

รายงานประจำปี 2555

# ANNUAL REPORT 2012



**HFT**

บริษัท ฮั่วฟงrubber (ไทยแลนด์) จำกัด (มหาชน)  
HWA FONG RUBBER (THAILAND) PUBLIC COMPANY LIMITED

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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 26 years recognizably worldwide brand name dubbed "DURO" "Q-UICK" and "DUNLOP" brand 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 18 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 46.46% and 53.54% 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 and Borneo Technical (Thailand ) Co., Ltd. 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, Africa, Australia and Middle East.

For overall performance, HFT reported its revenue from sales up to 2,218 Million Baht in 2011 and 2,373 Million Baht in 2012 increase of 6.96%, mainly attributable to the worldwide economic recovered and became growing, especially the domestic sales of motorcycle tire has been increased from 2554 about 129 MB or 18.94% 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 due to the minimum wage has been adjusted but it's increased only 0.02 % as the major raw material cost has been decreased such as Natural Rubber, Synthetic Rubber and Carbon Black. In 2012 the company net profit was 157.56 Million Baht or earning per share 0.25 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,<br>Motorcycle and Small industrial vehicle  |
| Registered capital           | : | 658,434,300 Baht consisting of 658,434,300 paid-up shares<br>at par value of Baht 1   |
| Head Office and Main Factory | : | 317 Soi 6C Moo 4 Bangpoo Industrial Estate<br>Tombon Praksa, Amphor Muang, Samutprakarn 10280   |
| Second Factory               | : | 865/1 Moo 4 Soi 11B Bangpoo Industrial<br>Estate Tombon Praksa, Amphor Muang, Samutprakarn 10280  |
| Subsidiary company           | : | HFT Holding Company Limited.<br>317 Soi 6C Moo 4 Bangpoo Industrial Estate<br>Tombon Praksa, Amphor Muang, Samutprakarn 10280   |
| Company Registration         | : | 0107545000152   |
| Telephone No.                | : | 0-2709-6580   |
| Facsimile No.                | : | 0-2709-6589, 0-2324-0483  |
| E-MAIL                       | : | <a href="mailto:hwafong@duro.co.th">hwafong@duro.co.th</a>  |
| Website                      | : | <a href="http://www.duro.co.th">www.duro.co.th</a>  |
| Auditors                     | : | Mr. Santi Phongjareonpit Certified Public Account Registration No. 4623<br>Ms. Sureeratana Thong-arunsaeng Certified Public Account Registration No. 4406<br>Mr. Aekasit Shuthammasathit Certified Public Account Registration No. 4195 |

KPMG Phumichai Audit Company Limited  
195 Empire Tower, 50<sup>th</sup> – 51<sup>st</sup> Floor, South Sathorn Road  
Yannawa, Sathorn ,Bangkok 10120.

## Message from the Board of Directors

In 2012, as Europe has faced the debt situation problem and the United State of America's economic had been slowdown while the economic growth of China has been downturn as well. So, the lower demand lower in the major markets had been affected to the products in the global market to become fiercely competitive. The end of year 2011 Thailand was the great flood which is resulted the impact on the economy also. In the year 2012, Economic recovery after passing the flood crisis. Half a year, after the country's overall economic recovery. In the ASEAN market had become growing and positively effects on sales of company.

By observing the overall market situation in 2012, the raw material used to produce basically, the vendor still can deliver consistently. The oil price is fixed as well. However, natural rubber prices have fluctuated slightly. At present, however there is still a high price. In summary, in the year 2012 had an impact on the production cost relatively low of raw materials.

Under the strong competition in the global market, Exports still can maintain a good performance while the overall market growths in the Asian region have been expanded and grown successively. This is one factor that drives sales increases every year. But in year 2012, since April with the increase in the basic wage to 300 Baht according to Thai government's regulation per day has been affected to the cost of production soared, and make the higher cost more than the other competitors who are in the ASEAN. Then, this causes our capability for competition had been lower in the market.

Despite there is the sluggish global market, but with the endeavors and the efforts of all employees, the company and subsidiary company's revenue from sales of 2,376 million in 2012 compared to 2011 represents a growth of about 7.12% of net profit after tax was 157.56 million Baht compared to 2011 with a growth rate of over 25%. Overall performance is better than the year 2011.

Regarding the information about Economic recovery of European and America but, there is still no any adaptation . Market demand of these two countries is still not quite certain while Economic growths in Asian markets tends to slow down. In particular, in some countries, the policy instruments to stimulate the economy. Then it causes the past has got the baht appreciation and higher than other countries in the ASEAN region, which makes our products to be more competitive in the world markets lower , but it causes lower Exports due to our cost is more expensive than competitors'. The exports were affected at the same time. Concerning to focus on inflation, Expensive products, this reason causes the product cost is higher.

In the rubber industry, even the company has been affected in many terms, but it is expected that Thailand's economy continues to be developed, so the company has imported the machine for supporting the market expansion in the near future for ASEAN market under support by BOI in order to increase the production capability. Moreover, there are also the development of new products , emphasis on safety. In the production process become using modern technology to help and get to a better working environment and

increasing of productivity. Therefore the company is confident about development in the future and drives the company's growth continually. Moreover, also becomes the potential for competition by long term.

Finally, the Director would like to express our sincere appreciation for anxiousness of every shareholders, customers, full efforts from every employees and related government departments, financial institutes and the other companies for the continued support our business operation. We sincerely hope that you will also continue to support and to provide guidance to the Company to become a reliable and trusted company for shareholders, Investors and all staffs.



Mrs. Su, Ming-Fen

Chairman

## Report of the audit committee

### Dear HFT's Shareholders

The audit committee of Hwa Fong Rubber (Thailand) Public Company Limited consists of three independent directors. This year the Audit committee and Chairman of Audit Committee underwent a series of composition changes during the year as a result of the Annual General of Shareholder Meeting No. 1/2012, which appointed Mr. Anuwat Kosol in place of Ms. Sajeerat Metheesuwapab as Chairman , Mr. Vitoon Somboon in place of Mr. Anupong Techaamnuyaporn. This year the committee carried out its Board-assigned duties while adhering to guidelines for the Audit Committee, such as, the review of financial statements report, the review of good corporate governance, the review of the risk management system, the review of the internal control system and internal audit, the review and fraud detection and the appointment of External Auditors for the year. In the year 2012 the Audit Committee held 4 meetings with the managements, the Internal Audit and the external auditor, as summarized below.

**1. Review of financial reports.** The audit committee reviewed quarterly the annual financial statements of Hwa Fong Rubber (Thailand) Public Company Limited with Internal Audit. Each time quarterly the annual financial statements were examined, the External auditor was in attendance. The Audit Committee asked the external auditor about Financial Statements completed and accurate presentation, adjustments for key accounting entries materially affecting the statements, adequacy of accounting entry methods, scope of audit, accuracy and adequacy of information disclosure, and the external auditor's independence with legal and accounting standard requirements under generally accepted accounting principles, that the accounting procedures and financial statements were both accurate and reliable, and that adequate timely information had been disclosed in the financial statements for the benefit of investors or users of such statements.

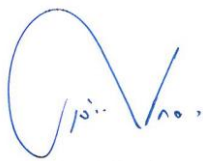
**2. Review of internal audit effectiveness.** The audit committee with the external audit had reviewed the internal control system for each quarter with a focus on execution, resource application, stewardship of properties, and prevention or minimization of errors, losses, waste, and frauds. It also reviewed the compliance with Law, Regulations of the relevant government authorities and best practices for listed companies according to the announcement the Stock Exchange of Thailand. The Management and the office of the internal audit concluded that company's internal audit control system was both adequate and effective for its business.

**3. Review of risk management.** The Audit Committee reviewed the risk management policies, plans and approaches risk management practices arising from internal and external of organization. The audit committee held quarterly meetings with the management to scrutinize the efficiency and suitability of risk management processes and provide recommendations for improvement.

**4. Appointment of the external audit and remuneration for 2013**

The Audit Committee proposed to the Board of Director and the Annual General Meeting of Shareholders 2013 to consider remuneration and appointment the External Auditor name as Mr.Santi Phongjareonpit , Certified Public Account registered no.4623, Ms. Sureeratana Thong-arunsaeng, Certified Public Account registered no. 4406 and Mr. Aekasit Shuthammasathit, Certified Public Account registered no. 4195 from KPMG Phumichai Audit Company Limited to be the accounting auditor of the company and subsidiary company for the year 2013 and proposed remuneration amounting to 1,366,000.00 baht (one million three hundred sixty six thousand baht only)

On behalf of the Audit Committee.



(Mr. Anuwat Kosol)

Chairman of the Audit Committee

# Financial Highlight

Unit: THB Million (Unless otherwise stated)

| For the Fiscal year ended<br>December 31         | Consolidated |          |          | Separate |          |          |
|--|--------------|----------|----------|----------|----------|----------|
|  | 2012         | 2011     | 2010     | 2012     | 2011     | 2010     |
| <b>Stock Data</b>                                |              |          |          |          |          |          |
| Par value (Baht)                                 | 1.00         | 1.00     | 1.00     | 1.00     | 1.00     | 1.00     |
| Book value (Baht)                                | 2.39         | 2.18     | 2.04     | 2.39     | 2.18     | 2.04     |
| Earning per share (Baht) *                       | 0.25         | 0.20     | 0.19     | 0.25     | 0.20     | 0.19     |
| <b>Operating (Million Baht)</b>                  |              |          |          |          |          |          |
| Sales revenue                                    | 2,376.24     | 2,218.28 | 2,019.33 | 2,372.63 | 2,218.28 | 2,019.33 |
| Total income                                     | 2,394.33     | 2,240.00 | 2,042.66 | 2,389.05 | 2,239.12 | 2,042.51 |
| Net profit                                       | 157.56       | 125.85   | 119.17   | 158.90   | 125.24   | 119.40   |
| <b>Balance Sheet (Million Baht)</b>              |              |          |          |          |          |          |
| Current assets                                   | 1,207.29     | 1,058.84 | 971.44   | 1,158.11 | 1,008.38 | 921.62   |
| Total assets                                     | 1,889.28     | 1,755.24 | 1,738.69 | 1,890.10 | 1,754.78 | 1,738.87 |
| Current liabilities                              | 346.33       | 398.08   | 365.54   | 346.20   | 398.01   | 365.50   |
| Total liabilities                                | 358.24       | 407.40   | 435.54   | 358.11   | 407.33   | 435.50   |
| Paid-up capital                                  |              |          |          |          |          |          |
| Shareholders' equity                             | 1,531.04     | 1,347.83 | 1,303.15 | 1,531.99 | 1,347.45 | 1,303.38 |
| <b>Financial Ratio</b>                           |              |          |          |          |          |          |
| Returns on shareholders' equity (%)              | 10.95%       | 9.49%    | 9.03%    | 11.04%   | 9.45%    | 9.04%    |
| Returns on fixed assets (%)                      | 37.96%       | 31.43%   | 29.04%   | 38.16%   | 31.35%   | 29.07%   |
| Returns on assets (%)                            | 8.65%        | 7.20%    | 6.74%    | 8.72%    | 7.17%    | 6.76%    |
| Gross profit (%)                                 | 19.84%       | 14.31%   | 15.01%   | 19.87%   | 14.31%   | 15.01%   |
| Current assets ratio to items of current (times) | 3.49         | 2.66     | 2.66     | 3.35     | 2.53     | 2.52     |
| Quick ratio (times)                              | 2.24         | 1.30     | 1.35     | 2.10     | 1.18     | 1.21     |
| Debt ratio to shareholders' equity (times)       | 0.23         | 0.30     | 0.33     | 0.23     | 0.30     | 0.33     |

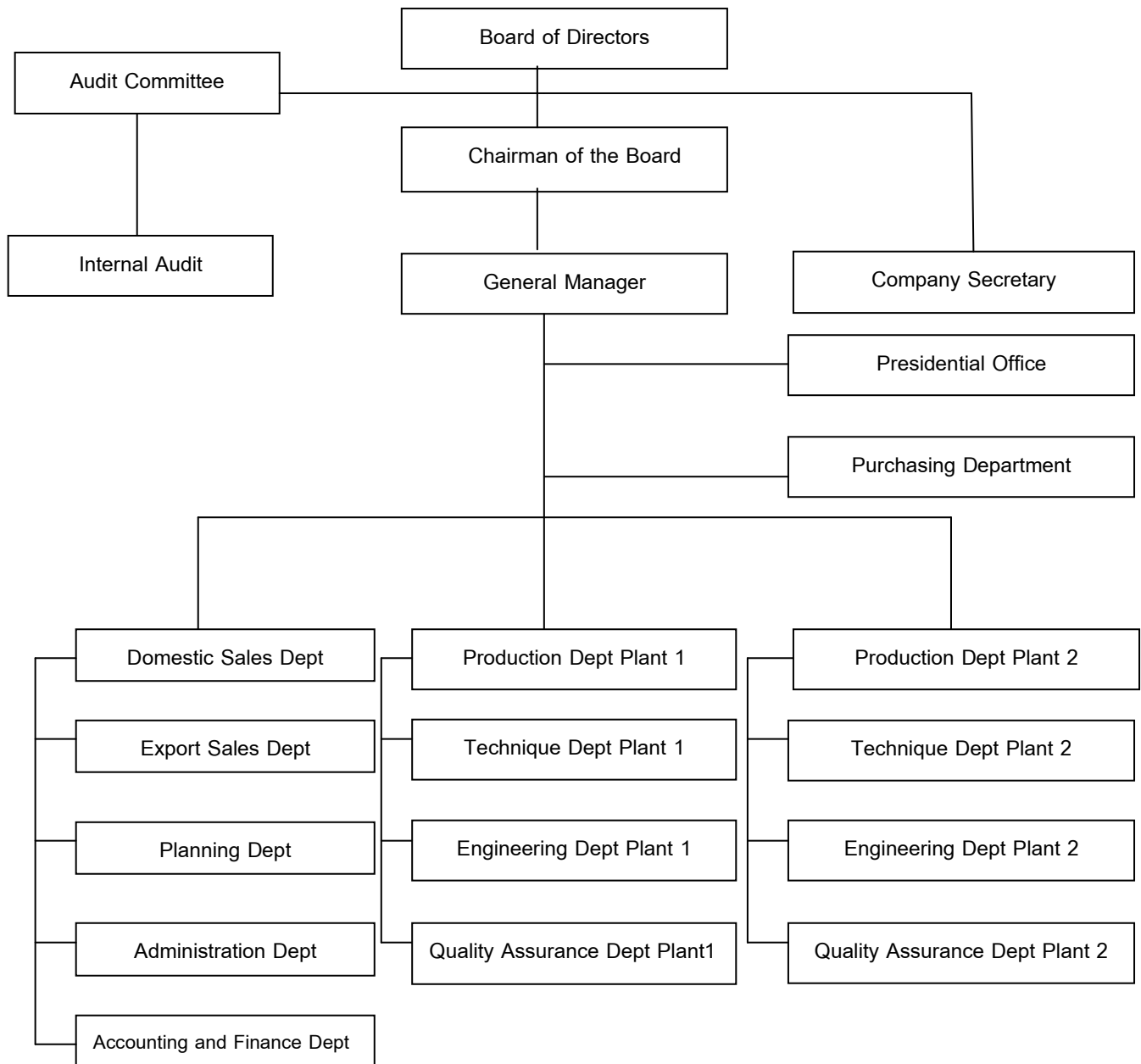
## Note :

\* In year 2012 the use of the weighting average ordinary share numbers of 626,180,907 shares

In year 2011 the use of the weighting average ordinary share numbers of 617,504,500 shares

In year 2010 the use of the weighting average ordinary share numbers of 639,992,097 shares

## 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. Ms. Su, Ming - Fen<br>Chairman and Managing Director | 50  | Bachelor Degree (Accounting and Statistic) National Taipei College of Business - Taiwan | -                             | 1998-present<br>2003-present<br>2010-present<br>2011-present | General Manager<br>Chief Executive Officer<br>General Manager<br>Chairman and Managing Director<br>Managing Director | Fei Horng Technology Co., Ltd.<br>IS'MI Co., Ltd.<br>Yi-Fu International Marketing and Trading Co., Ltd.<br>Hwa Fong Rubber (Thailand) Plc.<br>HFT Holding Co., Ltd. |
| 2. Mr. Chen Tai<br>Director                             | 62  | Bachelor Degree (Engineering)<br>Institute of Technology - Taiwan                       | -                             | 2005-present<br>2009-present<br>2010-present                 | General Manager<br>Director<br>Director  | Hwa Fong Rubber (Thailand) Plc.<br>Hwa Fong Rubber (Thailand) Plc.<br>HFT Holding Co.,Ltd.   |
| 3. Mr. Tseng, Kuo - Chan<br>Director                    | 52  | Vocational Certificate Taiwan   | -                             | 1994 – present<br>2012 - present                             | Chairman<br>Director   | Jaie Haour Industry Corporation Co., Ltd.<br>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  |
| 4. Mr. Tseng, Chieh – Wei<br>Director | 31  | Bachelor Degree (Business ) - Taiwan | -                             | 2012 – present<br><br>2011– Present<br><br>2010 – Present<br>2009 – Present | Director<br>Audit Committee<br>Director<br>Chairman<br>President<br>Director<br>Director | Hwa Fong Rubber (Thailand) Plc.<br>EFUN TECHNOLOGY CO.,LTD<br>Trade-Van's<br>JIOU-HUANG CONSTRUCTION<br>TIAN CHENG CONSTRUCTION LTD.<br>MOXISI TECHNOLOGY CO., LTD.<br>JAIE HAOOUR INDUSTRY CORPORATION |
| 5. Mr. Yen, Ming – Shan<br>Director   | 73  | Vocational Certificate Taiwan        | -                             | 2012 – Present  | Director<br>Permanent Director   | Hwa Fong Rubber (Thailand) Plc.<br>Taiwan Rubber & Elastomer Industries Association<br>Taiwan Rubber Research & Testing Center  |

## 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             |
| 5. Mr. Yen, Ming – Shan<br>Director(Continued) | 73  | Vocational Certificate Taiwan | -                             | 2012 – Present                      | Permanent Director | Taiwan Provincial Industrial Association                   |
|  |     |                               |                               | 2011-Present                        | Vice-Chairman      | Hwa Fong Rubber Industry Co., Ltd.                         |
|  |     |                               |                               | 2009-Present                        | Chairman           | Sheng Da Investment Co., Ltd.                              |
|  |     |                               |                               | 2003-Present                        | Director           | Hwa Fong Rubber (SuZhou) Co., Ltd.                         |
|  |     |                               |                               | 1993-Present                        | Director           | Hwa Fong Rubber (China) Co., Ltd.                          |
|  |     |                               |                               | 1992-Present                        | Director           | Hwa Fong Rubber USA,Inc d/b/a Duro Tire&Wheel              |
| 6. Mr. Yen, Ya – Nan<br>Director               | 74  | Vocational Certificate Taiwan | -                             | 2012 – Present                      | Director           | Hwa Fong Rubber (Thailand) Plc.                            |
|  |     |                               |                               | 2011-Present                        | Director           | Hwa Fong Rubber Industry Co., Ltd.                         |
|  |     |                               |                               | 2001-Present                        | Chairman           | Deng Feng Investment & Development Co., Ltd.               |
|  |     |                               |                               | 1987-Present                        | Chairman           | Hsin Tai Hardware, Water & Electricity Materials Co., Ltd. |
|  |     |                               |                               | 1974-Present                        | Chairman           | ZU LON Industry Co., Ltd.                                  |

