,644	2,118,644	193,484
More than 6 - 12 months	676,016	676,016	-
More than 12 months	276,544	276,544	276,544
Total	195,221,966	195,221,966	175,733,363
<u>Less Allowance for doubtful accounts</u>	(300,000)	(300,000)	(300,000)
Net	194,921,966	194,921,966	175,433,363
<u>Related parties</u>			
Not yet due	23,888,064	23,888,064	33,643,796
Past due receivables			
Less than 3 months	1,398,919	1,398,919	23,167
3 - 6 months	-	-	-
More than 6 - 12 months	-	-	-
More than 12 months	-	-	-
Total	25,286,983	25,286,983	33,666,963

8. INVENTORIES – NET

As at December 31, 2010 and 2009, inventories - net consist of:

	Baht		
	Consolidated	Separate	
	As at December 31, 2010	As at December 31, 2010	As at December 31, 2009
Finished goods	158,928,168	158,928,168	113,328,932
Work in process	43,571,797	43,571,797	33,456,845
Raw materials	206,392,299	206,392,299	163,187,368
Spare parts and supplies	35,964,417	35,964,417	31,840,776
Merchandise goods	665,094	665,094	1,014,244
Raw materials in transit	31,842,016	31,842,016	39,085,589
Total	477,363,791	477,363,791	381,913,754
<u>Less</u> Allowance for diminution in value of inventories	(30,000,000)	(30,000,000)	(38,000,000)
Net	447,363,791	447,363,791	343,913,754

Allowance for diminution in value of inventories is changed during the year as follows:-

	Baht		
	Consolidated	Separate	
	As at December 31, 2010	As at December 31, 2010	As at December 31, 2009
Beginning balance	38,000,000	38,000,000	35,096,579
Increase	746,022	746,022	19,087,105
Decrease	(8,746,022)	(8,746,022)	(16,183,684)
Ending balance	30,000,000	30,000,000	38,000,000

During the period of year 2010, the Company has reversed allowance for inventory devaluation due to such inventory were produced and/or sold during the year.

9. OTHER CURRENT ASSET

As at December 31, 2010 and 2009, other current asset consists of:

	Baht		
	Consolidated	Separate	
	As at December 31, 2010	As at December 31, 2010	As at December 31, 2009
Input tax refundable	1,854,181	1,846,431	2,085,297
Other current assets	6,245,561	6,218,951	7,687,975
Import duty on raw materials refundable	34,253,520	34,253,520	42,640,321
<u>Less</u> Allowance for estimated unclaimed import duty	(11,004,787)	(11,004,787)	(18,175,907)
Total	<u>31,348,475</u>	<u>31,314,115</u>	<u>34,237,686</u>

Allowance for estimated unclaimed import duty is changed during the year as follows:-

	Baht		
	Consolidated	Separate	
	As at December 31, 2010	As at December 31, 2010	As at December 31, 2009
Beginning balance	18,175,907	18,175,907	-
Increase	2,411,995	2,411,995	18,175,907
Decrease	9,583,115	9,583,115	-
Ending balance	<u>11,004,787</u>	<u>11,004,787</u>	<u>18,175,907</u>

10. INVESTMENTS IN SUBSIDIARY

	Baht			
	Separate			
	Percentage of Investment		At cost	
	December 31, 2010	December 31, 2009	December 31, 2010	December 31, 2009
<u>Investments in Subsidiary</u>				
H F T Holding Co., Ltd.	99.99	-	50,000,000	-
Investments in subsidiary – net			50,000,000	-

On April 22, 2010, the Company's Board of Director No. 2/2010 passed to investment in H F T Holding Company Limited. (Common share 500,000 shares, at par value Baht 100 per share, totaling Baht 50,000,000). The Subsidiary registered the change in its shareholder with the Ministry of Commerce on May 4, 2010, the Company has 99.99% ownership in the subsidiary upon the completion of the transaction.