## Board of Directors (Continued)

| Name-Last name/Position  | Age | Educational Background  | Equity Holding in Company (%) | Working Experience for Past 5 Years                                  |   |  |
|--|-----|---|-------------------------------|--|---|--|
|  |     |   |                               | Period   | Position  | Name of Organization/ Company/Type of Business   |
| 7. Mr. Anuwat Kosol<br>Chairman of Audit Committee/ Independent director | 55  | Master of Business Administration, Degree Finance<br>Chulalongkorn University.                | -                             | 2004 - Present<br>2007 - present<br>2010 - present<br>2012 - Present | Managing Director<br>Managing Director<br>Director<br>Chairman of Audit Committee | Pakoh Hotel Co.,Ltd.<br>E.H.Y Co.,Ltd.<br>Leam Nam Tok Co.,Ltd.<br>Hwa Fong Rubber (Thailand) Plc. |
| 8. Mr.Vitoon Somboon<br>Audit Committee/ Independent director            | 46  | Master of Business Administration, Majoring in Marketing<br>Northern Illinois University, USA | -                             | 2004 - present<br>2012-present                                       | Managing Director<br>Audit Committee  | SNS Management Co.,Ltd<br>Hwa Fong Rubber (Thailand) Plc.,   |
| 9. Ms.Supaporn Kohuad<br>Audit Committee/ Independent director           | 36  | Bachelor Degree (Chinese ) National<br>Jiao-Tong University                                   | -                             | 2003-present<br>2008-present<br>2011-present                         | General Manager<br>Export & PR Senior Manager<br>Audit Committee                  | RTC Holding Co. Ltd.<br>3D Group Ltd.<br>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. Mr. Anuwat Kosol<br>Chairman of Audit Committee | 55  | Master of Business Administration, Degree Finance Chulalongkorn University.                | -                             | 2004 - Present<br>2007 - present<br>2010 - present<br>2012 - Present | Managing Director<br>Managing Director<br>Director<br>Chairman of Audit Committee | Pakoh Hotel Co.,Ltd.<br>E.H.Y Co.,Ltd.<br>Leam Nam Tok Co.,Ltd.<br>Hwa Fong Rubber (Thailand) Plc. |
| 2. Mr.Vitoon Somboon<br>Audit Committee            | 46  | Master of Business Administration, Majoring in Marketing Northern Illinois University, USA | -                             | 2004 - present<br>2012 - present                                     | Managing Director<br>Audit Committee  | SNS Management Co.,Ltd<br>Hwa Fong Rubber (Thailand) Plc.,   |
| 3. Ms.Supaporn Kohuad<br>Audit Committee           | 36  | Bachelor Degree (Chinese ) National Jiao-Tong University                                   | -                             | 2003 - present<br>2008 - present<br>2011 - present                   | General Manager<br>Export & PR Senior Manager<br>Audit Committee                  | RTC Holding Co. Ltd.<br>3D Group Ltd.<br>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. Ms. Su, Ming - Fen<br>Chairman and Managing Director | 50  | Bachelor Degree (Accounting and Statistic) National Taipei College of Business - Taiwan | -                             | 1998 - present<br>2003 - present<br>2010 - present<br>2011 - present | General Manager<br>Chief Executive Officer<br>General Manager<br>Chairman and Managing Director<br>Managing Director | Fei Horng Technology Co., Ltd.<br>IS'MI Co., Ltd.<br>Yi-Fu International Marketing and Trading Co., Ltd.<br>Hwa Fong Rubber (Thailand) Plc.<br>HFT Holding Co., Ltd. |
| 2. Mr. Chen Tai<br>General Manager                      | 62  | Bachelor Degree (Engineering)<br>Institute of Technology - Taiwan                       | -                             | 2000 - 2004<br>2005 - present<br>2010 - present                      | General Manager<br>General Manager<br>Director   | Hwa Fong Rubber (SuZhou) Co.,Ltd.<br>Hwa Fong Rubber (Thailand) Plc.<br>HFT Holding Co.,Ltd.   |
| 3. Mr. Chiang Jung -Tsung<br>Vice general Manager       | 51  | Vocational Certificate<br>South Asia Engineering college. Taiwan                        | -                             | 2005 - 2009<br>2009 - Present  | Factory Manager<br>Vice General Manager  | Hwa Fong Rubber (Thailand) Plc.<br>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  |
| 4. Ms. Oranuch Suratroongrojkul<br>Presidential Office Manager  | 54  | Bachelor Degree ( political science)<br>Ramkhamhaeng University      | 500                           | 2003 - 2009<br>2010 - 2011<br>2011 - present | Audit Manager<br>Presidential Office<br>Audit Manager | Hwa Fong Rubber (Thailand) plc.<br>Hwa Fong Rubber (Thailand) Plc.<br>Hwa Fong Rubber (Thailand) plc. |
| 5. Mr. Hsu An Jen<br>Sales Manager                              | 53  | Bachelor Degree (Business Administration) Tung Hai University Taiwan | -                             | 1997 - 2002<br>2002 - present                | Quality Control Manager<br>Sales Manager              | Hwa Fong Rubber (Thailand) Co., Ltd.<br>Hwa Fong Rubber (Thailand) Plc.                               |
| 6. Ms.Radatorn Tanaasawapol<br>Financial and Accounting Manager | 48  | Bachelor Degree (Marketing) Ramkhamhaeng University                  | 500                           | 2005 - present                               | Financial and Accounting Manager                      | Hwa Fong Rubber (Thailand) Plc.   |

## Business Overview

### Company Background

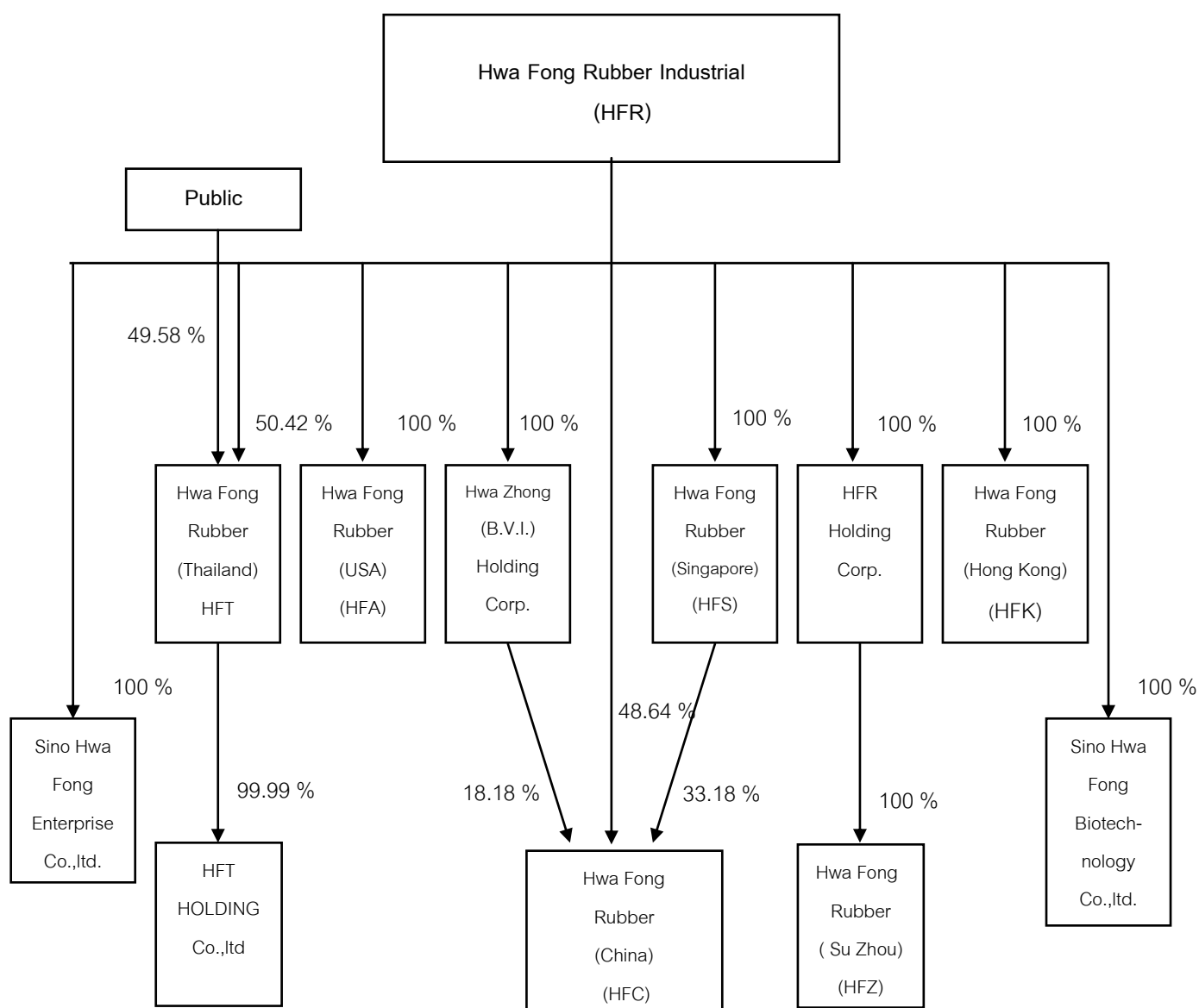
- 1989 HFT was established on June 2, 1987 with initial registered and paid-up capital to Bt 300 million. HFT is a wholly owned subsidiary of Hwa Fong Rubber Industries Co., Ltd. (Hereinafter called "HFR " ), with 99.99% holding stake. Initially, the nature of business was to manufacture bicycle tire 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
- 2011 The company made changes in the production of All Terrain Vehicle (ATV) from the trademark "DUNLOP" to be "DURO" which is the company own trademark.

2012 The company had sold completely the re-purchasing share through Stocks Exchange of Thailand (as on 15<sup>th</sup> January 2013).

HFT has been established and expertise in the tire and tube business for the period of 26 years with the technology support from HFR, parent company incorporated in Taiwan founded more than 67 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 - HFZ 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.

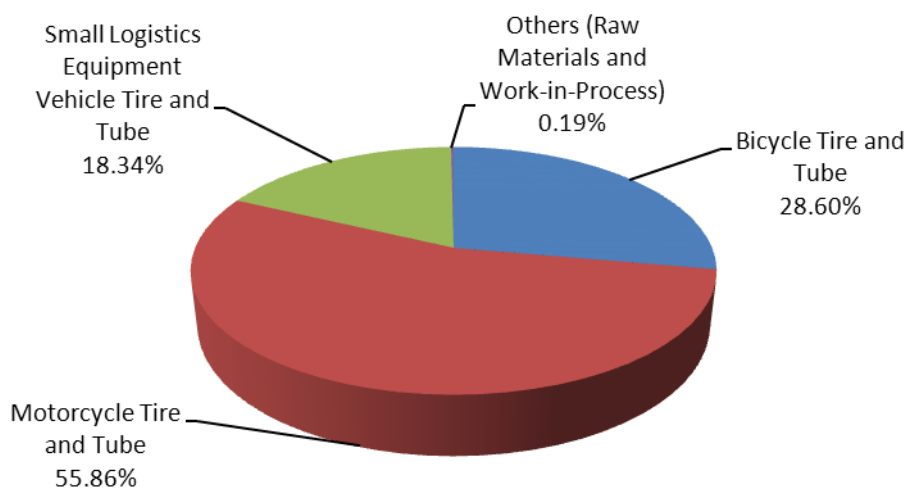
HFT Holding Co., ltd. on behalf of Hwa Fong Rubber (Thailand) Plc., This company was established for trading finish goods and raw material ,Bond Investment, immovable property investment for selling ,leasing and for rental , wholesaler and retailer tire, tube and vehicle equipment , International Investment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

## Revenue Structure

Value of Products categorized by the Product line in the year of 2010 - 2012 (THB Million)

| Product  | 2012     |        | 2011     |        | 2010     |        |
|--|----------|--------|----------|--------|----------|--------|
|  | (MB)     | %      | (MB)     | %      | (MB)     | %      |
| <u>Domestic Sale</u>                               |          |        |          |        |          |        |
| 1. Bicycle Tire and Tube                           | 153.19   | 6.46   | 145.83   | 6.58   | 122.22   | 6.05   |
| 2. Motorcycle Tire and Tube                        | 807.95   | 34.05  | 679.29   | 30.62  | 647.00   | 32.04  |
| 3. Small Logistics Equipment Vehicle Tire and Tube | 138.57   | 5.84   | 121.40   | 5.47   | 71.18    | 3.53   |
| 4.Others<br>(Raw Materials and Work-in-Process)    | 2.73     | 0.11   | 2.15     | 0.10   | 3.69     | 0.18   |
| Subtotal Domestic Sale                             | 1,102.44 | 46.46  | 948.67   | 42.77  | 844.09   | 41.80  |
| <u>International Sale</u>                          |          |        |          |        |          |        |
| 1. Bicycle Tire and Tube                           | 525.40   | 22.15  | 541.90   | 24.43  | 432.32   | 231.41 |
| 2. Motorcycle Tire and Tube                        | 517.47   | 21.81  | 492.41   | 22.19  | 451.36   | 22.35  |
| 3. Small Logistics Equipment Vehicle Tire and Tube | 225.43   | 9.5    | 228.48   | 10.30  | 289.05   | 14.32  |
| 4.Others<br>(Raw Materials and Work-in-Process)    | 1.89     | 0.08   | 6.82     | 0.31   | 2.51     | 0.12   |
| Subtotal International Sale                        | 1,270.19 | 53.54  | 1,269.61 | 57.23  | 1,175.24 | 58.20  |
| Total Revenue from Sale                            | 2,372.63 | 100.00 | 2,218.28 | 100.00 | 2,019.33 | 100.00 |

Sale Proportion for the year 2012.



Based on the figures above, especially in 2012 we can observe that the major income structure I from the international sales accounted for 53.54% and domestic sales for 46.46%. Nonetheless, compared to the revenue in 2011, the total revenues from sales significantly rising to 6.96% due mainly to the global economic recovered. For domestic sales in 2012, the main revenue stemmed from the motorcycle tire and tube as same as the international sales which was in consistence with the policy to expand the international trading in Asean countries and Middle East. In addition, the price increasing to be according to the raw material price and labor cost had been done together with competitive price offer and marketing support especially in Asean and Middle East , then it caused the company can increase more new customer accounts. However HFT still intends develop the small vehicle industries tire continuously , including to expand the domestic sales portion with the retaining the core international sale portion to increase its market share in Asean market for all kind of product categories and to exploit the full utilization rate with full efficiency to be better than the year past performance.

### 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 under support from our parent company with the trademark DURO and to be the manufacturer the product under the trademark namely Q-UICK and DUNLOP from Sumitomo Rubber of Japan.
5. To expand the OEM market to be stronger and more stable.
6. To capture higher gross margin of product
7. To develop the new product to serve the market demand and satisfy the customers
8. To emphasize on the public relation to build up the good image of our product in long term.
9. 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 2012 the company's revenue from sales of various types of tires accounted for 78.22% 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 2012, the company's revenue from sales of Inner Tubes constituted to approximately 21.59 % of total revenue.

### Raw Material & Semi-finished Products

In 2012 HFT generated the revenue from sales of raw materials and semi-finished products constituting to around 0.190 % 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 is the contract which had been made between HFR, the mother company and the company to be effected since August 27, 2005 for 3 years validity (1 year, with an automatically renewable). The essence of the Contract has been referred to the right to use brand "DURO" for local and international sale with the term and Condition of HFT pays for the fee as much as 0.50 % of total

sales under brand name "DURO" to HFR who has permitted the company to have the right for production and distribution of some designs. The company must pay the early birth fee in 2011 amounting 15,000 US Dollar and has been concerned to pay the annual fee amounting 30,000 US Dollar, in total 165,000 US Dollar. This contract will be valid for 5 years with the expiry date on 31 December 2015,

2) **Technical Cooperation Agreement** is the contract made between the mother company HFR and the company for the technical cooperation to be effected since August 27, 2005 for 3 years validity (1 year, with an automatically renewable). The essence of the Contract has been referred to HFT employs the production technology from HFR such As the factory layout, production process, raw material Ingredient, training program, product development including the right for using the trademark for selling as domestic and international sales with the term and Condition of HFT pays for the fixed fee annually amounting 100,000 US Dollar.

3) **Technical Aid Agreement** is the contract made between Sumitomo Rubber Industries Ltd. company and the mother company HFR which has been covered to the subsidiaries for the technical cooperation to be effected since July 01, 2010 for 3 years validity .The expiration will be extended if there is no any party notice of cancellation which is as per the parties' agreement. The essence of the Contract has been referred to HFT employs the production technology from Sumitomo Rubber from Japan such as the production machine and equipment, production process, raw material Ingredient, training program according to the program which have been indicated in the contract which Sumitomo Rubber has authorized the company to use the trademark as currently is "DUNLOP" for production and distribution both in domestic and international sales. The company has to pay the fixed fee for Sumitomo Rubber at 0.40%of total products sale (particular products) per annum and also the Trademark fee equivalent to 1.5%-3% of total revenue from sale from the product under brand name "DUNLOP".

Remark: The product type under this contractual agreement indicates the motorcycle tire and tube whose size of wheel is more than 12" including All Terrain Vehicle 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, THAI KAWASAKI and etc., which in perspective, the products sold under the DUNLOP Brand , in 2012 holds a market, share of approximately 4.35% of the domestic market as the company has the relation with SUMITOMO RUBBER GROUP who has the relation with Japanese motorcycle manufacturer. This causes the company can be orders the product which present more confident for domestic market expansion.

In the year 2012, the company been selling ATV tire to KAWASAKI MOTORS ENTERPRISE (THAILAND) CO., LTD. under DURO Brand which we have got the continuous order with the very good trend in the future.

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 PAC IMPORT EXPORT (Thailand), Q TIRE AND WHEEL INTERNATIONAL LIMITED and also BORNEO TECHNICAL (THAILAND) 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". 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. Which is the mother company located in Taiwan.

- 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 USA.

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 Michelin which is a Trading Company located in France to procure from the company i.e. medium-high end Bicycle tires and tube , also motorcycle tube as well. In addition to Michelin, there are a number of customers who has been authorized by market transferring from Sumitomo Rubber Industries Ltd. for All Terrain Vehicle tire (ATV) which have been being sold to the major OEM customers who have been 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 major customer in Europe such as Oxyane Group for Bicycle tire and tube, 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 2012, 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 2012 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 2012, the Company still 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 been support well by the mother company 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. The company evaluate to be affected from the raw material cost such as 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 market in 2012, it is the year that Thailand country had just been recovered after the big flooding disaster during October till December in 2011.

In this year 2012, all motorcycle manufacturing industries have been trying to rush up the competition each other for increasing sales which can be observed through the grand opening for new model motorcycle to the market, also promoting the campaign for sales support that is interesting. This caused the local sales turnover of motorcycle had been run in the new high statistic in the year past with the statistic figure 2.13 million motorcycles.

However, according to the overview of the motorcycle market in Thailand of the year past, it has been grown up 6% compared with 2011 and continuously getting high demands continuously. (resource: Department of Transportation)

In the year past, the company has developed the product to OEM marker for the Automatic motorcycle and had launched them into the market during middle year of 2012.

In 2012, the overall market of all types of motorcycle will be registered totally 2.13 million motorcycles units and the automatic type will be occupied the market share at 50% while the family type will be occupied the market at 46% and the other type at 4%.

2. **Replacement Equipment Market (REP):**

In 2012, the market had got the good trend continuously since the beginning period of the year which is because of the positive economic trend, such as the labor hire, agricultural product cost which has been affected directly to the major consumer's buying power is increased.

According to above arrangement, it helps the company still can maintain the customer base and has more opportunities to increase the distribution channel.

In the year past, the fluctuation of the raw material price caused the company had gained more benefit from the raw material price down continuously. However the company still maintain the production standard consistently, then it was not affected to the selling price which gain more positive on business operation

According to the confident of product quality under the company trademark, it caused we still are able to maintain the turnover continuously.

In 2012, the company intended to focus on the motorcycle store and accessories which is major store all over the country by appointing more dealers and arrange the sales promotion activities to reach the end users. 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.

#### 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 31<sup>st</sup> December 2012 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 31<sup>st</sup> December 2012

| 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<br>INTERNATIONAL COMMERCIAL BANK CO., LTD. - TDR | 69,600,000                | 10.57          |
| 3. Thai N VDR Co.,Ltd.   | 26,100,600                | 3.96           |
| 4. Mr. Anan Raveesangsun   | 23,000,000                | 3.49           |
| 5. Mr. Bunlung Aupapong  | 6,150,000                 | 0.95           |
| 6. Mr. Chaiwat Wichawut  | 5,700,000                 | 0.87           |
| 7. RAFFLES NOMINEES (PTE) LIMITED  | 5,507,200                 | 0.84           |
| 8. Mrs.Piyanuch Kosawadworakul   | 4,300,000                 | 0.65           |
| 9. MRS.WU, SHU - HUEIH   | 3,200,000                 | 0.49           |
| 10. Mr. Chayut Chaiwat   | 2,600,000                 | 0.39           |

Remark; The company repurchased share total 40,929,800 shares and sale of repurchased through the Stock Exchange of shares total 23,999.900 shares, Balance total 16,929,900 shares equal to 2.57 %

### 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<sup>st</sup>, 2012

| No. | Name-Last Name         | Position   |
|-----|------------------------|--|
| 1.  | Ms.Su, Ming - Fen      | Chairman of the Board and Managing Director          |
| 2.  | Mr. Tseng, Kuo – Chan* | Director   |
| 3.  | Mr.Chen Tai            | Director   |
| 4.  | Mr. Tseng, Chen – Wei* | Director   |
| 5.  | Mr. Yen, Ming – Shan*  | Director   |
| 6.  | Mr. Yen, Ya – Nan*     | Director   |
| 7.  | Mr. Anuwat Kosol*      | Chairman of Audit Committee and Independent director |
| 8.  | Mr.Vitton Somboon*     | Audit Committee and Independent director             |
| 9.  | Ms.Supaporn Kohuad     | Audit Committee and Independent director             |

#### Remark: \*

- \* Mr.Tseng, Kuo – Chan to be Director, replace of Mr.Chen, Heng – Yi since November 12, 2012.
- \* Mr.Tseng, Chen – Wei to be director, replace of Ms.Liang, Su – jung since September 20, 2012.
- \* Mr.Yen, Ming – Shan to be Director since August 11, 2012.
- \* Mr.Yen, Ya – Nan to be director since August 11, 2012.
- \* Mr.Anuwat Kosol to be Chairman of Audit Committee and Independent director, replace of Ms.Sajeerat Metheesuwapab since April 26, 2012.
- \* MR.Vitton Somboon to be Audit Committee and Independent director replace of Mr.Anupong Techaamnuyaporn since April 26, 2012.

### 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<sup>st</sup>, 2012 are as follows:

| No. | Name-Last Name     | Position  |
|-----|--------------------|---|
| 1   | Mr. Anuwat Kosol*  | Independent director /<br>The Chairman of the Audit Committee |
| 2   | Mr.Vitoon Somboon  | Independent director / Audit Committee                        |
| 3   | Ms.Supaporn Kohuad | Independent director / Audit Committee                        |

Remark : No.1 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<sup>st</sup>, 2012

| Name-Last Name                 | Position                                    |
|--------------------------------|---|
| 1. Ms.Su, Ming-Fen             | Chairman of the Board and Managing Director |
| 2. Mr. Chen Tai                | General Manager                             |
| 3. Mr.Chiang Jung Tsung        | Vice General Manager                        |
| 4. Ms.Oranuch Suratroongrojkul | Audit Manager                               |
| 5. Mr.Hsu, An-Jen              | Sales Manager                               |
| 6. 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 6 persons as at 31<sup>st</sup> Dec 2012 as follows

| Type of remuneration | Director's remuneration 9 persons<br>(Baht) |           | Managements remuneration 6<br>persons(Baht) |           |
|----------------------|---|-----------|---|-----------|
|                      | 2012  | 2011      | 2012  | 2011      |
| Salary               | 561,514                                     | 247,000   | 6,116,026                                   | 6,735,191 |
| Bonus                | -   | -         | 728,904                                     | 500,901   |
| Premium              | 780,000                                     | 1,400,000 | -   | -         |
| Total                | 1,341,514                                   | 1,647,000 | 6,844,930                                   | 7,236,092 |

Remark :

\* Mr.Tseng, Kuo – Chan to be Director, replace of Mr.Chen, Heng – Yi since November 12, 2012.

\* Mr.Tseng, Chen – Wei to be director, replace of Ms.Liang, Su – jung since September 20, 2012.

\* Mr.Yen, Ming – Shan to be Director since August 11, 2012.

\* Mr.Yen, Ya – Nan to be director since August 11, 2012.

\* Mr.Anuwat Kosol to be Chairman of Audit Committee and Independent director, replace of Ms.Sajeerat Metheesuwapab since April 26, 2012.

\* MR.Vitoon Somboon to be Audit Committee and Independent director replace of Mr.Anupong Techaamnuyaporn since April 26, 2012.

## 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 2012, the company convened 1 times of the shareholder meeting. On April 26<sup>th</sup>, 2012 at 10.00 am., the company convened the Annual General Meeting 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.
- Offer the annual birthday souvenir by monthly.
- Organize Annual festive activities and rewarding for employee encouragement
- 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 special price product for the employees.

- **Safety and Environmental**

The company has strongly realized in the employees' safety, so we have arranged the rule and compliance for safety control for the employee as followings:

- 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 such as the method for danger prevention for working with the dangerous chemical also the method for using the PPE equipment to be suitable for the working, accident prevention, taking care themselves during working under risk and etc.
- Training for new employee before starting working or changing their job function.
- To arrange the health checked up according to the risk factor as per the law.
- To arrange the training for the pregnant employee or planner with the local hospital cooperation

- To arrange the safety week activity for creating the safety mind to the employee as per the company safety policy.
- To set up the Safety Committee for supporting and taking care employee's safety. Also to arrange the random checking the alcohol level of the employee before start daily working trough roughly.
- To arrange the annual working environment checking.

- **Development and course training for Employee**

The company has the policy for human resource development according to their competency as per each section requirement. This is in order to create the competition in the organization in the term of product quality, competitive cost, on time delivery, production engineering knowledge and management as following:

- Provide training to the employees every Monday morning to be communication protocol and understanding 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.
- To arrange the training for developing all level leaders in order to improve the competency of the employee such as "Just in Time" training, smart to implement EQ in working efficiently by dividing the level of responsibility, position to be according to the working.

### 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.
- Made a donation to help the flood victims via the office of Bangpoo Industrial Estate.
- Sponsor our motorcycle tire and tube product for using in the police job for the service area of Bangpoo.

- 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.

1.The group of Electric energy 2.Water energy 3. Wind energy

With the following activities:

- Changed the light bulb from T8 to be T5.
- Reduced the air- condition from 36000 BTU to be 30000 BTU.
- Installation the ventilation fan for freshening and down temperature air in the building.
- To reuse the condensate water from BOM machine.
- To install the on-off automatic system of the cooling tower.

- 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.
- 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.
- To arrange for checking the smoke remover at boiler as per the law at twice a year.

#### **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](http://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](mailto:hwafong@duro.co.th) or tel. 0-2709-6580 ext. 103 and 118 ( Ms.Oranuch and Mr.Athisit ). The company had disclosed the information with transparency as following:

- Sent the financial statement to the Stock Exchange Committee and Stock Exchange of Thailand in the due time and the accounting auditor has not against in opinion.
- Disclosed the information in the company annual report and website completely such as the Balance Sheet, Meeting Minutes and the Annual Report format and etc.
- Disclosed the details of related company transaction and also the benefit of director and top management.
- Disclosed the remuneration rate of director and top management clearly.

#### **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                       | 2 persons |
| Non-Executive Directors                   | 4 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   | Mr. Anuwat Kosol*  | The chairman of the Audit Committee |
| 2   | Mr.Vitoon Somboon  | Audit Committee                     |
| 3   | Ms.Supaporn Kohuad | Audit Committee                     |

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

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 2012, 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 /<br>Number of Meetings |                             | Remark                           |
|--------------------------------|--|-----------------------------|----------------------------------|
|                                | Board of<br>Director                         | Board of<br>Audit Committee |                                  |
| 1. Ms.Su, Ming - Fen           | 5/5  | -                           |                                  |
| 2. Mr.Chen, Heng-Yi            | 1/5  | -                           | Resigned on November 9, 2012.    |
| 3. Mr. Chen Tai                | 5/5  | -                           |                                  |
| 4. Mr.Yen, Ming – Shan         | 2/5  | -                           | Appointed on August 11, 2012.    |
| 5. Mr.Yen, Ya – Nan            | 2/5  | -                           | Appointed on August 11, 2012.    |
| 6. Ms.Liang, Su - Jung         | 3/5  | -                           | Resigned on September 10, 2012.  |
| 7. Mr.Tseng Kou - Jan          | 0/5  | -                           | Appointed on November 12, 2012.  |
| 8. Mr.Tseng Chieh - Wei        | 1/5  | -                           | Appointed on September 20, 2012. |
| 9. Ms.Sajeerat Metheesuwapab   | 1/5  | 1/4                         | Retired on April 26, 2012.       |
| 10. Mr.Anupong Techaamnuaiporn | 0/5  | 1/4                         | Retired on April 26, 2012.       |
| 11. Mr. Anuwat Kosol           | 4/5  | 3/4                         | Appointed on April 26, 2012.     |
| 12. Mr.Vitoon Somboon          | 4/5  | 3/4                         | Appointed on April 26, 2012.     |
| 13. Ms.Supaporn Kohuad         | 5/5  | 4/4                         |                                  |

#### **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 2012, 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 2012 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. At the present, Thailand is under AFTA free trade area which cause the incoming product of the other competitor has been imported such as Vietnam and China to destroy the local market. However even its cost is quite low, but its quality still is not accepted by the global consumer.

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. In addition, the company requires monitoring the affiliate companies to ensure the compliance as set out in the

guide line. Currently our company has got a lot of the major and minor customers who are interested in our Thailand factory product. But the company must trace back or check with the mother company if we may have the parallel export in to the same market which will cause the competition conflict in the group company. 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 Rate

#### - Risk from Trading

The revenue attributable from export accounted for 57.23% in 2011 and 53.54 % in 2012 respectively. The main trading currencies include USD dollar and Euro. Therefore the exchange rate fluctuation is still the major factor which causes the impact to the company financial status, especially of USD which is the major currency for our trading currently. Anyway the fluctuation had not been affected too much but it still affected to the international sales as the income of product unit will be reduced when it's paid during the appreciated USD in that period.

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

In 2012, The company had not applied the loan in the foreign currency.

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

In 2011, pricing of natural rubber were averagely increased even it had been decreased at the year end , but due to the economic crisis in Europe which caused the investors and the other users are not confident in the market situation, then they were more aware in buying or selling. Including the demand of natural rubber from China had been decreased as the tendency of China will decrease the import duty of natural rubber, then it caused the investors had been slow down on buying. Moreover Thailand had got the big impact from the worst flooding disaster during 50 years past. Then it caused the automobile manufacturer had slowly stop the production in many area. Then it's affected the natural rubber demand had been decreased. However, by overall, the rubber price is still fluctuated and has got the higher trend due to the government strategy of selling price interruption. According to this reason, the company had tried to increase the selling price of the product and plan for rubber buying, including the improvement of defect rate reduction in production process.

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.

7. Risk from the Natural Disaster

The company had not been affected directly from this trouble period of flooding disaster which had been occurred in 2011 and continue effects to 2012. But it had been affected indirectly such as some customer asked for delay delivery to their warehouse , and some vendors either could not deliver us good as due time and etc.

- **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 2012, the raw material purchased from HFR accounts for only 0.30% 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 some 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 46.46% in 2012. 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 2012

During the year 2012, 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 2012 (MB) | Pricing policy  | Appropriateness  |
|---|----------------------------------|---|---|---|--|
| 1. Hwa Fong Rubber Industries Co., Ltd. (HFR) | Major shareholder holding 50.42% | - Product sale                            | 10.07 MB<br>(286,501 units)               | - Pre-determined market price or agreement price for related transaction which referring the product cost plus gross profit | The price can be compared to the market and normal business conditions     |
|   |                                  | - Raw materials Sale                      | 0.12                                      | - Cost plus margin  |  |
|   |                                  | - Trade accounts receivable.              | 2.12                                      | - Credit 60 days  |  |
|   |                                  | - Raw material purchase                   | 11.30                                     | - Cost plus margin  | For Production under standard and normal business conditions               |
|   |                                  | - Product purchase                        | 0.10                                      | - Cost plus margin  | For Production under standard and normal business conditions               |
|   |                                  | - PP&E investment                         | 9.06                                      | - Cost plus margin<br>(Purchase on machinery for production)  | For complying the same production technology and normal business condition |
|   |                                  | - Spare part, material and other purchase | 3.93                                      | - Cost plus margin<br>(Purchase on the spare part for maintenance and material for production)                              | For complying the same production technology and normal business condition |
|   |                                  | - Technical assistance fee                | 3.29                                      | 100,000 USD per year  | Contractual agreement  |

## Connected Transaction (Continued)

| Transaction   | Relationship                            | Description                 | Value of related transaction in 2012(MB) | Pricing policy  | Appropriateness  |
|---|---|-----------------------------|--|---|--|
| 1. Hwa Fong Rubber Industries Co., Ltd. (HFR) (Continued) | Major shareholder holding 50.42%        | - Product trademark fee     | 5.53                                     | 0.5% of the value of products sold  | Contractual agreement  |
|   |   | -Pattern Right              | 0.95                                     | Initial fee 15,000 USD and 30,000 USD per annum.  | Contractual agreement  |
|   |   | -Technician                 | 0.69                                     | As agreed   | Contractual agreement  |
|   |   | - Trade payable             | 2.72                                     | Credit 60 days  |  |
|   |   | - Other trade creditors     | 6.09                                     | Credit 60 days in accordance with trade agreement   |  |
| 2. Hwa Fong Rubber (USA) Co.,Ltd. (HFA)                   | Affiliate company (same parent company) | - Product sale              | 50.62<br>( 58,744 units)                 | Market prices or by agreement. The Company determines the selling price between the company and its related By into account the actual cost plus a profit margin. | The price can be compared to the market price and normal business conditions |
|   |   | - Trade Account receivables | 11.85                                    | Credit 90 days  |  |
| 3. Hwa Fong Rubber (Hong Kong) Co.,Ltd. (HFK)             | Affiliate company (same parent company) | -Product sale               | 21.00<br>(190,033 units)                 | Market prices or by agreement. The Company determines the selling price between the company and its related By into account the actual cost plus a profit margin. | The price can be compared to the market price and normal business conditions |

## Connected Transaction (Continued)

| Transaction  | Relationship  | Description                   | Value of related transaction in 2012 (MB) | Pricing policy  | Appropriateness  |
|--|---|-------------------------------|---|---|--|
| 3. Hwa Fong Rubber (Hong Kong) Co.,Ltd. (HFK)<br>(Continued) | Affiliate company<br>(same parent company)                                | - Trade Account receivables   | 0.11                                      | Credit 60 days  | - Trade Account receivables  |
| 4. Hwa Fong Rubber (China) Co.,Ltd. (HFC)                    | Affiliate company<br>(same parent company)                                | - Raw material purchase       | 0.63                                      | Cost plus margin  | For Production under standard and normal business conditions                               |
|  |   | - Product purchase            | 7.38                                      | Cost plus margin<br>(for resale as distributor)   | For Production under standard and normal business conditions                               |
|  |   | - Purchase Spare and material | 0.41                                      | Cost plus margin<br>(Purchase on the spare part for maintenance and material for production)  | For the same technology implementation for production and under normal business condition. |
|  |   | - Trade payable               | 0.01                                      | Credit 30 days  |  |
| 5. Hwa Fong Rubber (suchou) Co.,Ltd. (HFC)                   | Affiliate company<br>(same parent company)                                | Purchase Spare and materia    | 0.03                                      | Cost plus margin<br>(Purchase on the spare part for maintenance and material for production)  | For the same technology implementation for production and under normal business condition. |
| 6. Sumitomo Rubber Industries Co.,Ltd.                       | - Related company holding the shares in parent company (HFR) up to 13.15% | - Product sale                | 229.43<br>(650,823 units)                 | Market prices or by agreement. The Company determines the selling price between the company and its related By into account the actual cost plus a profit margin. | The price can be compared to the market price including terms and conditions               |

## Connected Transaction (Continued)

| Transaction   | Relationship  | Description                 | Value of related transaction in 2012 (MB) | Pricing policy                                    | Appropriateness  |
|---|---|-----------------------------|---|---|--|
| 6. Sumitomo Rubber Industries Co.,Ltd.<br>(Continued) | - Related company holding the shares in parent company (HFR) up to 13.15% | - Trade Account receivables | 13.59                                     | Credit 30 days                                    |  |
|   |   | - Raw material purchase     | 4.75                                      | Cost plus margin                                  | The price can be compared to the market price including terms and conditions |
|   |   | - Technical assistance fee  | 2.99                                      | 0.4% of the value of products sold                | Contractual agreement  |
|   |   | - Product trademark fee     | 4.55                                      | 1.5%-3% of the value of products sold             | Contractual agreement  |
|   |   | -Technician                 | 0.64                                      | As agreed   | Contractual agreement  |
|   |   | - Compensation.             | 85.02                                     | As agreed   |  |
|   |   | - Trade payable             | 0.58                                      | Credit 60 days                                    |  |
|   |   | - Other trade creditors     | 57.59                                     | Credit 60 days in accordance with trade agreement |  |

As shown above, the company has a sales transaction with affiliated company by sales for HFR 0.42% HFA 2.13%, HFK 0.89% and Sumitomo Rubber Industries 9.67% 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 2012, 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 2,376 MB in 2012, an increase of 7.12% compared to the revenue of to 2,218 MB in 2011, total sales increasing 158 MB from mainly attributable to the global economic recovered , especially the domestic sales of motorcycle tire which had been increased from 2011 about 129 MB or 18.94% . Hence the company reported its net profit 157.56 MB, an increase of 25.20% or 31.72 MB from the year 2011 , equivalent to 0.25 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 1,270.19 MB and 1,102.44 MB for domestic one increase of 0.053% and 16.21% from 2011 respectively, the factor of sales volume continually increase because of The company can increase the turnover for domestic sales more than 154 Million Baht from the economic recovery after the impact of flooding crisis during October till December 2011. Moreover it is because the positive economic surrounding factors such as the minimum daily wage adjustment, agricultural product cost which all of this factors had been absolutely affected to the consumer's buying power. Also the company has been well successful for sales of all terrain vehicles tire product to Kawasaki under DURO brand.