11. PROPERTY, PLANT AND EQUIPMENT – NET

As at December 31, 2010, Property, Plant and Equipment consist of:

	Baht						
	Land	Buildings and building improvements	Machinery and equipment	Furniture, fixtures and office equipment	Motor vehicles	Machinery under installation	Total
<u>Cost</u>							
January 1, 2010	112,151,657	325,378,525	1,556,044,845	13,184,323	47,564,358	4,015,084	2,058,338,792
Additions	-	1,830,600	8,263,676	1,223,058	7,075,915	26,484,756	44,878,005
Disposals/written off	-	-	(5,227,227)	(205,785)	(466,964)	(767,097)	(6,667,073)
Transfers in (out)	-	-	24,057,434	55,535	-	(24,112,969)	-
December 31, 2010	112,151,657	327,209,125	1,583,138,728	14,257,131	54,173,309	5,619,774	2,096,549,724
<u>Accumulated depreciation</u>							
January 1, 2010	-	104,642,179	1,071,955,219	10,725,965	34,690,258	-	1,222,013,621
Depreciation	-	11,347,441	97,422,325	892,499	3,930,204	-	113,592,469
Disposals/written off	-	-	(5,126,563)	(205,018)	(466,963)	-	(5,798,544)
December 31, 2010	-	115,989,620	1,164,250,981	11,413,446	38,153,499	-	1,329,807,546
<u>Net book value</u>							
December 31, 2009	112,151,657	220,736,346	484,089,626	2,458,358	12,874,100	4,015,084	836,325,171
December 31, 2010	112,151,657	211,219,505	418,887,747	2,843,685	16,019,810	5,619,774	766,742,178

As at December 31, 2009, 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	Total
<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	2,033,338,721
Additions	-	1,552,400	7,331,476	890,709	1,440,655	24,568,218	35,783,458
Disposals/written off	-	-	(266,721)	(1,621,622)	(5,307,120)	(3,587,924)	(10,783,387)
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	2,058,338,792
<u>Accumulated depreciation</u>							
January 1, 2009	-	93,449,535	967,802,542	11,524,148	35,675,629	-	1,108,451,854
Depreciation	-	11,192,644	104,369,784	823,391	4,097,787	-	120,483,606
Disposals/written off	-	-	(217,107)	(1,621,574)	(5,083,158)	-	(6,921,839)
December 31, 2009	-	104,642,179	1,071,955,219	10,725,965	34,690,258	-	1,222,013,621
<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	924,886,867
December 31, 2009	112,151,657	220,736,346	484,089,626	2,458,358	12,874,100	4,015,084	836,325,171
<u>Depreciation for the year ended December 31</u>							
2010 (Baht 110.3 million included in manufacturing cost, and the balance in selling and administrative expenses)							113,592,469
2009 (Baht 117.5 million included in manufacturing cost, and the balance in selling and administrative expenses)							120,483,606

As at December 31, 2010, the consolidated and separate financial statements, certain plant and equipment items have been fully depreciated but are still in use. The original cost of those assets amounted to approximately Baht 631.88 million (As at December 31, 2009, the separate financial statements: Baht 535.60 million).

The consolidated and separate financial statements have mortgaged certain land with structures thereon with a total net book value as at December 31, 2010, of Baht 103.72 million (As at December 31, 2009, the separate financial statements: Baht 108.55 million) to secure credit facilities granted by one financial institution.

12. Short-term loan from financial institutions

As at December 31, 2010, the Company has short term loans from a financial institution in Thailand in amount of Baht 19.69 million (USD 0.65 million). The short term loan are loan in promissory notes which will have maturity date on January 5, 2011 and bear interest at rate of 1.31% p.a

13. LONG-TERM LOANS

As at December 31, 2010 and 2009, long-term loans represent the loan facilities obtained from a bank as detailed belows :-

	Baht		
	Consolidated	Separate	
	As at December 31, 2010	As at December 31, 2010	As at December 31, 2009
Long-term loans	170,000,000	170,000,000	220,000,000
<u>Less:</u> Current portion of long-term loans	(100,000,000)	(100,000,000)	(50,000,000)
Long-term loans - net of current portion	<u>70,000,000</u>	<u>70,000,000</u>	<u>170,000,000</u>

The consolidated and separate financial statements, 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 consolidated and separate financial statements, 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, 2010 of Baht 103.72 million (As at December 31, 2009, the separate financial statements: Baht 108.55 million). (See notes 11). This collateral is secured for all the credit facility lines obtained from the bank at Baht 400 million.