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

#### 2. Other revenues

Other income both for the company and subsidiary such as revenues comprised miscellaneous, interest received and profit from the exchange rate which can be calculated as totaling 18.09 MB, decreased 3.63 MB from 2011. Mainly due to the profit from the exchange rate income totaling 6.39 MB. However the other income of company has not been affected with the operation performance that only total 0.76 % of total income of 2012.

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

For the cost of the company and subsidiary in year 2011, the cost of sales amounted to 1,904.68 MB and 1,900.85 MB respectively which has been increased 3.863 MB or 0.20%. Then we can see that the cost of selling has been less increased if compared with the increase sales turnover which is increased more than 158 MB. The major factors are from the major raw material cost has been decreased continuously, especially Natural Rubber, Synthetic Rubber and Carbon Black during 2012 due to the impact of each country such Europe , China and etc.

In 2012, the company has still applied many kinds of cost reduction strategy such as setting up the Energy Conservation group for controlling the maximum utilization of all kind of energy and reduce the non-

necessary usage. Company also implemented the inspection of the production control to reduce the indirect production procedure cost 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 122.85 MB from 116.54 MB in 2011 to 239.38 MB in 2012 mainly as a result of the company has been claimed of damaged product compensation from 2 customers amounting 103 MB ,which had been fully paid for another foreign customer but for the domestic customer , the company has estimate the amount to be paid which may be different from the actual compensation.

However, in case of the company would have no this kind of compensation expenses, the cost of selling in 2012 still is increase from the previous year at approximately amounting 19 MB which is coincident with the increased sales turnover. For the other management expense which had been increased 2.04 MB from salary adjusting in 2012.

## ● Financial Status

### 1. Asset

In 2012, HFT had total assets of 1,889 MB, increased of 134.40 MB from 2011 with major reason of the temporary investment which had been increase from the previous year amounting 260 MB which it is including of the bill of exchange with more than 3 months validity which had been issued by one bank with the interest rate at 2.8 and 2.9 per annum. The major items of asset comprised the cash and cash equivalent at 11.85%, temporary investment 13.76% ,trade account receivables at 15.40%, Balance Stocks at 22.26% and the fixed asset at 33.80% as a percentage to total asset respectively.

The collection capacity showed signs of improvement as the day's collection period in 2012 were 44 days and 41 days in 2011. 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 2012 has been increased from 2.66 times to be 3.49 times and the quick ratio increase from 1.30 times in 2011 to 2.24 times in 2012. This is due to the turnover loan has been decreased from long term loan payment which will be due within one year amounting 70 MB . The turnover asset is increased from selling the common shares re-purchasing amounting 62.69 MB.

### 3. Sources of Funds

In 2012, the debt to equity ratio showed the conservative level with ratio was 0.23 time. In 2012, it had been decreased from 0.30 time of 2011 which we can be realized. The current capital structure in 2012 can be well equipped for further business expansion.

## **Review Report of Certified Public Account**

### **Independent Auditor's Report**

#### **To the Shareholders of Hwa Fong Rubber (Thailand) Public Company Limited**

I have audited the accompanying consolidated and separate financial statements of Hwa Fong Rubber (Thailand) Public Company Limited and its subsidiary, and of Hwa Fong Rubber (Thailand) Public Company Limited, respectively, which comprise the consolidated and separate statements of financial positions as at 31 December 2012, the consolidated and separate statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

#### *Management's Responsibility for the Consolidated and Separate Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated and separate financial statements in accordance with Thai Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditor's Responsibility*

My responsibility is to express an opinion on these consolidated and separate financial statements based on my audit. I conducted my audit in accordance with Thai Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated and separate financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

#### *Opinion*

In my opinion, the consolidated and separate financial statements referred to above present fairly, in all material respects, the financial position as at 31 December 2012 and the financial performance and cash flows for the year then ended of Hwa Fong Rubber (Thailand) Public

Company Limited and its subsidiary, and of Hwa Fong Rubber (Thailand) Public Company Limited, respectively, in accordance with Thai Financial Reporting Standards.

*Other Matter*

The financial statements of Hwa Fong Rubber (Thailand) Public Company Limited and its subsidiary, and of Hwa Fong Rubber (Thailand) Public Company Limited for the year ended 31 December 2011, were audited by another auditor who expressed an unmodified opinion on those statements on 23 February 2012.



(Santi Pongjareanpit)  
Certified Public Accountant  
Registration No. 4623

KPMG Phoomchai Audit Ltd.  
Bangkok  
22 February 2013

## *Financial Statement*

Hwa Fong Rubber (Thailand) Public Company Limited and its Subsidiary

Statement of financial position

|                                  |      | Consolidated         |                      | Separate             |                      |
|----------------------------------|------|----------------------|----------------------|----------------------|----------------------|
|                                  |      | financial statements |                      | financial statements |                      |
|                                  |      | 31 December          |                      | 31 December          |                      |
| Assets                           | Note | 2012                 | 2011                 | 2012                 | 2011                 |
| <i>(in Baht)</i>                 |      |                      |                      |                      |                      |
| <b><i>Current assets</i></b>     |      |                      |                      |                      |                      |
| Cash and cash equivalents        | 5    | 223,956,744          | 239,345,723          | 212,480,499          | 188,930,513          |
| Current investment               | 6    | 260,000,000          | -                    | 225,000,000          | -                    |
| Trade accounts receivable        | 4, 7 | 290,866,452          | 278,926,504          | 290,709,596          | 278,926,504          |
| Other receivables                | 8    | 11,907,778           | 17,742,369           | 9,362,226            | 17,702,304           |
| Inventories                      | 9    | 420,557,353          | 522,822,573          | 420,557,353          | 522,822,573          |
| <b>Total current assets</b>      |      | <b>1,207,288,327</b> | <b>1,058,837,169</b> | <b>1,158,109,674</b> | <b>1,008,381,894</b> |
| <b><i>Non-current assets</i></b> |      |                      |                      |                      |                      |
| Investment in subsidiary         | 10   | -                    | -                    | 50,000,000           | 50,000,000           |
| Advance for machinery purchased  |      | 42,902,363           | -                    | 42,902,363           | -                    |
| Property, plant and equipment    | 11   | 638,577,519          | 695,888,001          | 638,577,519          | 695,888,001          |
| Other non-current assets         |      | 510,000              | 510,000              | 510,000              | 510,000              |
| <b>Total non-current assets</b>  |      | <b>681,989,882</b>   | <b>696,398,001</b>   | <b>731,989,882</b>   | <b>746,398,001</b>   |
| <b>Total assets</b>              |      | <b>1,889,278,209</b> | <b>1,755,235,170</b> | <b>1,890,099,556</b> | <b>1,754,779,895</b> |

## Hwa Fong Rubber (Thailand) Public Company Limited and its Subsidiary

## Statement of financial position

| Liabilities and equity               | Note  | Consolidated         |                      | Separate             |                      |
|--------------------------------------|-------|----------------------|----------------------|----------------------|----------------------|
|                                      |       | financial statements |                      | financial statements |                      |
|                                      |       | 31 December          |                      | 31 December          |                      |
|                                      |       | 2012                 | 2011                 | 2012                 | 2011                 |
| (in Baht)                            |       |                      |                      |                      |                      |
| <b>Current liabilities</b>           |       |                      |                      |                      |                      |
| Trade accounts payable               | 4, 13 | 179,105,222          | 216,912,877          | 179,105,222          | 216,912,877          |
| Other payables                       | 14    | 109,029,050          | 43,531,978           | 109,029,050          | 43,531,978           |
| Current portion of long-term loan    |       |                      |                      |                      |                      |
| from financial institution           | 12    | -                    | 70,000,000           | -                    | 70,000,000           |
| Income tax payable                   |       | 14,513,824           | 27,865,513           | 14,470,602           | 27,814,907           |
| Accrued expenses                     |       | 33,184,564           | 28,417,155           | 33,100,284           | 28,396,655           |
| Other current liabilities            |       | 10,494,554           | 11,355,130           | 10,493,935           | 11,355,130           |
| <b>Total current liabilities</b>     |       | <b>346,327,214</b>   | <b>398,082,653</b>   | <b>346,199,093</b>   | <b>398,011,547</b>   |
| <b>Non-current liability</b>         |       |                      |                      |                      |                      |
| Employee benefit obligations         | 15    | 11,914,142           | 9,320,570            | 11,914,142           | 9,320,570            |
| <b>Total liabilities</b>             |       | <b>358,241,356</b>   | <b>407,403,223</b>   | <b>358,113,235</b>   | <b>407,332,117</b>   |
| <b>Equity</b>                        |       |                      |                      |                      |                      |
| Share capital:                       |       |                      |                      |                      |                      |
| Authorised share capital             | 16    | 658,434,300          | 658,434,300          | 658,434,300          | 658,434,300          |
| Issued and paid-up share capital     |       | 658,434,300          | 658,434,300          | 658,434,300          | 658,434,300          |
| Treasury shares                      | 17    | -41,400,759          | -100,090,114         | -41,400,759          | -100,090,114         |
| Additional paid-up capital:          |       |                      |                      |                      |                      |
| Premium on ordinary shares           |       | 222,105,000          | 222,105,000          | 222,105,000          | 222,105,000          |
| Surplus on treasury shares           | 17    | 4,003,449            | -                    | 4,003,449            | -                    |
| Retained earnings                    |       |                      |                      |                      |                      |
| Appropriated                         |       |                      |                      |                      |                      |
| Legal reserve                        | 18    | 65,843,430           | 62,624,061           | 65,843,430           | 62,624,061           |
| Treasury shares reserve              |       | 41,400,759           | 100,090,114          | 41,400,759           | 100,090,114          |
| Unappropriated                       |       | 580,650,674          | 404,668,586          | 581,600,142          | 404,284,417          |
| <b>Equity attributable to owners</b> |       |                      |                      |                      |                      |
| of the Company                       |       | 1,531,036,853        | 1,347,831,947        | 1,531,986,321        | 1,347,447,778        |
| Non-controlling interests            |       | -                    | -                    | -                    | -                    |
| <b>Total equity</b>                  |       | <b>1,531,036,853</b> | <b>1,347,831,947</b> | <b>1,531,986,321</b> | <b>1,347,447,778</b> |
| <b>Total liabilities and equity</b>  |       | <b>1,889,278,209</b> | <b>1,755,235,170</b> | <b>1,890,099,556</b> | <b>1,754,779,895</b> |

## Hwa Fong Rubber (Thailand) Public Company Limited and its Subsidiary

## Statement of comprehensive income

|   |             | Consolidated<br>financial statements |               | Separate<br>financial statements |               |
|---|-------------|--------------------------------------|---------------|----------------------------------|---------------|
|   |             | For the year ended                   |               | For the year ended               |               |
|   |             | 31 December                          |               | 31 December                      |               |
|   | <i>Note</i> | 2012                                 | 2011          | 2012                             | 2011          |
|   |             | <i>(in Baht)</i>                     |               |                                  |               |
| <i>Income</i>                               |             |                                      |               |                                  |               |
| Revenue from sale of goods                  | 4, 19       | 2,376,236,580                        | 2,218,276,062 | 2,372,627,459                    | 2,218,276,062 |
| Other income                                | 4           | 18,089,763                           | 21,724,556    | 16,419,918                       | 20,844,228    |
| Total income                                |             | 2,394,326,343                        | 2,240,000,618 | 2,389,047,377                    | 2,239,120,290 |
| <i>Expenses</i>                             |             |                                      |               |                                  |               |
| Cost of sale of goods                       | 4, 9, 21    | 1,904,677,413                        | 1,900,851,221 | 1,901,228,853                    | 1,900,851,221 |
| Selling expenses                            | 4, 21       | 239,382,831                          | 116,536,864   | 239,371,257                      | 116,536,864   |
| Administrative expenses                     | 4, 21       | 31,632,484                           | 26,789,790    | 28,719,365                       | 26,681,389    |
| Management benefit expenses                 | 4           | 8,186,786                            | 8,883,092     | 8,186,786                        | 8,883,092     |
| Finance costs                               |             | 994,298                              | 5,001,744     | 994,298                          | 5,001,744     |
| Total expenses                              |             | 2,184,873,812                        | 2,058,062,711 | 2,178,500,559                    | 2,057,954,310 |
| Profit before income tax expense            |             | 209,452,531                          | 181,937,907   | 210,546,818                      | 181,165,980   |
| Income tax expense                          | 22          | 51,890,159                           | 56,091,161    | 51,650,809                       | 55,925,575    |
| Profit for the year                         |             | 157,562,372                          | 125,846,746   | 158,896,009                      | 125,240,405   |
| Other comprehensive income for the year     |             | -                                    | -             | -                                | -             |
| Total comprehensive income for the year     |             | 157,562,372                          | 125,846,746   | 158,896,009                      | 125,240,405   |
| Profit attributable to:                     |             |                                      |               |                                  |               |
| Owners of the Company                       |             | 157,562,372                          | 125,846,746   | 158,896,009                      | 125,240,405   |
| Non-controlling interests                   |             | -                                    | -             | -                                | -             |
| Profit for the year                         | 19          | 157,562,372                          | 125,846,746   | 158,896,009                      | 125,240,405   |
| Total comprehensive income attributable to: |             |                                      |               |                                  |               |
| Owners of the Company                       |             | 157,562,372                          | 125,846,746   | 158,896,009                      | 125,240,405   |
| Non-controlling interests                   |             | -                                    | -             | -                                | -             |
| Total comprehensive income for the year     |             | 157,562,372                          | 125,846,746   | 158,896,009                      | 125,240,405   |
| Basic earnings per share <i>(in Baht)</i>   | 23          | 0.25                                 | 0.20          | 0.25                             | 0.20          |

## Hwa Fong Rubber (Thailand) Public Company Limited and its Subsidiary

## Statements of changes in equity

| Consolidated financial statements                                 |    |                                  |                 |                            |                            |               |                                       |                       |                         |              |                |
|---|----|----------------------------------|-----------------|----------------------------|----------------------------|---------------|---------------------------------------|-----------------------|-------------------------|--------------|----------------|
|   |    | Additional                       |                 |                            | Retained earnings          |               |                                       | Equity                | Non-                    | Total equity |                |
|   |    | paid-in capital                  |                 | Appropriated to            |                            |               | attributable to owners of the Company | controlling interests |                         |              |                |
|   |    | Issued and paid-up share capital | Treasury shares | Premium on ordinary shares | Surplus on treasury shares | Legal reserve |                                       |                       | Treasury shares reserve |              | Unappropriated |
|   |    |                                  |                 |                            |                            |               |                                       |                       |                         |              |                |
|   |    |                                  |                 |                            |                            |               |                                       |                       |                         |              |                |
| Note  |    |                                  |                 |                            |                            |               |                                       |                       |                         |              |                |
| (in Baht)   |    |                                  |                 |                            |                            |               |                                       |                       |                         |              |                |
| Year ended 31 December 2011                                       |    |                                  |                 |                            |                            |               |                                       |                       |                         |              |                |
| Balance at 1 January 2011   |    | 658,434,300                      | (100,090,114)   | 222,105,000                | -                          | 56,124,061    | 100,090,114                           | 359,422,380           | 1,296,085,741           | -            | 1,296,085,741  |
| Contributions by and distributions to owners of the Company       |    |                                  |                 |                            |                            |               |                                       |                       |                         |              |                |
| Dividends to owners of the Company                                | 24 | -                                | -               | -                          | -                          | -             | -                                     | (74,100,540)          | (74,100,540)            | -            | (74,100,540)   |
| Total contributions by and distributions to owners of the Company |    | -                                | -               | -                          | -                          | -             | -                                     | (74,100,540)          | (74,100,540)            | -            | (74,100,540)   |
| Comprehensive income for the year                                 |    |                                  |                 |                            |                            |               |                                       |                       |                         |              |                |
| Profit  |    | -                                | -               | -                          | -                          | -             | -                                     | 125,846,746           | 125,846,746             | -            | 125,846,746    |
| Other comprehensive income  |    | -                                | -               | -                          | -                          | -             | -                                     | -                     | -                       | -            | -              |
| Total comprehensive income for the year                           |    | -                                | -               | -                          | -                          | -             | -                                     | 125,846,746           | 125,846,746             | -            | 125,846,746    |
| Transfer to legal reserve   | 18 | -                                | -               | -                          | -                          | 6,500,000     | -                                     | (6,500,000)           | -                       | -            | -              |
| Balance at 31 December 2011                                       |    | 658,434,300                      | (100,090,114)   | 222,105,000                | -                          | 62,624,061    | 100,090,114                           | 404,668,586           | 1,347,831,947           | -            | 1,347,831,947  |
| Year ended 31 December 2012                                       |    |                                  |                 |                            |                            |               |                                       |                       |                         |              |                |
| Balance at 1 January 2012   |    | 658,434,300                      | (100,090,114)   | 222,105,000                | -                          | 62,624,061    | 100,090,114                           | 404,668,586           | 1,347,831,947           | -            | 1,347,831,947  |
| Contributions by and distributions to owners of the Company       |    |                                  |                 |                            |                            |               |                                       |                       |                         |              |                |
| Treasury shares sold  | 17 | -                                | 58,689,355      | -                          | 4,003,449                  | -             | (58,689,355)                          | 58,689,355            | 62,692,804              | -            | 62,692,804     |
| Dividends to owners of the Company                                | 24 | -                                | -               | -                          | -                          | -             | -                                     | (37,050,270)          | (37,050,270)            | -            | (37,050,270)   |
| Total contributions by and distributions to owners of the Company |    | -                                | 58,689,355      | -                          | 4,003,449                  | -             | (58,689,355)                          | 21,639,085            | 25,642,534              | -            | 25,642,534     |
| Comprehensive income for the year                                 |    |                                  |                 |                            |                            |               |                                       |                       |                         |              |                |
| Profit  |    | -                                | -               | -                          | -                          | -             | -                                     | 157,562,372           | 157,562,372             | -            | 157,562,372    |
| Other comprehensive income  |    | -                                | -               | -                          | -                          | -             | -                                     | -                     | -                       | -            | -              |
| Total comprehensive income for the year                           |    | -                                | -               | -                          | -                          | -             | -                                     | 157,562,372           | 157,562,372             | -            | 157,562,372    |
| Transfer to legal reserve   | 18 | -                                | -               | -                          | -                          | 3,219,369     | -                                     | (3,219,369)           | -                       | -            | -              |
| Balance at 31 December 2012                                       |    | 658,434,300                      | (41,400,759)    | 222,105,000                | 4,003,449                  | 65,843,430    | 41,400,759                            | 580,650,674           | 1,531,036,853           | -            | 1,531,036,853  |