14. OTHER CURRENT LIABILITIES

As at December 31, 2010 and 2009, other current liabilities consist of:

	Baht		
	Consolidated	Separate	
	As at December 31, 2010	As at December 31, 2010	As at December 31, 2009
Accrued Expenses	53,866,351	53,826,351	56,672,166
Income tax payable	17,443,874	17,443,874	36,132,328
Deposit	4,192,538	4,192,538	2,427,516
Other current liabilities	2,275,215	2,274,715	5,308,332
Total	77,777,978	77,737,478	100,540,342

15. REGISTERED CAPITAL

During year 2009 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. As end of February, 2010, HFR sold amount of TDR shares 35,000,000 units totaling 210,000,000 common shares.

16. 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.

17. TRASURY SHARES/TRASURY SHARE RESERVE

TRASURY SHARES

On April 22, 2010, the Company's Board of Director No. 2/2010 passed a resolution to repurchase 59,259,087 shares or 9% of the Company's paid-up capital (As at March 31, 2010 the Company has share capital issued and fully paid 658,434,300 shares.), the maximum of repurchase amount is not over than Baht 150 million. The repurchase is being made for financial management purposes, since the Company has excess liquidity, and it is to be made through the Stock Exchange of Thailand. The repurchase period shall start from May 11, 2010 to November 10, 2010, and the resale period for the repurchased shares runs for 3 years, beginning 6 months after the completion date of the share repurchase.

Movements in the treasury shares account during the year ended December 31, 2010 are summarised below:

	Consolidated		Separate	
	(Thousand shares)	(Thousand Baht)	(Thousand shares)	(Thousand Baht)
Balance as at January 1, 2010	-	-	-	-
Purchase during the period	40,930	100,090	40,930	100,090
Balance as at December 31, 2010	40,930	100,090	40,930	100,090

As at December 31, 2010, the market price of such treasury shares was approximately Baht 92.50 million (separate financial statements: Baht 92.50 million). Losses on disposal of such treasury shares (if any) will be recorded in the retained earnings in shareholders' equity in the Company's financial statements, when the Company disposes of the shares.

TREASURY SHARE RESERVE

Movements in the treasury share reserve account during the year ended December 31, 2010 are summarized below:

	Baht	
	Consolidated	Separate
Balance as at January 1, 2010	-	-
Reserved increase during the period	100,090	100,090
Reserved decrease during the period	-	-
Balance as at December 31, 2010	100,090	100,090

18. OTHER INCOME

	Baht		
	For the year ended December 31,		
	Consolidated	Separate	
	2010	2010	2009
Reversal of Allowance for diminution in value of inventories	8,000,000	8,000,000	-
Reversal of Allowance for estimated unclaimed import duty	7,171,120	7,171,120	-
(Gain) Loss on disposal of equipment	626,231	626,231	2,552,218
Interest income	1,734,874	1,497,599	2,081,969
Other income	5,797,935	5,877,935	4,010,528
Total	23,330,160	23,172,885	8,644,715

19. 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.

20. EXPENSES CLASSIFIED BY NATURE OF EXPENSES

Significant expenses by nature are as follows:

	Baht		
	For the year ended December 31,		
	Consolidated	Separate	
	2010	2010	2009
Salary and wages and other employee benefits	257,720,126	257,720,126	209,982,847
Depreciation and amortization	113,592,469	113,592,469	120,483,606
Change in inventories and work in process	(57,064,203)	(57,064,203)	73,844,181
Raw materials and supplies used	1,306,994,915	1,306,994,915	948,225,633
Selling expenses	127,404,169	127,404,169	104,305,522
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.

21. 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 and shares held in treasury in issue during the period.