## Hwa Fong Rubber (Thailand) Public Company Limited and its Subsidiary

## Statement of changes in equity

|   |    | Separate financial statements |                            |                 |                   |                 |              |                 |               |
|---|----|-------------------------------|----------------------------|-----------------|-------------------|-----------------|--------------|-----------------|---------------|
|   |    |                               | Additional paid-in capital |                 | Retained earnings |                 |              | Equity          |               |
|   |    | Issued and                    |                            |                 | Appropriated to   |                 |              | attributable to |               |
|   |    | paid-up share                 | Treasury                   | Premium on      | Surplus on        | Treasury shares |              | owners of       |               |
| Note  |    | capital                       | shares                     | ordinary shares | treasury shares   | Legal reserve   | reserve      | Unappropriated  |               |
|   |    |                               |                            |                 |                   | (in Baht)       |              | the Company     |               |
| Year ended 31 December 2011                                       |    |                               |                            |                 |                   |                 |              |                 |               |
|   |    | 658,434,300                   | (100,090,114)              | 222,105,000     | -                 | 56,124,061      | 100,090,114  | 359,644,552     | 1,296,307,913 |
| Contributions by and distributions to owners of the Company       |    |                               |                            |                 |                   |                 |              |                 |               |
|   | 24 | -                             | -                          | -               | -                 | -               | -            | (74,100,540)    | (74,100,540)  |
| Total contributions by and distributions to owners of the Company |    |                               |                            |                 |                   |                 |              |                 |               |
|   |    | -                             | -                          | -               | -                 | -               | -            | (74,100,540)    | (74,100,540)  |
| Comprehensive income for the year                                 |    |                               |                            |                 |                   |                 |              |                 |               |
|   |    | -                             | -                          | -               | -                 | -               | -            | 125,240,405     | 125,240,405   |
|   |    | -                             | -                          | -               | -                 | -               | -            | -               | -             |
| Total comprehensive income for the year                           |    |                               |                            |                 |                   |                 |              |                 |               |
|   |    | -                             | -                          | -               | -                 | -               | -            | 125,240,405     | 125,240,405   |
|   | 18 | -                             | -                          | -               | -                 | 6,500,000       | -            | (6,500,000)     | -             |
| Balance at 31 December 2011                                       |    |                               |                            |                 |                   |                 |              |                 |               |
|   |    | 658,434,300                   | (100,090,114)              | 222,105,000     | -                 | 62,624,061      | 100,090,114  | 404,284,417     | 1,347,447,778 |
| Year ended 31 December 2012                                       |    |                               |                            |                 |                   |                 |              |                 |               |
|   |    | 658,434,300                   | (100,090,114)              | 222,105,000     | -                 | 62,624,061      | 100,090,114  | 404,284,417     | 1,347,447,778 |
| Contributions by and distributions to owners of the Company       |    |                               |                            |                 |                   |                 |              |                 |               |
|   | 17 | -                             | 58,689,355                 | -               | 4,003,449         | -               | (58,689,355) | 58,689,355      | 62,692,804    |
|   | 24 | -                             | -                          | -               | -                 | -               | -            | (37,050,270)    | (37,050,270)  |
| Total contributions by and distributions to owners of the Company |    |                               |                            |                 |                   |                 |              |                 |               |
|   |    | -                             | 58,689,355                 | -               | 4,003,449         | -               | (58,689,355) | 21,639,085      | 25,642,534    |
| Comprehensive income for the year                                 |    |                               |                            |                 |                   |                 |              |                 |               |
|   |    | -                             | -                          | -               | -                 | -               | -            | 158,896,009     | 158,896,009   |
|   |    | -                             | -                          | -               | -                 | -               | -            | -               | -             |
| Total comprehensive income for the year                           |    |                               |                            |                 |                   |                 |              |                 |               |
|   |    | -                             | -                          | -               | -                 | -               | -            | 158,896,009     | 158,896,009   |
|   | 18 | -                             | -                          | -               | -                 | 3,219,369       | -            | (3,219,369)     | -             |
| Balance at 31 December 2012                                       |    |                               |                            |                 |                   |                 |              |                 |               |
|   |    | 658,434,300                   | (41,400,759)               | 222,105,000     | 4,003,449         | 65,843,430      | 41,400,759   | 581,600,142     | 1,531,986,321 |

## Hwa Fong Rubber (Thailand) Public Company Limited and its Subsidiary

## Statement of cash flows

|  | Consolidated         |                    | Separate             |                    |
|--|----------------------|--------------------|----------------------|--------------------|
|  | financial statements |                    | financial statements |                    |
|  | For the year ended   |                    | For the year ended   |                    |
|  | 31 December          |                    | 31 December          |                    |
| Note   | 2012                 | 2011               | 2012                 | 2011               |
|  | (in Baht)            |                    |                      |                    |
| <b>Cash flows from operating activities</b>        |                      |                    |                      |                    |
| Profit for the year                                | 157,562,372          | 125,846,746        | 158,896,009          | 125,240,405        |
| Adjustments for                                    |                      |                    |                      |                    |
| Depreciation                                       | 95,722,420           | 104,020,141        | 95,722,420           | 104,020,141        |
| Impairment losses on receivable from               |                      |                    |                      |                    |
| Grand KPL International Co., Ltd.                  | 2,000,000            | -                  | -                    | -                  |
| Allowance for obsolescence and declining in        |                      |                    |                      |                    |
| value of inventories                               | 13,500,000           | 6,500,000          | 13,500,000           | 6,500,000          |
| Reversal of allowance for estimated                |                      |                    |                      |                    |
| unclaimed import duty                              | -                    | -9,737,483         | -                    | -9,737,483         |
| Provision for employee benefit obligations         | 2,593,572            | 2,252,878          | 2,593,572            | 2,252,878          |
| Interest income                                    | -4,300,608           | -2,577,789         | -3,337,681           | -1,577,462         |
| Finance costs                                      | 994,298              | 5,001,744          | 994,298              | 5,001,744          |
| Unrealised (gain) loss on exchange                 | -56,017              | 638,707            | -56,017              | 638,707            |
| Gain on disposal of equipment                      | -1,434,080           | -783,849           | -1,434,080           | -783,849           |
| Income tax expense                                 | 51,890,159           | 56,091,161         | 51,650,809           | 55,925,575         |
|  | <u>318,472,116</u>   | <u>287,252,256</u> | <u>318,529,330</u>   | <u>287,480,656</u> |
| <b>Changes in operating assets and liabilities</b> |                      |                    |                      |                    |
| Trade accounts receivable                          | -12,106,167          | -58,139,518        | -11,949,311          | -58,139,518        |
| Other receivables                                  | 4,553,969            | 23,378,938         | 8,905,587            | 23,382,397         |
| Inventories  | 88,765,220           | -81,958,782        | 88,765,220           | -81,958,782        |
| Trade accounts payable                             | -37,707,143          | 57,625,427         | -37,707,143          | 57,625,427         |
| Other payables                                     | 61,290,012           | 4,368,634          | 61,290,012           | 4,368,634          |
| Accrued expenses                                   | 4,824,403            | 4,079,340          | 4,760,123            | 4,099,340          |
| Other current liabilities                          | -762,906             | 4,576,902          | -763,026             | 4,576,902          |
| Income tax paid                                    | -65,241,848          | -45,669,522        | -64,995,114          | -45,554,542        |
| <b>Net cash from operating activities</b>          | <u>362,087,656</u>   | <u>195,513,675</u> | <u>366,835,678</u>   | <u>195,880,514</u> |
| <b>Cash flows from investing activities</b>        |                      |                    |                      |                    |
| Interest received                                  | 3,581,149            | 2,590,254          | 2,772,092            | 1,592,173          |
| Purchase of property and equipment                 | -35,656,387          | (36,031,124)       | -35,656,387          | (36,031,124)       |
| Advance for machinery purchased                    | -42,902,363          | -                  | -42,902,363          | -                  |
| Sale of equipment                                  | 2,935,935            | 3,649,009          | 2,935,935            | 3,649,009          |
| Increase in current investment                     | -260,000,000         | -                  | (225,000,000)        | -                  |
| <b>Net cash used in investing activities</b>       | <u>-332,041,666</u>  | <u>-29,791,861</u> | <u>-297,850,723</u>  | <u>-30,789,942</u> |

## Hwa Fong Rubber (Thailand) Public Company Limited and its Subsidiary

## Statement of cash flows

|   | Consolidated<br>financial statements |                     | Separate<br>financial statements |                     |
|---|--------------------------------------|---------------------|----------------------------------|---------------------|
|   | For the year ended                   |                     | For the year ended               |                     |
|   | 31 December                          |                     | 31 December                      |                     |
| Note  | 2012                                 | 2011                | 2012                             | 2011                |
|   | (in Baht)                            |                     |                                  |                     |
| <b><i>Cash flows from financing activities</i></b>              |                                      |                     |                                  |                     |
| Finance costs paid  | -1,077,503                           | (5,054,182)         | -1,077,503                       | (5,054,182)         |
| Dividends paid to owners of the<br>Company                      | -37,050,270                          | (74,100,540)        | -37,050,270                      | (74,100,540)        |
| Proceeds from short-term loans from<br>financial institutions   | 21,756,000                           | 87,494,686          | 21,756,000                       | 87,494,686          |
| Repayment of short-term loans from<br>financial institutions    | -21,756,000                          | (107,187,281)       | -21,756,000                      | (107,187,281)       |
| Repayment of long-term loan from<br>financial institution       | (70,000,000)                         | (100,000,000)       | (70,000,000)                     | (100,000,000)       |
| Proceeds from sale of treasury shares                           | 62,692,804                           | -                   | 62,692,804                       | -                   |
| <b>Net cash used in financing activities</b>                    | <b>-45,434,969</b>                   | <b>-198,847,317</b> | <b>-45,434,969</b>               | <b>-198,847,317</b> |
| <b>Net increase (decrease) in cash and<br/>cash equivalents</b> | <b>-15,388,979</b>                   | <b>-33,125,503</b>  | <b>23,549,986</b>                | <b>-33,756,745</b>  |
| Cash and cash equivalents at 1 January                          | 239,345,723                          | 272,471,226         | 188,930,513                      | 222,687,258         |
| <b>Cash and cash equivalents at 31<br/>December</b>             | <b>223,956,744</b>                   | <b>239,345,723</b>  | <b>212,480,499</b>               | <b>188,930,513</b>  |

5

## **NOTES TO FINANCIAL STATEMENTS**

These notes form an integral part of the financial statements.

The financial statements issued for Thai statutory and regulatory reporting purposes are prepared in the Thai language. These English language financial statements have been prepared from the Thai language statutory financial statements, and were approved and authorized for issue by the Board of Directors on 22 February 2013.

### **1 General information**

Hwa Fong Rubber (Thailand) Public Company Limited, the “Company”, is incorporated in Thailand and has its registered office at 317 Moo 4, Soi 6C, Bangpoo Industrial Estate, Amphur Muang, Samutprakarn.

The Company was listed on the Stock Exchange of Thailand in 2003.

The immediate parent company during the financial period was Hwa Fong Rubber Ind. Co., Ltd., which was incorporated in Taiwan.

The principal businesses of the Company are manufacturing and distribution of tires and tubes for bicycle, motorcycles and small logistics vehicles. Detail of the Company’s subsidiary as at 31 December 2012 and 2011 are given in notes 4 and 10.

### **2 Basis of preparation of the financial statements**

#### ***(a) Statement of compliance***

The financial statements are prepared in accordance with Thai Financial Reporting Standards (TFRS); guidelines promulgated by the Federation of Accounting Professions (“FAP”); and applicable rules and regulations of the Thai Securities and Exchange Commission.

As at 31 December 2012, the FAP had issued a number of new and revised TFRS which are expected to be effective for financial statements beginning on or after 1 January 2013 and have not been adopted in the preparation of these financial statements. These new and revised TFRS are disclosed in note 28.

#### ***(b) Basis of measurement***

The financial statements have been prepared on the historical cost basis except as stated in the accounting policies.

#### ***(c) Presentation currency***

The financial statements are prepared and presented in Thai Baht. All financial information presented in Thai Baht has been rounded in the notes to the financial statements to the nearest thousand unless otherwise stated.

#### ***(d) Use of estimates and judgements***

The preparation of financial statements in conformity with TFRS requires management to make judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which estimates are revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in the following notes:

|         |  |
|---------|--|
| Note 8  | Allowance for impairment losses on receivable from Grand KPL Co., Ltd. |
| Note 15 | Measurement of defined benefit obligation                              |
| Note 21 | Provision for claim expense  |

### **3 Significant accounting policies**

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

#### **(a) Basis of consolidation**

The consolidated financial statements relate to the Company and its subsidiary (together referred to as the “Group”).

##### *Subsidiary*

Subsidiary is entity controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiary are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The accounting policies of subsidiary have been changed where necessary to align them with the policies adopted by the Group. Losses applicable to non-controlling interests in a subsidiary are allocated to non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

##### *Transactions eliminated on consolidation*

Intra-group balances and transactions, and any unrealised income or expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

#### **(b) Foreign currency transactions**

Transactions in foreign currencies are translated to Thai Baht at the foreign exchange rates ruling at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to Thai Baht at the foreign exchange rates ruling at that date. Foreign exchange differences arising on translation are recognised in profit or loss.

Non-monetary assets and liabilities measured at cost in foreign currencies are translated to Thai Baht using the foreign exchange rates ruling at the dates of the transactions.

**(c) *Derivative financial instruments***

Derivative financial instruments are used to manage exposure to foreign exchange arising from operational, financing and investment activities. Derivative financial instruments are not used for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss when incurred. Subsequent to initial recognition, they are remeasured at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss.

The fair value of forward exchange contracts is based on their listed market price at the reporting date.

**(d) *Cash and cash equivalents***

Cash and cash equivalents in the statement of cash flows comprise cash balances, call deposits and highly liquid short-term investments.

**(e) *Trade and other accounts receivable***

Trade and other accounts receivable are stated at their invoice value less allowance for doubtful accounts.

The allowance for doubtful accounts is assessed primarily on analysis of payment histories future expectations of customer payments. Bad debts are written off when incurred.

**(f) *Inventories***

Inventories are measured at the lower of cost and net realisable value.

Cost is calculated using the average cost principle, and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. In the case of manufactured inventories and work-in-progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs to complete and to make the sale.

**(g) *Investments***

*Investments in subsidiary*

Investments in subsidiary in the separate financial statements of the Company are accounted for using the cost method.

*Disposal of investments*

On disposal of an investment, the difference between net disposal proceeds and the carrying amount together with the associated cumulative gain or loss that was reported in equity is recognised in profit or loss.

If the Group disposes of part of its holding of a particular investment, the deemed cost of the part sold is determined using the weighted average method applied to carrying value of the total holding of the investment.

**(h) Property, plant and equipment***Recognition and measurement**Owned assets*

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

*Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and capitalised borrowing costs. Cost also may include transfers from other comprehensive income of any gain or loss on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.*

*When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.*

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognised net within other income in profit or loss.

*Subsequent costs*

The cost of replacing a part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group, and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

*Depreciation*

Depreciation is calculated based on the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment. The estimated useful lives are as follows:

|  |         |       |
|--|---------|-------|
| Buildings and building improvements      | 10 - 40 | years |
| Machinery and equipment                  | 5 - 20  | years |
| Furniture, fixtures and office equipment | 5 - 10  | years |
| Vehicles                                 | 5 - 10  | years |

No depreciation is provided on freehold land, machinery under installation and assets under construction.

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

**(i) Impairment**

The carrying amounts of the Group's assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the assets' recoverable amounts are estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. The impairment loss is recognised in profit or loss unless it reverses a previous revaluation credited to equity, in which case it is charged to equity.

*Calculation of recoverable amount*

The recoverable amount of a non-financial asset is the greater of the assets' value in use and fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

*Reversals of impairment*

Impairment losses recognised in prior periods in respect of other non-financial assets are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

**(j) Interest-bearing liability**

Interest-bearing liability is recognised initially at fair value less attributable transaction charges. Subsequent to initial recognition, interest-bearing liabilities are stated at amortised cost with any difference between cost and redemption value being recognised in profit or loss over the period of the borrowings on an effective interest basis.

**(k) Trade and other accounts payable**

Trade and other accounts payable are stated at cost.

**(l) Employee benefits***Defined contribution plans*

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into the fund and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees.

*Defined benefit plans*

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. Any unrecognised past service costs and the fair value of any plan assets are deducted. The

discount rate is the yield at the reporting date on AA credit-rated bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid.

The calculation is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Group, the recognised asset is limited to the total of any unrecognised past service costs and the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the Group. An economic benefit is available to the Group if it is realisable during the life of the plan, or on settlement of the plan liabilities

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised in profit or loss on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in profit or loss.

The Group recognises all actuarial gains and losses arising from defined benefit plans in other comprehensive income and all expenses related to defined benefit plans in profit or loss.

#### *Termination benefits*

Termination benefits are recognised as an expense when the Group is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if the Group has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting period, then they are discounted to their present value.

#### *Short-term employee benefits*

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

### **(m) Provisions**

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

### **(n) Repurchase of share capital (treasury shares)**

When share capital recognised as equity is repurchased, the amount of consideration paid, including directly attributable costs, is classified as treasury shares and recognised 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

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.

**(o) Revenue**

Revenue excludes value added taxes and is arrived at after deduction of trade discounts and volume rebates.

*Sale of goods*

Revenue is recognised in profit or loss when the significant risks and rewards of ownership have been transferred to the buyer. No revenue is recognised if there is continuing management involvement with the goods or there are significant uncertainties regarding recovery of the consideration due, associated costs or the probable return of goods.

*Rental income*

Rental income is recognised in profit or loss as it accrues.

*Interest and other income*

Interest and other income are recognised in profit or loss as they accrue.

**(p) Finance costs**

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions and contingent consideration.

**(q) Lease payments**

*Payments made under operating leases are recognised in profit or loss on a straight line basis over the term of the lease.*

*Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.*

**(r) Income tax**

Income tax on the profit or loss for the year comprises current tax. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

In determining the amount of current tax, the Group takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. The Group believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Group to change its judgement regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

**(s) Earnings per share**

The Group presents basic earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year, adjusted for own shares held.