Basic earnings per share and diluted earnings per share for the year ended December 31, 2010 and 2009 are calculated as follows:

Consolidated					
For the year ended December 31,					
Weighted average number					
Net income		of ordinary shares		Earnings per share	
2010		2010		2010	
Thousand Baht		Thousand shares		Baht	
Basic earnings per share					
Net income attributable to equity					
holders of the parent company	119,173		658,434		
<u>Less:</u> Treasury shares	-		(18,442)		
Net profit	<u>119,173</u>		<u>639,992</u>		<u>0.19</u>

Separate					
For the year ended December 31,					
Weighted average number					
Net income		Of ordinary shares		Earnings per share	
2010	2009	2010	2009	2010	2009
Thousand Baht	Thousand Baht	Thousand shares	Thousand shares	Baht	Baht
Basic earnings per share					
Net income attributable to equity					
holders of the parent company	119,396	115,405	658,434	658,434	
<u>Less:</u> Treasury shares	-	-	(18,442)	-	
Net profit	<u>119,396</u>	<u>115,405</u>	<u>639,992</u>	<u>658,434</u>	<u>0.19 0.18</u>

22. 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 year ended December 31, 2010 and 2009, are as follows:

	Baht	
	Consolidated and Separate	
	For the year ended December 31,	
	2010	2009
Revenue from sales - Local	844,151,715	670,726,303
Revenue from sales - Foreign		
Asia	523,733,843	514,561,496
Europe	494,998,521	441,436,994
American	94,637,038	96,413,828
Other	61,811,052	45,471,605
Total	2,019,332,169	1,768,610,226

23. DIVIDEND PAYMENT

At the 2010 ordinary shareholders meeting held on April 22, 2010 the shareholders resolved to appropriate the net profit from the operation for shareholders as dividend in amount of Baht 52,674,744 (Common shares 658,434,300 shares, at Value Baht 0.08 per share, at par value Baht 1 per share).Whereby presently the dividend has already been paid to the shareholders on May 20, 2010.

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.

24. PROVIDENT FUND

The consolidated and separate financial statements, 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, 2010, the Company contributed approximately Baht 0.5 million (For the year ended December 31, 2009: Baht 0.6 million) to the fund.

25. COMMITMENTS AND CONTINGENT LIABILITIES

25.1 Commitments

- (a) As at December 31, 2010, the Company had commitments of approximately Baht 30.93 million and USD 3.30 million, relating to purchases of raw materials (As at December 31, 2009: Baht 33.29 million and USD 1.66 million).
- (b) As at December 31, 2010, the Company had commitments totaling approximately Baht 1.28 million under service contracts (As at December 31, 2009: Baht 1.37 million).

25.2 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, 2010). On November 12, 2010, the Board of Directors unanimously approved to renew the Technical assistance agreement for the periods of 3 years during January 1, 2011 to December 31, 2013 with annual fee of USD 100,000 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, 2010) 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, 2011) and it can be extended by mutual agreement.
- Technician fee (JPY 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.

25.3 Guarantees

As at December 31, 2010, there were outstanding bank guarantees of approximately Baht 28.11 million (December 31, 2009 : Baht 30.50 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 million and Baht 18.11 million to guarantee electricity use, among others.

26. FINANCIAL INSTRUMENTS

26.1 Financial risk management

The Company financial and its subsidiary instruments, as defined under Thai Accounting Standard No. 107 (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 and its subsidiary consider itself being exposed to low risk from changes in interest rate because the Company and its subsidiary have 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 and its subsidiary 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, 2010 are summarized below.

Foreign currency	Consolidated and Separate	
	Financial assets(Million)	Financial liabilities(Million)
US dollar	5.03	2.31
Euro	1.40	0.06

Foreign exchange sold contract outstanding at December 31, 2010 are summarized below.

Foreign currency	Sold amount	Contractual exchange
		rate
	(Million)	(Baht per 1 foreign currency unit)
		Selling rate
US dollar	1.0	29,8749 – 30,2283

26.2 Fair values of financial instruments

Since the majority of the Company and its subsidiary 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.

27. CAPITAL MANAGEMENT

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

As at December 31, 2010, debt to equity ratio in the consolidated and separate financial statements is 0.34 :1 and 0.34 :1 respectively.

28. THAI FINANCIAL REPORTING STANDARDS (TFRS) NOT YET ADOPTED

The Company has not adopted the following new and revised TFRS that have been issued as of the reporting date but are not yet effective. The new and revised TFRS are anticipated to become effective for annual financial periods beginning on or after 1 January in the year indicated in the following table.