**4 Related parties**

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control or joint control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

A relationship with subsidiary is described in notes 10. Relationship with key management and other related parties were as follows:

| <b>Name of entities</b>                      | <b>Country of incorporation/<br/>nationality</b> | <b>Nature of relationships</b>  |
|--|--|---|
| Sumitomo Rubber Industries Limited           | Japan  | The parent company's shareholder  |
| Hwa Fong Rubber Ind. Co., Ltd.               | Taiwan   | Parent, 50.42% shareholding   |
| Hwa Fong Rubber (U.S.A.) Inc.                | United States of America                         | 100% holding by parent company  |
| Hwa Zhong (B.V.I.) Holding Corp.             | China  | 100% holding by parent company  |
| HFR Holding Corp.                            | British Virgin Islands                           | 100% holding by parent company  |
| Hwa Fong Rubber (Hong Kong) Ltd.             | China  | 100% holding by parent company  |
| Hwa Fong Rubber (Singapore) Holding Pte Ltd. | Singapore  | 100% holding by parent company  |
| Sino Hwa Fong Enterprise Co., Ltd.           | Taiwan   | 100% holding by parent company  |
| Sino Hwa Fong Biotechnology Co., Ltd.        | Taiwan   | 100% holding by parent company  |
| Hwa Fong Rubber (China) Co., Ltd.            | China  | 48.64% holding by parent company, 33.18% holding by Hwa Fong Rubber (Singapore) Holding Pte Ltd. and 18.18% holding by Hwa Zhong (B.V.I.) Holding Corp.   |
| Hwa Fong Rubber (Suzhou) Co., Ltd.           | China  | 100% holding by HFR Holding Corp.   |
| Key management personnel                     | Thai and Taiwan                                  | Persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of the Group. |

The pricing policies for particular types of transactions are explained further below:

| <b>Transactions</b>                            | <b>Pricing policies</b>   |
|--|---|
| Sale of goods                                  | The market price or the price based on the memorandum of understanding.<br>The selling price structure with the related companies are based on the actual cost incurred plus gross margin rate. |
| Sale of raw material                           | Cost plus margin  |
| Rental income                                  | Baht 10,000 per month   |
| Other income                                   | Cost plus margin  |
| Purchase of raw material and merchandise goods | Cost plus margin  |
| Purchase of property, plant and equipment      | Cost plus margin  |
| Sale of property, plant and equipment          | Cost plus margin  |
| Technical assistance fee                       | USD 100,000 per annum and 0.4% of sales amount of products sold   |
| Trademark usage fee                            | 0.5% and 1.5%-3% of sales amount of products sold   |
| Tread pattern right                            | Initial fee at USD 15,000 and annual fee at USD 30,000  |
| Technical fee                                  | At agreed price   |
| Repair expenses                                | Cost plus margin  |
| Claim expenses                                 | Contractually agreed price  |
| Other expense                                  | Cost plus margin  |
| Management benefit expenses                    | Amount approved by the directors and/or the shareholders  |

Significant transactions for the years ended 31 December with related parties were as follows:

| <b>Year ended 31 December</b>             | <b>Consolidated financial statements</b> |        | <b>Separate financial statements</b> |        |
|---|--|--------|--------------------------------------|--------|
|   | 2012                                     | 2011   | 2012                                 | 2011   |
|   | <i>(in thousand Baht)</i>                |        |                                      |        |
| <b>Parent</b>                             |  |        |                                      |        |
| Revenue from sale of goods                | 10,069                                   | 11,805 | 10,069                               | 11,805 |
| Revenue from sale of raw material         | 120                                      | 875    | 120                                  | 875    |
| Other income                              | 73                                       | 53     | 73                                   | 53     |
| Purchase of raw material                  | 11,301                                   | 9,250  | 11,301                               | 9,250  |
| Purchase of merchandise goods             | 105                                      | -      | 105                                  | -      |
| Purchase of property, plant and equipment | 9,057                                    | 12,900 | 9,057                                | 12,900 |
| Technical assistance fee                  | 3,291                                    | 3,157  | 3,291                                | 3,157  |
| Trademark usage fee                       | 5,525                                    | 5,811  | 5,525                                | 5,811  |
| Tread pattern right                       | 945                                      | 1,384  | 945                                  | 1,384  |
| Technical fee                             | 693                                      | 86     | 693                                  | 86     |
| Repair expenses                           | 1,339                                    | 2,709  | 1,339                                | 2,709  |
| Other expense                             | 2,595                                    | 2,129  | 2,595                                | 2,129  |
| <b>Subsidiary</b>                         |  |        |                                      |        |
| Rental income                             | -  | -      | 120                                  | 120    |
| <b>Key management personnel</b>           |  |        |                                      |        |
| Short-term employee benefit               | 8,057                                    | 8,790  | 8,057                                | 8,790  |

| <i>Year ended 31 December</i>                      | <b>Consolidated<br/>financial statements</b> |              | <b>Separate<br/>financial statements</b> |              |
|--|--|--------------|--|--------------|
|  | 2012   | 2011         | 2012                                     | 2011         |
|  | <i>(in thousand Baht)</i>                    |              |  |              |
| <b>Parent</b>                                      |  |              |  |              |
| Post-employment benefits                           | 130  | 93           | 130                                      | 93           |
| <b>Total key management personnel compensation</b> | <b>8,187</b>                                 | <b>8,883</b> | <b>8,187</b>                             | <b>8,883</b> |
| <b>Other related parties</b>                       |  |              |  |              |
| Revenue from sale of goods                         | 299,941                                      | 309,088      | 299,941                                  | 309,088      |
| Revenue from sale of raw material                  | -  | 656          | -  | 656          |
| Other income                                       | 1,108  | 413          | 1,108                                    | 413          |
| Purchases of raw material                          | 5,384  | 8,209        | 5,384                                    | 8,209        |
| Purchase of merchandise goods                      | 7,376  | 33,692       | 7,376                                    | 33,692       |
| Purchase of property, plant and Equipment          | -  | 3,932        | -  | 3,932        |
| Technical assistance fee                           | 2,990  | 3,089        | 2,990                                    | 3,089        |
| Trademark usage fee                                | 4,553  | 5,667        | 4,553                                    | 5,667        |
| Technical fee                                      | 642  | -            | 642                                      | -            |
| Repair expenses                                    | 442  | 854          | 442                                      | 854          |
| Claim expenses                                     | 85,021                                       | -            | 85,021                                   | -            |
| Other expense                                      | -  | 76           | -  | 76           |

### *Significant transaction with related parties*

#### *Claim expenses*

In 2007 Sumitomo Rubber Industries Limited (“SRI”), shareholder of the Company’s parent company saw itself forced to recall products of the Company it had sold. Subsequently, SRI and the Company have been in discussions and negotiations about indemnification of the damages SRI suffered as a result of the recall. In November 2012, the Company and SRI reached a settlement agreement by which the Company agreed to pay SRI an amount equivalent to approximately Baht 78 million, representing half the amount of damages SRI claimed to have incurred.

Previously, the Company had not recognized any liability as management was in discussions with the counterparty to investigate the validity of the claim and to establish whether the Company had any actual liability and if so, to estimate the potential cost of settling the claim.

Balances as at 31 December with related parties were as follows:

#### *Trade accounts receivable from related parties*

|                                    | <b>Consolidated<br/>financial statements</b> |        | <b>Separate<br/>financial statements</b> |        |
|------------------------------------|--|--------|--|--------|
|                                    | 2012   | 2011   | 2012                                     | 2011   |
|                                    | <i>(in thousand Baht)</i>                    |        |  |        |
| <b>Parent</b>                      |  |        |  |        |
| Hwa Fong Rubber Ind. Co., Ltd.     | 2,120  | 4,012  | 2,120                                    | 4,012  |
| <b>Other related parties</b>       |  |        |  |        |
| Sumitomo Rubber Industries Limited | 13,594                                       | 18,140 | 13,594                                   | 18,140 |
| Hwa Fong Rubber (U.S.A.) Inc.      | 11,850                                       | -      | 11,850                                   | -      |
| Hwa Fong Rubber (Hong Kong) Ltd.   | 111  | 12,435 | 111                                      | 12,435 |

**Trade accounts receivable from related parties**

|              | <b>Consolidated<br/>financial statements</b> |               | <b>Separate<br/>financial statements</b> |               |
|--------------|--|---------------|--|---------------|
|              | 2012   | 2011          | 2012                                     | 2011          |
|              | <i>(in thousand Baht)</i>                    |               |  |               |
| <b>Total</b> | <b>27,675</b>                                | <b>34,587</b> | <b>27,675</b>                            | <b>34,587</b> |

**Trade accounts payable - related parties**

|                                    | <b>Consolidated<br/>financial statements</b> |              | <b>Separate<br/>financial statements</b> |              |
|------------------------------------|--|--------------|--|--------------|
|                                    | 2012   | 2011         | 2012                                     | 2011         |
|                                    | <i>(in thousand Baht)</i>                    |              |  |              |
| <b>Parent</b>                      |  |              |  |              |
| Hwa Fong Rubber Ind. Co., Ltd.     | 2,718  | 2,344        | 2,718                                    | 2,344        |
| <b>Other related parties</b>       |  |              |  |              |
| Sumitomo Rubber Industries Limited | 581  | 1,339        | 581                                      | 1,339        |
| Hwa Fong Rubber (China) Co., Ltd.  | 6  | 383          | 6  | 383          |
| <b>Total</b>                       | <b>3,305</b>                                 | <b>4,066</b> | <b>3,305</b>                             | <b>4,066</b> |

**Other payables - related parties**

|                                    | <b>Consolidated<br/>financial statements</b> |               | <b>Separate<br/>financial statements</b> |               |
|------------------------------------|--|---------------|--|---------------|
|                                    | 2012   | 2011          | 2012                                     | 2011          |
|                                    | <i>(in thousand Baht)</i>                    |               |  |               |
| <b>Parent</b>                      |  |               |  |               |
| Hwa Fong Rubber Ind. Co., Ltd.     | 6,092  | 9,467         | 6,092                                    | 9,467         |
| <b>Other related parties</b>       |  |               |  |               |
| Sumitomo Rubber Industries Limited | 57,585                                       | 4,009         | 57,585                                   | 4,009         |
| Hwa Fong Rubber (China) Co., Ltd.  | -  | 73            | -  | 73            |
| <b>Total</b>                       | <b>63,677</b>                                | <b>13,549</b> | <b>63,677</b>                            | <b>13,549</b> |

**Significant agreements with related parties****Technical assistance agreements**

- On 1 January 2011, 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 100,000 per annum. The agreement is for a period of three (3) years and shall be automatically extended for each additional one (1) year period, unless either party gives the written notice of termination ninety (90) days before expiration date.
- On 2 July 2009, the Company entered into an agreement with its parent company's shareholder to obtain Technical assistance fee (0.4% of the net selling prices of the products sold). The agreement is for a period of one (1) year and shall be automatically renewed on a year-to-year basis, unless either party gives the written notice of termination at least three (3) months prior to the expiration.

**Trademarks license agreements**

- On 27 August 2005, 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 agreement is for a period of three (3) years and shall be automatically renewed on a year-to-year basis, unless either party gives the written notice of termination thirty (30) days before expiration.
- On 24 September 2003, The Company entered into an agreement with its parent company's shareholder to obtain trademark usage fee (1.5 - 3% of the selling prices of the products

sold).The term of the agreement is 3 years and shall be automatically renewed and extended on a three (3) years basis, unless either party gives the written notice of termination at least three (3) months prior to the expiration.

### ***Tread pattern right agreement***

On 1 May 2011, the Company entered into an agreement with its parent company to obtain tread pattern right for production and selling of certain products, whereby the Company has to pay initial fee at amount of USD 15,000 in 2011 and annual fee at amount of USD 30,000 totaling USD 165,000. The term of the agreement is 5 years.

## **5 Cash and cash equivalents**

|  | <b>Consolidated<br/>financial statements</b> |                | <b>Separate<br/>financial statements</b> |                |
|--|--|----------------|--|----------------|
|  | 2012   | 2011           | 2012                                     | 2011           |
|  | <i>(in thousand Baht)</i>                    |                |  |                |
| Cash on hand                                 | 683  | 331            | 664                                      | 326            |
| Cash at banks - current and savings accounts | 223,274                                      | 164,015        | 211,816                                  | 148,605        |
| Highly liquid short - term investments       | -  | 75,000         | -  | 40,000         |
| <b>Total</b>                                 | <b>223,957</b>                               | <b>239,346</b> | <b>212,480</b>                           | <b>188,931</b> |

The currency denomination of cash and cash equivalents as at 31 December was as follows:

|                             | <b>Consolidated<br/>financial statements</b> |                | <b>Separate<br/>financial statements</b> |                |
|-----------------------------|--|----------------|--|----------------|
|                             | 2012   | 2011           | 2012                                     | 2011           |
|                             | <i>(in thousand Baht)</i>                    |                |  |                |
| Thai Baht (THB)             | 148,499                                      | 188,257        | 137,022                                  | 137,842        |
| United States Dollars (USD) | 75,415                                       | 48,138         | 75,415                                   | 48,138         |
| Japanese Yen (YEN)          | 23   | -              | 23                                       | -              |
| Euro (EUR)                  | 20   | 2,951          | 20                                       | 2,951          |
| <b>Total</b>                | <b>223,957</b>                               | <b>239,346</b> | <b>212,480</b>                           | <b>188,931</b> |

## **6 Current investments**

As at 31 December 2012, current investments represent bill of exchange with maturity period more than 3 months issued by certain banks with interest rate at 2.8 % and 2.9 % per annum.

Current investments of the Group and the Company as at 31 December 2012 and 2011 were denominated entirely in Thai Baht.

## **7 Trade accounts receivable**

|   |             | <b>Consolidated<br/>financial statements</b> |                | <b>Separate<br/>financial statements</b> |                |
|---|-------------|--|----------------|--|----------------|
|   | <i>Note</i> | 2012   | 2011           | 2012                                     | 2011           |
|   |             | <i>(in thousand Baht)</i>                    |                |  |                |
| Related parties                             | 4           | 27,675                                       | 34,587         | 27,675                                   | 34,587         |
| Other parties                               |             | 263,491                                      | 244,640        | 263,335                                  | 244,640        |
|   |             | 291,166                                      | 279,227        | 291,010                                  | 279,227        |
| <i>Less allowance for doubtful accounts</i> |             | (300)  | (300)          | (300)                                    | (300)          |
| <b>Net</b>                                  |             | <b>290,866</b>                               | <b>278,927</b> | <b>290,710</b>                           | <b>278,927</b> |
| Bad and doubtful debts expense for the year |             | -  | -              | -  | -              |

Aging analyses for trade accounts receivable were as follows:

|                                      | <b>Consolidated<br/>financial statements</b> |                       | <b>Separate<br/>financial statements</b> |                       |
|--------------------------------------|--|-----------------------|--|-----------------------|
|                                      | 2012   | 2011                  | 2012                                     | 2011                  |
|                                      | <i>(in thousand Baht)</i>                    |                       |  |                       |
| <b>Related parties</b>               |  |                       |  |                       |
| Within credit terms                  | 27,675                                       | 32,817                | 27,675                                   | 32,817                |
| Overdue:                             |  |                       |  |                       |
| Less than 3 months                   | -  | 1,770                 | -  | 1,770                 |
|                                      | <u>27,675</u>                                | <u>34,587</u>         | <u>27,675</u>                            | <u>34,587</u>         |
| Less allowance for doubtful accounts | -  | -                     | -  | -                     |
| <b>Net</b>                           | <b><u>27,675</u></b>                         | <b><u>34,587</u></b>  | <b><u>27,675</u></b>                     | <b><u>34,587</u></b>  |
| <b>Other parties</b>                 |  |                       |  |                       |
| Within credit terms                  | 196,947                                      | 188,689               | 196,791                                  | 188,689               |
| Overdue:                             |  |                       |  |                       |
| Less than 3 months                   | 59,526                                       | 55,539                | 59,526                                   | 55,539                |
| 3-6 months                           | 141  | 59                    | 141                                      | 59                    |
| 6-12 months                          | 6,600  | 76                    | 6,600                                    | 76                    |
| Over 12 months                       | 277  | 277                   | 277                                      | 277                   |
|                                      | <u>263,491</u>                               | <u>244,640</u>        | <u>263,335</u>                           | <u>244,640</u>        |
| Less allowance for doubtful accounts | (300)  | (300)                 | (300)                                    | (300)                 |
| <b>Net</b>                           | <b><u>263,191</u></b>                        | <b><u>244,340</u></b> | <b><u>263,035</u></b>                    | <b><u>244,340</u></b> |
| <b>Total</b>                         | <b><u>290,866</u></b>                        | <b><u>278,927</u></b> | <b><u>290,710</u></b>                    | <b><u>278,927</u></b> |

The normal credit terms granted by the Group ranges from 30 - 90 days.

The currency denomination of trade accounts receivable as at 31 December was as follows:

|                             | <b>Consolidated<br/>financial statements</b> |                       | <b>Separate<br/>financial statements</b> |                       |
|-----------------------------|--|-----------------------|--|-----------------------|
|                             | 2012   | 2011                  | 2012                                     | 2011                  |
|                             | <i>(in thousand Baht)</i>                    |                       |  |                       |
| Thai Baht (THB)             | 114,038                                      | 96,836                | 114,038                                  | 96,836                |
| United States Dollars (USD) | 123,438                                      | 116,879               | 123,282                                  | 116,879               |
| Euro (EUR)                  | 53,390                                       | 65,212                | 53,390                                   | 65,212                |
| <b>Total</b>                | <b><u>290,866</u></b>                        | <b><u>278,927</u></b> | <b><u>290,710</u></b>                    | <b><u>278,927</u></b> |

## 8 Other receivables

|  | <b>Consolidated<br/>financial statements</b> |               | <b>Separate<br/>financial statements</b> |               |
|--|--|---------------|--|---------------|
|  | 2012   | 2011          | 2012                                     | 2011          |
|  | <i>(in thousand Baht)</i>                    |               |  |               |
| Receivable from customs department                   | 4,888  | 12,270        | 4,888                                    | 12,270        |
| Receivable from Grand KPL<br>International Co., Ltd. | 4,000  | -             | -  | -             |
| Others   | <u>5,020</u>                                 | <u>5,472</u>  | <u>4,474</u>                             | <u>5,432</u>  |
|  | <u>13,908</u>                                | <u>17,742</u> | <u>9,362</u>                             | <u>17,702</u> |

Less allowance for impairment losses  
on

|  |               |               |              |               |
|--|---------------|---------------|--------------|---------------|
| receivable from Grand KPL<br>International Co., Ltd. | (2,000)       | -             | -            | -             |
| <b>Net</b>   | <b>11,908</b> | <b>17,742</b> | <b>9,362</b> | <b>17,702</b> |

*Receivable from Grand KPL International Co., Ltd.*

During the year 2012, H F T Holding Company Limited., a subsidiary entered into an investment agreement amounting to Baht 10 million with Grand KPL International Co., Ltd. for trading bird's nest. Under the terms of the agreement, Grand KPL International Co., Ltd. shall pay back the investment principal and a minimum of 5% profit of investment principal to the subsidiary by June 2012. Subsequently, Grand KPL International Co., Ltd. has partially paid back such investment and the subsidiary has agreed to extend the repayment term for the remaining balance of the investment.

As at 31 December 2012, a subsidiary remains balance receivable from Grand KPL International Co., Ltd. (net of allowance for impairment loss amounting to Baht 2 million) amounting to Baht 2 million. Subsequently, on 14 and 18 February 2013, a subsidiary received additional payment from Grand KPL International Co., Ltd. amounting to Baht 2 million.

## 9 Inventories

|  | <b>Consolidated<br/>financial statements</b> |                  | <b>Separate<br/>financial statements</b> |                  |
|--|--|------------------|--|------------------|
|  | 2012   | 2011             | 2012                                     | 2011             |
|  | <i>(in thousand Baht)</i>                    |                  |  |                  |
| Finished goods   | 169,100                                      | 207,355          | 169,100                                  | 207,355          |
| Work in progress   | 39,112                                       | 46,999           | 39,112                                   | 46,999           |
| Raw materials  | 171,108                                      | 204,232          | 171,108                                  | 204,232          |
| Spare parts and supplies   | 40,210                                       | 37,514           | 40,210                                   | 37,514           |
| Merchandise goods  | 12,834                                       | 18,839           | 12,834                                   | 18,839           |
| Goods in transit   | 38,193                                       | 44,384           | 38,193                                   | 44,384           |
|  | <u>470,557</u>                               | <u>559,323</u>   | <u>470,557</u>                           | <u>559,323</u>   |
| Less allowance for obsolescence and<br>declining in value of inventories | (50,000)                                     | (36,500)         | (50,000)                                 | (36,500)         |
| <b>Net</b>   | <b>420,557</b>                               | <b>522,823</b>   | <b>420,557</b>                           | <b>522,823</b>   |
| Inventories recognised as an expense in<br>'cost of sales of goods':     |  |                  |  |                  |
| - Cost   | 1,891,177                                    | 1,894,351        | 1,887,729                                | 1,894,351        |
| - Write-down to net realisable value                                     | 13,500                                       | 6,500            | 13,500                                   | 6,500            |
| <b>- Net total</b>   | <b>1,904,677</b>                             | <b>1,900,851</b> | <b>1,901,229</b>                         | <b>1,900,851</b> |

## 10 Investment in subsidiary

Investment in subsidiary as at 31 December 2012 and 2011, and dividend income for the years then ended, were as follows:

|                               | Type of Business   | Separate financial statements |       |                 |               |               |               |                    |          |                          |               |                 |          |
|-------------------------------|--|-------------------------------|-------|-----------------|---------------|---------------|---------------|--------------------|----------|--------------------------|---------------|-----------------|----------|
|                               |  | Ownership interest            |       | Paid-up capital |               | Cost          |               | Impairment         |          | Cost – net of impairment |               | Dividend income |          |
|                               |  | 2012                          | 2011  | 2012            | 2011          | 2012          | 2011          | 2012               | 2011     | 2012                     | 2011          | 2012            | 2011     |
|                               |  | (%)                           |       |                 |               |               |               | (in thousand Baht) |          |                          |               |                 |          |
| <b><i>Subsidiary</i></b>      |  |                               |       |                 |               |               |               |                    |          |                          |               |                 |          |
| H F T Holding Company Limited | Investment in bonds and securities, wholesale and retail trading of tires and tubes and equipments for vehicles and international trading and investment | 99.99                         | 99.99 | 50,000          | 50,000        | 50,000        | 50,000        | -                  | -        | 50,000                   | 50,000        | -               | -        |
| <b>Total</b>                  |  |                               |       | <b>50,000</b>   | <b>50,000</b> | <b>50,000</b> | <b>50,000</b> | <b>-</b>           | <b>-</b> | <b>50,000</b>            | <b>50,000</b> | <b>-</b>        | <b>-</b> |

H F T Holding Company Limited was incorporated in Thailand.

H F T Holding Company Limited is not publicly listed and consequently does not have published price quotations.

## 11 Property, plant and equipment

|   | Consolidated financial statements |                                    |                         |  |               |                              | Total            |
|---|-----------------------------------|------------------------------------|-------------------------|--|---------------|------------------------------|------------------|
|   | Land                              | Buildings and building improvement | Machinery and equipment | Furniture, fixtures and Office equipment<br>(in thousand Baht) | Vehicles      | Machinery under installation |                  |
| <b>Cost</b>                                   |                                   |                                    |                         |  |               |                              |                  |
| At 1 January 2011                             | 112,152                           | 327,209                            | 1,583,139               | 14,256   | 54,174        | 5,620                        | 2,096,550        |
| Additions                                     | -                                 | 742                                | 7,874                   | 1,002  | 293           | 26,120                       | 36,031           |
| Transfers                                     | -                                 | 138                                | 21,585                  | 219  | -             | (21,942)                     | -                |
| Disposals                                     | -                                 | -                                  | (7,687)                 | (225)  | (1,104)       | -                            | (9,016)          |
| <b>At 31 December 2011 and 1 January 2012</b> | <b>112,152</b>                    | <b>328,089</b>                     | <b>1,604,911</b>        | <b>15,252</b>  | <b>53,363</b> | <b>9,798</b>                 | <b>2,123,565</b> |
| Additions                                     | -                                 | 947                                | 4,665                   | 319  | 1,480         | 32,503                       | 39,914           |
| Transfers                                     | -                                 | 1,160                              | 28,565                  | -  | -             | (29,725)                     | -                |
| Disposals                                     | -                                 | -                                  | (3,139)                 | (66)   | -             | -                            | (3,205)          |
| <b>At 31 December 2012</b>                    | <b>112,152</b>                    | <b>330,196</b>                     | <b>1,635,002</b>        | <b>15,505</b>  | <b>54,843</b> | <b>12,576</b>                | <b>2,160,274</b> |
| <b>Depreciation</b>                           |                                   |                                    |                         |  |               |                              |                  |
| At 1 January 2011                             | -                                 | 115,990                            | 1,164,251               | 11,412   | 38,154        | -                            | 1,329,807        |
| Depreciation charge for the year              | -                                 | 10,282                             | 88,830                  | 911  | 3,997         | -                            | 104,020          |
| Disposals                                     | -                                 | -                                  | (4,821)                 | (225)  | (1,104)       | -                            | (6,150)          |
| <b>At 31 December 2011 and 1 January 2012</b> | <b>-</b>                          | <b>126,272</b>                     | <b>1,248,260</b>        | <b>12,098</b>  | <b>41,047</b> | <b>-</b>                     | <b>1,427,677</b> |
| Depreciation charge for the year              | -                                 | 10,002                             | 81,556                  | 869  | 3,295         | -                            | 95,722           |
| Disposals                                     | -                                 | -                                  | (1,638)                 | (65)   | -             | -                            | (1,703)          |
| <b>At 31 December 2012</b>                    | <b>-</b>                          | <b>136,274</b>                     | <b>1,328,178</b>        | <b>12,902</b>  | <b>44,342</b> | <b>-</b>                     | <b>1,521,696</b> |
| <b>Net book value</b>                         |                                   |                                    |                         |  |               |                              |                  |
| At 1 January 2011                             | 112,152                           | 211,219                            | 418,888                 | 2,844  | 16,020        | 5,620                        | 766,743          |
| At 31 December 2011 and 1 January 2012        | 112,152                           | 201,817                            | 356,651                 | 3,154  | 12,316        | 9,798                        | 695,888          |
| At 31 December 2012                           | 112,152                           | 193,922                            | 306,824                 | 2,603  | 10,501        | 12,576                       | 638,578          |

|   | Separate financial statements |                                    |                         |  |               |                              | Total            |
|---|-------------------------------|------------------------------------|-------------------------|--|---------------|------------------------------|------------------|
|   | Land                          | Buildings and building improvement | Machinery and equipment | Furniture, fixtures and Office equipment<br>(in thousand Baht) | Vehicles      | Machinery under installation |                  |
| <b>Cost</b>                                   |                               |                                    |                         |  |               |                              |                  |
| At 1 January 2011                             | 112,152                       | 327,209                            | 1,583,139               | 14,256   | 54,174        | 5,620                        | 2,096,550        |
| Additions                                     | -                             | 742                                | 7,874                   | 1,002  | 293           | 26,120                       | 36,031           |
| Transfers                                     | -                             | 138                                | 21,585                  | 219  | -             | (21,942)                     | -                |
| Disposals                                     | -                             | -                                  | (7,687)                 | (225)  | (1,104)       | -                            | (9,016)          |
| <b>At 31 December 2011 and 1 January 2012</b> | <b>112,152</b>                | <b>328,089</b>                     | <b>1,604,911</b>        | <b>15,252</b>  | <b>53,363</b> | <b>9,798</b>                 | <b>2,123,565</b> |
| Additions                                     | -                             | 947                                | 4,665                   | 319  | 1,480         | 32,503                       | 39,914           |
| Transfers                                     | -                             | 1,160                              | 28,565                  | -  | -             | (29,725)                     | -                |
| Disposals                                     | -                             | -                                  | (3,139)                 | (66)   | -             | -                            | (3,205)          |
| <b>At 31 December 2012</b>                    | <b>112,152</b>                | <b>330,196</b>                     | <b>1,635,002</b>        | <b>15,505</b>  | <b>54,843</b> | <b>12,576</b>                | <b>2,160,274</b> |
| <b>Depreciation</b>                           |                               |                                    |                         |  |               |                              |                  |
| At 1 January 2011                             | -                             | 115,990                            | 1,164,251               | 11,412   | 38,154        | -                            | 1,329,807        |
| Depreciation charge for the year              | -                             | 10,282                             | 88,830                  | 911  | 3,997         | -                            | 104,020          |
| Disposals                                     | -                             | -                                  | (4,821)                 | (225)  | (1,104)       | -                            | (6,150)          |
| <b>At 31 December 2011 and 1 January 2012</b> | <b>-</b>                      | <b>126,272</b>                     | <b>1,248,260</b>        | <b>12,098</b>  | <b>41,047</b> | <b>-</b>                     | <b>1,427,677</b> |
| Depreciation charge for the year              | -                             | 10,002                             | 81,556                  | 869  | 3,295         | -                            | 95,722           |
| Disposals                                     | -                             | -                                  | (1,638)                 | (65)   | -             | -                            | (1,703)          |
| <b>At 31 December 2012</b>                    | <b>-</b>                      | <b>136,274</b>                     | <b>1,328,178</b>        | <b>12,902</b>  | <b>44,342</b> | <b>-</b>                     | <b>1,521,696</b> |
| <b>Net book value</b>                         |                               |                                    |                         |  |               |                              |                  |
| At 1 January 2011                             | 112,152                       | 211,219                            | 418,888                 | 2,844  | 16,020        | 5,620                        | 766,743          |
| At 31 December 2011 and 1 January 2012        | 112,152                       | 201,817                            | 356,651                 | 3,154  | 12,316        | 9,798                        | 695,888          |
| At 31 December 2012                           | 112,152                       | 193,922                            | 306,824                 | 2,603  | 10,501        | 12,576                       | 638,578          |

The gross amount of the Group's fully depreciated property, plant and equipment that was still in use as at 31 December 2012 amounted to Baht 827.82 million (2011: Baht 710.48 million).

#### Security

At 31 December 2012 the Group's land and structures thereon with a net book value of Baht 95.00 million (2011: Baht 99.04 million) are mortgaged as collateral for credit facilities from financial institutions (see note 12).

## 12 Interest-bearing liability

|   | <b>Consolidated<br/>financial statements</b> |        | <b>Separate<br/>financial statements</b> |        |
|---|--|--------|--|--------|
|   | 2012   | 2011   | 2012                                     | 2011   |
|   | <i>(in thousand Baht)</i>                    |        |  |        |
| <b>Current</b>  |  |        |  |        |
| Current portion of long-term loan<br>from financial institution - secured | -  | 70,000 | -  | 70,000 |

The periods to maturity of interest-bearing liability as at 31 December were as follows:

|                 | <b>Consolidated<br/>financial statements</b> |               | <b>Separate<br/>financial statements</b> |               |
|-----------------|--|---------------|--|---------------|
|                 | 2012   | 2011          | 2012                                     | 2011          |
|                 | <i>(in thousand Baht)</i>                    |               |  |               |
| Within one year | -  | 70,000        | -  | 70,000        |
| <b>Total</b>    | <b>-</b>                                     | <b>70,000</b> | <b>-</b>                                 | <b>70,000</b> |

Secured interest-bearing liability as at 31 December was secured on the following assets:

|                   | <b>Consolidated<br/>financial statements</b> |               | <b>Separate<br/>financial statements</b> |               |
|-------------------|--|---------------|--|---------------|
|                   | 2012   | 2011          | 2012                                     | 2011          |
|                   | <i>(in thousand Baht)</i>                    |               |  |               |
| Land and building | 94,999                                       | 99,041        | 94,999                                   | 99,041        |
| <b>Total</b>      | <b>94,999</b>                                | <b>99,041</b> | <b>94,999</b>                            | <b>99,041</b> |

As at 31 December 2012, the Group's land and structure were mortgaged as collateral for loan from financial institution. (see note 11). During the year 2012, the Group repaid the final instalment but still had not yet redeemed the mortgaged assets under the term loan.

As at 31 December 2012, the Group had unutilised credit facilities totalling Baht 1,888 million (2011: Baht 1,875 million).

The interest-bearing liability of the Group and the Company as at 31 December 2012 and 2011 was denominated entirely in Thai Baht.

**13 Trade accounts payable**

|                 |             | <b>Consolidated<br/>financial statements</b> |                | <b>Separate<br/>financial statements</b> |                |
|-----------------|-------------|--|----------------|--|----------------|
|                 | <i>Note</i> | 2012   | 2011           | 2012                                     | 2011           |
|                 |             | <i>(in thousand Baht)</i>                    |                |  |                |
| Related parties | 4           | 3,305  | 4,066          | 3,305                                    | 4,066          |
| Other parties   |             | 175,800                                      | 212,847        | 175,800                                  | 212,847        |
| <b>Total</b>    |             | <b>179,105</b>                               | <b>216,913</b> | <b>179,105</b>                           | <b>216,913</b> |

The currency denomination of trade accounts payable as at 31 December were as follows:

|                             |  | <b>Consolidated<br/>financial statements</b> |                | <b>Separate<br/>financial statements</b> |                |
|-----------------------------|--|--|----------------|--|----------------|
|                             |  | 2012   | 2011           | 2012                                     | 2011           |
|                             |  | <i>(in thousand Baht)</i>                    |                |  |                |
| United States Dollars (USD) |  | 127,760                                      | 96,988         | 127,760                                  | 96,988         |
| Thai Baht (THB)             |  | 51,345                                       | 119,925        | 51,345                                   | 119,925        |
| <b>Total</b>                |  | <b>179,105</b>                               | <b>216,913</b> | <b>179,105</b>                           | <b>216,913</b> |

**14 Other payables**

|                 |             | <b>Consolidated<br/>financial statements</b> |               | <b>Separate<br/>financial statements</b> |               |
|-----------------|-------------|--|---------------|--|---------------|
|                 | <i>Note</i> | 2012   | 2011          | 2012                                     | 2011          |
|                 |             | <i>(in thousand Baht)</i>                    |               |  |               |
| Related parties | 4           | 63,677                                       | 13,549        | 63,677                                   | 13,549        |
| Other parties   |             | 45,352                                       | 29,983        | 45,352                                   | 29,983        |
| <b>Total</b>    |             | <b>109,029</b>                               | <b>43,532</b> | <b>109,029</b>                           | <b>43,532</b> |

The currency denomination of other payables as at 31 December were as follows:

|                             |  | <b>Consolidated<br/>financial statements</b> |               | <b>Separate<br/>financial statements</b> |               |
|-----------------------------|--|--|---------------|--|---------------|
|                             |  | 2012   | 2011          | 2012                                     | 2011          |
|                             |  | <i>(in thousand Baht)</i>                    |               |  |               |
| Japanese Yen (YEN)          |  | 54,632                                       | -             | 54,632                                   | -             |
| Thai Baht (THB)             |  | 45,814                                       | 33,991        | 45,814                                   | 33,991        |
| United States Dollars (USD) |  | 8,349  | 9,541         | 8,349                                    | 9,541         |
| Indonesian Rupiahs (IDR)    |  | 234  | -             | 234                                      | -             |
| <b>Total</b>                |  | <b>109,029</b>                               | <b>43,532</b> | <b>109,029</b>                           | <b>43,532</b> |

**15 Employee benefit obligations**

|  | <b>Consolidated<br/>financial statements</b> |              | <b>Separate<br/>financial statements</b> |              |
|--|--|--------------|--|--------------|
|  | 2012   | 2011         | 2012                                     | 2011         |
|  | <i>(in thousand Baht)</i>                    |              |  |              |
| <b>Statement of financial position:</b>                              |  |              |  |              |
| <b>Statement of financial position obligations for:</b>              |  |              |  |              |
| Retirement benefit and severance payment according to the labour law | <u>11,914</u>                                | <u>9,321</u> | <u>11,914</u>                            | <u>9,321</u> |

|  | <b>Consolidated<br/>financial statements</b> |              | <b>Separate<br/>financial statements</b> |              |
|--|--|--------------|--|--------------|
|  | 2012   | 2011         | 2012                                     | 2011         |
|  | <i>(in thousand Baht)</i>                    |              |  |              |
| <b>Year ended 31 December</b>  |  |              |  |              |
| <b>Statement of comprehensive income:</b>                            |  |              |  |              |
| <b>Recognised in profit or loss:</b>                                 |  |              |  |              |
| Retirement benefit and severance payment according to the labour law | <u>2,593</u>                                 | <u>2,253</u> | <u>2,593</u>                             | <u>2,253</u> |

The Group adopted TAS 19 – Employee Benefits with effect from 1 January 2011. The Group opted to record the transitional obligation as at 1 January 2011, totalling Baht 7.1 million for the Group and Baht 7.1 million for the Company, as an adjustment to retained earnings as at 1 January 2011.

The Group and the Company operate defined benefit plans based on the requirement of Thai Labour Protection Act B.E. 2541 (1998) to provide retirement benefits to employees based on pensionable remuneration and length of service.

The statement of financial position obligation was determined as follows:

|   | <b>Consolidated<br/>financial<br/>statements</b> |                     | <b>Separate<br/>financial<br/>statements</b> |                     |
|---|--|---------------------|--|---------------------|
|   | 2012   | 2011                | 2012   | 2011                |
|   | <i>(in thousand Baht)</i>                        |                     |  |                     |
| Present value of unfunded obligations             | <u>11,914</u>                                    | <u>9,321</u>        | <u>11,914</u>                                | <u>9,321</u>        |
| <b>Statement of financial position obligation</b> | <u><b>11,914</b></u>                             | <u><b>9,321</b></u> | <u><b>11,914</b></u>                         | <u><b>9,321</b></u> |

Movement in the present value of the defined benefit obligations:

|   | <b>Consolidated<br/>financial statements</b> |                     | <b>Separate<br/>financial statements</b> |                     |
|---|--|---------------------|--|---------------------|
|   | 2012   | 2011                | 2012                                     | 2011                |
|   | <i>(in thousand Baht)</i>                    |                     |  |                     |
| Defined benefit obligations at 1 January          | 9,321  | 7,068               | 9,321                                    | 7,068               |
| Current service costs and interest                | 2,417  | 2,253               | 2,417                                    | 2,253               |
| Actuarial losses                                  | <u>176</u>                                   | <u>-</u>            | <u>176</u>                               | <u>-</u>            |
| <b>Defined benefit obligations at 31 December</b> | <u><b>11,914</b></u>                         | <u><b>9,321</b></u> | <u><b>11,914</b></u>                     | <u><b>9,321</b></u> |

Expense recognised in profit or loss:

|                        | <b>Consolidated<br/>financial statements</b> |              | <b>Separate<br/>financial statements</b> |              |
|------------------------|--|--------------|--|--------------|
|                        | 2012   | 2011         | 2012                                     | 2011         |
|                        | <i>(in thousand Baht)</i>                    |              |  |              |
| Current service costs  | 2,050  | 1,974        | 2,050                                    | 1,974        |
| Interest on obligation | 367  | 279          | 367                                      | 279          |
| Actuarial losses       | 176  | -            | 176                                      | -            |
| <b>Total</b>           | <b>2,593</b>                                 | <b>2,253</b> | <b>2,593</b>                             | <b>2,253</b> |

The expense is recognised in the following line items in the statement of comprehensive income:

|                             | <b>Consolidated<br/>financial statements</b> |              | <b>Separate<br/>financial statements</b> |              |
|-----------------------------|--|--------------|--|--------------|
|                             | 2012   | 2011         | 2012                                     | 2011         |
|                             | <i>(in thousand Baht)</i>                    |              |  |              |
| Cost of sales               | 3,047  | 1,828        | 3,047                                    | 1,828        |
| Selling expenses            | 174  | 81           | 174                                      | 81           |
| Administrative expenses     | (758)  | 251          | (758)                                    | 251          |
| Management benefit expenses | 130  | 93           | 130                                      | 93           |
| <b>Total</b>                | <b>2,593</b>                                 | <b>2,253</b> | <b>2,593</b>                             | <b>2,253</b> |

Principal actuarial assumptions at the reporting date (expressed as weighted averages):

|                         | <b>Consolidated<br/>financial statements</b> |      | <b>Separate<br/>financial statements</b> |      |
|-------------------------|--|------|--|------|
|                         | 2012   | 2011 | 2012                                     | 2011 |
|                         | <i>%</i>                                     |      |  |      |
| Discount rate           | 3.78   | 3.94 | 3.78                                     | 3.94 |
| Future salary increases | 4  | 5    | 4  | 5    |
| Employee turnover rate  | 0-45   | 0-45 | 0-45                                     | 0-45 |
| Retirement age (year)   | 60   | 60   | 60                                       | 60   |

Assumptions regarding future mortality are based on published statistics and mortality tables.  
Discount rate is the interest rate of long-term government bond.