TFRS	Topic	Year effective
TAS 1 (revised 2009)	Presentation of Financial Statements	2011
TAS 2 (revised 2009)	Inventories	2011
TAS 7 (revised 2009)	Statement of Cash Flows	2011
TAS 8 (revised 2009)	Accounting Policies, Changes in Accounting Estimates and Errors	2011
TAS 10 (revised 2009)	Events after the Reporting Period	2011
TAS 12	Taxation	2013
TAS 16 (revised 2009)	Property, Plant and Equipment	2011

TFRS		Topic	Year effective
TAS 17 (revised 2009)	Leases		2011
TAS 18 (revised 2009)	Revenue		2011
TAS 19	Employee Benefits		2011
TAS 21 (revised 2009)	The Effects of Changes in Foreign Exchange Rates		2013
TAS 24 (revised 2009)	Related Party Disclosures		2011
TAS 33 (revised 2009)	Earnings per Share		2011
TAS 34 (revised 2009)	Interim Financial Reporting		2011
TAS 36 (revised 2009)	Impairment of Assets		2011
TAS 37 (revised 2009)	Provisions, Contingent Liabilities and Contingent Assets		2011
TAS 38 (revised 2009)	Intangible Assets		2011
TAS 40 (revised 2009)	Investment Property		2011

Management has presently determined the effects from adoptions of the new and revised TFRS on the financial statements of the Company. Those accounting standards that will have direct effect on the Company are as follows:

TAS 16 (revised 2009) – Property, plant and equipment

The principal changes introduced by the revised TAS 16 that will affect the Company is that (i) costs of asset dismantlement, removal and restoration have to be included as asset costs and subject to annual depreciation; (ii) the depreciation charge has to be determined separately for each significant part of an asset; and (iii) the residual value of an item of property, plant and equipment has to be measured at the amount estimated receivable currently for the asset if the asset were already of the age and in the condition expected at the end of its useful life. Furthermore, the residual value and useful life of an asset have to be reviewed at least at each financial year-end.

The revised TAS 16 (revised 2009) permits as a transitional provision that these changes may be introduced prospectively from the year of introduction. The Company intends to adopt this transitional provision which the management has already determined will not have any material impact on the financial statements.

TAS 19 – Employee benefits

The accounting standard, Employee Benefits, has been in effect for financial periods beginning on or after 1 January 2011. The Company therefore has not presently accounted for the costs of post-employment benefits under defined benefit plans; other long-term employee benefits; and termination benefits until such costs are incurred. This accounting standard includes the requirements to recognise expenses and provision for employee benefits in the period in which the service is performed. The standard requires actuarial assumptions to measure the obligations and expenses of long-term benefits and to measure on a discounted basis due to the settlement of these benefits would incur in the subsequent years of services. The transitional provisions of TAS 19 permit the transitional liability computed from period of service years of employees prior to its effective date, to be recognised and accounted for in four options. The Company has still determined to select the adjust options.

Management has determined that the transitional liability as at 1 January 2011 and 2010 for employee benefits would be increased Baht 5.95 million and Baht 4.69 million, respectively and retained earnings for the Company would be decreased Baht 5.95 million and Baht 4.69 million, respectively.

TAS 12 –Taxation

This accounting standard requires an entity to identify temporary differences, which are differences between the carrying amount of an asset or liability in the accounting records and its tax base, and to recognize deferred tax assets and liabilities under the stipulated guidelines.

The accounting standard, taxation, has been in effect for financial periods beginning on or after 1 January 2013 which the management has determined that the transitional effect of such accounting standard as at 1 January 2011 and 2010, assets would be increased Baht 12.62 million and Baht 16.23 million, respectively and retained earnings for the Company would be increased Baht 12.62 million and Baht 16.23 million, respectively.

29. SUBSEQUENT EVENT

At the Board of Directors' Meeting hold on February 24, 2011, the directors resolved to propose the dividend payment in at value Baht 0.12 per share. The dividend payment shall be approved by its shareholders at the ordinary shareholders' meeting will be held on April 28, 2011.

30. APPROVAL OF FINANCIAL STATEMENTS

These financial statements have been approved by the Company's Management on February 24, 2011.