## 16 Share capital

|                           | Par value<br>per share<br>(in Baht) | 2012                                   |                | 2011           |                |
|---------------------------|-------------------------------------|--|----------------|----------------|----------------|
|                           |                                     | Number                                 | Baht           | Number         | Baht           |
|                           |                                     | <i>(thousand shares/thousand Baht)</i> |                |                |                |
| <b>Authorised</b>         |                                     |  |                |                |                |
| At 1 January              |                                     |  |                |                |                |
| - ordinary shares         | 1                                   | 658,434                                | 658,434        | 658,434        | 658,434        |
| <b>At 31 December</b>     |                                     |  |                |                |                |
| - ordinary shares         | 1                                   | <b>658,434</b>                         | <b>658,434</b> | <b>658,434</b> | <b>658,434</b> |
| <b>Issued and paid-up</b> |                                     |  |                |                |                |
| At 1 January              |                                     |  |                |                |                |
| - ordinary shares         | 1                                   | 658,434                                | 658,434        | 658,434        | 658,434        |
| <b>At 31 December</b>     |                                     |  |                |                |                |
| - ordinary shares         | 1                                   | <b>658,434</b>                         | <b>658,434</b> | <b>658,434</b> | <b>658,434</b> |
| <b>Share premium</b>      |                                     |  |                |                |                |

Section 51 of the Public Companies Act B.E. 2535 requires companies to set aside share subscription monies received in excess of the par value of the shares issued to a reserve account (“share premium”). Share premium is not available for dividend distribution.

## 17 Treasury shares

The treasury shares account within equity comprises the cost of the Company’s own shares held by the Group.

As at 31 December 2012, the Group held 16,930 thousand of the Company’s shares (*31 December 2011: 40,930 thousand*), comprising 2.6% (*31 December 2011: 6.2%*) of the Company’s issued share capital, at a total cost of Baht 41,401 thousand (*31 December 2011: Baht 100,090 thousand*) as follows:

|                    | 2012                                      |               | 2011          |                |
|--------------------|---|---------------|---------------|----------------|
|                    | Number                                    | Baht          | Number        | Baht           |
|                    | <i>(in thousand shares/thousand Baht)</i> |               |               |                |
| <b>The Company</b> | <b>16,930</b>                             | <b>41,401</b> | <b>40,930</b> | <b>100,090</b> |

In April 2010, the Board of Directors of the Company approved a treasury share plan (‘Plan’) to re-purchase not more 9 percent of the Company’s shares then in issue. The purpose of the Plan is to manage the Company’s excess liquidity. The maximum amount approved for share purchase under the Plan is Baht 150 million and the price to be paid for the shares is not to exceed 115 per cent of the average closing price on the Stock Exchange of Thailand (SET) over the 5 trading days before each share purchase is made. The Company purchased the shares through the SET during the period from 11 May 2010 to 10 November 2010. The shares purchased may be resold after 6 months but within 3 years from the date of purchase.

### *Surplus on treasury shares*

The surplus on treasury shares represents the accumulated surplus on sale of treasury shares, net of any deficits on sale or cancellation of treasury shares. The surplus on treasury shares is not available for dividend distribution.

During the year ended 31 December 2012, the Company resold treasury shares of 24.00 million shares in total amount of Baht 62.69 million which represents cost of treasury shares of Baht 58.69 million and surplus on treasury shares of Baht 4.00 million.

## 18 Reserves

### **Legal reserve**

Section 116 of the Public Companies Act B.E. 2535 Section 116 requires that a public company shall allocate not less than 5% of its annual net profit, less any accumulated losses brought forward, to a reserve account (“legal reserve”), until this account reaches an amount not less than 10% of the registered authorised capital. The legal reserve is not available for dividend distribution.

**Treasury shares reserve**

The treasury shares reserve represents the amount appropriated from retained earnings equal to the cost of the Company's own shares held by the Group. The treasury shares reserve is not available for dividend distribution.

**19 Segment reporting**

Segment information is presented in respect of the Group's geographic segments. The primary format, geographic segments, is based on the Group's management and internal reporting structure.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items mainly comprise interest or other income, assets and revenue, interest-bearing loans, borrowings and expenses, and corporate assets and expenses.

***Business segments***

Management considers that the Group operates in a single line of business, namely manufacturing of tires and tubes, and has, therefore, only one major business segment.

***Geographic segments***

In presenting information on the basis of geographical segments, segment revenue is based on the geographic location of customers. Segment assets are based on the geographical location of the assets.

The following are the main geographical locations:

|           |          |
|-----------|----------|
| Segment 1 | Domestic |
| Segment 2 | Export   |

***Geographical segment results***

|                            | Segment 1                 |                       | Segment 2             |                       | Total                 |                       |
|----------------------------|---------------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
|                            | 2012                      | 2011                  | 2012                  | 2011                  | 2012                  | 2011                  |
|                            | <i>(in thousand Baht)</i> |                       |                       |                       |                       |                       |
| Revenue from sale of goods | 1,102,438                 | 948,672               | 1,273,798             | 1,269,604             | 2,376,236             | 2,218,276             |
| Cost of sale of goods      | <u>(872,428)</u>          | <u>(808,173)</u>      | <u>(1,032,249)</u>    | <u>(1,092,678)</u>    | <u>(1,904,677)</u>    | <u>(1,900,851)</u>    |
| <b>Segment result</b>      | <b><u>230,010</u></b>     | <b><u>140,499</u></b> | <b><u>241,549</u></b> | <b><u>176,926</u></b> | <b><u>471,559</u></b> | <b><u>317,425</u></b> |
| Unallocated revenues       |                           |                       |                       |                       | 18,090                | 21,725                |
| Unallocated expenses       |                           |                       |                       |                       | (279,203)             | (152,210)             |
| Finance costs              |                           |                       |                       |                       | (994)                 | (5,002)               |
| Income tax expense         |                           |                       |                       |                       | <u>(51,890)</u>       | <u>(56,091)</u>       |
| <b>Profit for the year</b> |                           |                       |                       |                       | <b><u>157,562</u></b> | <b><u>125,847</u></b> |

### Geographical segment results

|                               | Segment 1 |         | Segment 2 |         | Total            |                  |
|-------------------------------|-----------|---------|-----------|---------|------------------|------------------|
|                               | 2012      | 2011    | 2012      | 2011    | 2012             | 2011             |
| <i>(in thousand Baht)</i>     |           |         |           |         |                  |                  |
| <b>Assets and liabilities</b> |           |         |           |         |                  |                  |
| Cash and cash equivalents     | 148,499   | 188,257 | 75,458    | 51,089  | 223,957          | 239,346          |
| Trade accounts receivable     | 114,038   | 96,836  | 176,828   | 182,091 | 290,866          | 278,927          |
| Unallocated other assets      |           |         |           |         | 1,374,455        | 1,236,962        |
| <b>Total assets</b>           |           |         |           |         | <b>1,889,278</b> | <b>1,755,235</b> |
| Trade accounts payables       | 51,345    | 119,925 | 127,760   | 96,988  | 179,105          | 216,913          |
| Other accounts payable        | 45,814    | 33,991  | 63,215    | 9,541   | 109,029          | 43,532           |
| Unallocated liabilities       |           |         |           |         | 70,107           | 146,958          |
| <b>Total liabilities</b>      |           |         |           |         | <b>358,241</b>   | <b>407,403</b>   |

## 20 Employee benefit expenses

|  | Consolidated<br>financial statements |                | Separate<br>financial statements |                |
|--|--------------------------------------|----------------|----------------------------------|----------------|
|  | 2012                                 | 2011           | 2012                             | 2011           |
| <i>(in thousand Baht)</i>                  |                                      |                |                                  |                |
| Wages, salaries and bonus                  | 276,047                              | 244,038        | 275,964                          | 244,038        |
| Pension costs - defined benefit plans      | 2,593                                | 2,253          | 2,593                            | 2,253          |
| Contribution to defined contribution plans | 604                                  | 534            | 604                              | 534            |
| Others                                     | 13,873                               | 16,035         | 13,873                           | 16,035         |
| <b>Total</b>                               | <b>293,117</b>                       | <b>262,860</b> | <b>293,034</b>                   | <b>262,860</b> |

The defined contribution plans comprise provident funds established by the Group for its employees. Membership to the funds is on a voluntary basis. Contributions are made monthly by the employees at rates ranging from 2% to 4% of their basic salaries and by the Group at rates ranging from 2% to 4% of the employees' basic salaries. The provident funds are registered with the Ministry of Finance as juristic entities and are managed by a licensed Fund Manager.

## 21 Expenses by nature

The statements of income include an analysis of expenses by function. Expenses by nature disclosed in accordance with the requirements of various TFRS were as follows:

|   | Consolidated<br>financial statements |           | Separate<br>financial statements |           |
|---|--------------------------------------|-----------|----------------------------------|-----------|
|   | 2012                                 | 2011      | 2012                             | 2011      |
| <i>(in thousand Baht)</i>                                     |                                      |           |                                  |           |
| <b>Included in cost of sales of goods</b>                     |                                      |           |                                  |           |
| Changes in inventories of finished goods and work in progress | 52,147                               | (67,225)  | 52,147                           | (67,225)  |
| Raw materials and consumables used                            | 1,247,352                            | 1,379,539 | 1,247,352                        | 1,379,539 |
| Finished goods purchase for sale                              | 11,042                               | 32,999    | 7,594                            | 32,999    |
| Employee benefit expenses                                     | 263,328                              | 233,570   | 263,328                          | 233,570   |
| Utilities expenses  | 147,481                              | 136,541   | 147,481                          | 136,541   |
| Depreciation  | 92,457                               | 100,514   | 92,457                           | 100,514   |
| Repair and maintenance  | 33,598                               | 35,057    | 33,598                           | 35,057    |

|  | <b>Consolidated<br/>financial statements</b> |                         | <b>Separate<br/>financial statements</b> |                         |
|--|--|-------------------------|--|-------------------------|
|  | 2012   | 2011                    | 2012                                     | 2011                    |
|  | <i>(in thousand Baht)</i>                    |                         |  |                         |
| <b><i>Included in cost of sales of goods</i></b>   |  |                         |  |                         |
| Others   | 57,272                                       | 49,856                  | 57,272                                   | 49,856                  |
| <b>Total</b>                                       | <b><u>1,904,677</u></b>                      | <b><u>1,900,851</u></b> | <b><u>1,901,229</u></b>                  | <b><u>1,900,851</u></b> |
| <b><i>Included in selling expenses:</i></b>        |  |                         |  |                         |
| Claim expenses                                     | 105,315                                      | 471                     | 105,315                                  | 471                     |
| Packing expenses                                   | 45,640                                       | 41,429                  | 45,640                                   | 41,429                  |
| Distribution                                       | 30,236                                       | 24,529                  | 30,228                                   | 24,529                  |
| Promotional expenses                               | 28,241                                       | 20,840                  | 28,241                                   | 20,840                  |
| Employee benefit expenses                          | 9,465  | 9,500                   | 9,465                                    | 9,500                   |
| Others   | 20,486                                       | 19,768                  | 20,482                                   | 19,768                  |
| <b>Total</b>                                       | <b><u>239,383</u></b>                        | <b><u>116,537</u></b>   | <b><u>239,371</u></b>                    | <b><u>116,537</u></b>   |
| <b><i>Included in administrative expenses:</i></b> |  |                         |  |                         |
| Employee benefit expenses                          | 12,137                                       | 10,907                  | 12,054                                   | 10,907                  |
| Depreciation                                       | 3,265  | 3,506                   | 3,265                                    | 3,506                   |
| Professional fee                                   | 2,621  | 2,494                   | 2,431                                    | 2,390                   |
| Others   | 13,609                                       | 9,883                   | 10,969                                   | 9,878                   |
| <b>Total</b>                                       | <b><u>31,632</u></b>                         | <b><u>26,790</u></b>    | <b><u>28,719</u></b>                     | <b><u>26,681</u></b>    |

#### *Claim expenses*

As stated in note 4 to the financial statements, the Company has received claims from 2 customers for defective products sold totaling amount approximately Baht 103 million. One claim came from a local customer amounting to approximately Baht 25 million and another was from an overseas related party amounting to approximately Baht 78 million. As at 31 December 2012, the Company has fully recorded the claim expense from its overseas related company and has recorded claim expense from its local customer based on an estimate of the likely settlement amount. Therefore the final claim expense incurred may differ from the estimate.

## **22 Income tax expense**

The current tax expense in the consolidated and separate statements of comprehensive income is more than the amount determined by applying the Thai corporation tax rate to the accounting profit for the year principally because the different treatment for accounting and taxation purposes of certain items of expense, in particular, certain expenses which are not subject to tax expense recognised in the statement of comprehensive income.

## 23 Basic earnings per share

The calculations of basic earnings per share for the years ended 31 December 2012 and 2011 were based on the profit for the years attributable to ordinary shareholders of the Company and the number of ordinary shares outstanding during the years as follows:

|  | <b>Consolidated<br/>financial statements</b> |                       | <b>Separate<br/>financial statements</b> |                       |
|--|--|-----------------------|--|-----------------------|
|  | 2012   | 2011                  | 2012                                     | 2011                  |
|  | <i>(in thousand Baht / thousand shares)</i>  |                       |  |                       |
| <b>Profit attributable to ordinary shareholders of the Company</b> | <b><u>157,562</u></b>                        | <b><u>125,847</u></b> | <b><u>158,896</u></b>                    | <b><u>125,240</u></b> |
| Number of ordinary shares outstanding                              | 658,434                                      | 658,434               | 658,434                                  | 658,434               |
| Effect of own shares held  | <u>(32,253)</u>                              | <u>(40,930)</u>       | <u>(32,253)</u>                          | <u>(40,930)</u>       |
| <b>Net</b>   | <b><u>626,181</u></b>                        | <b><u>617,504</u></b> | <b><u>626,181</u></b>                    | <b><u>617,504</u></b> |
| <b>Basic earnings per share (in Baht)</b>                          | <b><u>0.25</u></b>                           | <b><u>0.20</u></b>    | <b><u>0.25</u></b>                       | <b><u>0.20</u></b>    |

## 24 Dividends

At the annual general meeting of the shareholders of the Company held on 26 April 2012, the shareholders approved the appropriation of dividend of Baht 0.06 per share, amounting to Baht 37.05 million. The dividend was paid to shareholders during 2012.

At the annual general meeting of the shareholders of the Company held on 28 April 2011, the shareholders approved the appropriation of dividend of Baht 0.12 per share, amounting to Baht 74.10 million. The dividend was paid to shareholders during 2011.

## 25 Financial instruments

### *Financial risk management policies*

The Group is exposed to normal business risks from changes in market interest rates and currency exchange rates and from non-performance of contractual obligations by counterparties. The Group does not hold or issue derivative financial instruments for speculative or trading purposes.

Risk management is integral to the whole business of the Group. The Group has a system of controls in place to create an acceptable balance between the cost of risks occurring and the cost of managing the risks. The management continually monitors the Group's risk management process to ensure that an appropriate balance between risk and control is achieved.

### *Capital management*

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board monitors the return on capital and also monitors the level of dividends to ordinary shareholders.

### *Interest rate risk*

Interest rate risk is the risk that future movements in market interest rates will affect the results of the Group's operations and its cash flows because loan interest rates are mainly float. The Group is primarily exposed to interest rate risk from its borrowings (Note 12).

The effective interest rates of interest-bearing financial liabilities as at 31 December and the periods in which those liabilities mature or re-price were as follows:

|  | <i>Effective<br/>interest rates<br/>(% per annum)</i> | <b>Consolidated financial statements</b> |   |                  | <b>Total</b>  |
|--|---|--|---|------------------|---------------|
|  |   | Within 1<br>year                         | After 1 year<br>but within 5<br>years<br>(in thousand Baht) | After 5<br>years |               |
| <b>2011</b>  |   |  |   |                  |               |
| <b>Current</b>   |   |  |   |                  |               |
| Current portion of<br>long-term loan from<br>financial institution | 3.30 - 4.48   | 70,000                                   | -   | -                | 70,000        |
| <b>Total</b>   |   | <b>70,000</b>                            | <b>-</b>  | <b>-</b>         | <b>70,000</b> |

|  | <i>Effective<br/>interest rates<br/>(% per annum)</i> | <b>Separate financial statements</b> |   |                  | <b>Total</b>  |
|--|---|--------------------------------------|---|------------------|---------------|
|  |   | Within 1<br>year                     | After 1 year<br>but within 5<br>years<br>(in thousand Baht) | After 5<br>years |               |
| <b>2011</b>  |   |                                      |   |                  |               |
| <b>Current</b>   |   |                                      |   |                  |               |
| Current portion of<br>long-term loan from<br>financial institution | 3.30 - 4.48   | 70,000                               | -   | -                | 70,000        |
| <b>Total</b>   |   | <b>70,000</b>                        | <b>-</b>  | <b>-</b>         | <b>70,000</b> |

### ***Foreign currency risk***

The Group is exposed to foreign currency risk relating to purchases and sales which are denominated in foreign currencies. The Group utilizes forward exchange contracts with maturities of less than one year to hedge such financial assets and liabilities denominated in foreign currencies.

At 31 December, the Group and the Company were exposed to foreign currency risk in respect of financial assets and liabilities denominated in the following currencies:

|                                     | <i>Note</i> | <b>Consolidated<br/>financial statements</b> |                            | <b>Separate<br/>financial statements</b> |          |
|-------------------------------------|-------------|--|----------------------------|--|----------|
|                                     |             | 2012   | 2011<br>(in thousand Baht) | 2012                                     | 2011     |
| <b><i>United States Dollars</i></b> |             |  |                            |  |          |
| Cash and cash equivalents           | 5           | 75,415                                       | 48,138                     | 75,415                                   | 48,138   |
| Trade accounts receivable           | 7           | 123,438                                      | 116,879                    | 123,282                                  | 116,879  |
| Trade accounts payable              | 13          | (127,760)                                    | (96,988)                   | (127,760)                                | (96,988) |
| Other payables                      | 14          | (8,349)                                      | (9,541)                    | (8,349)                                  | (9,541)  |

|                                     |             | <b>Consolidated<br/>financial statements</b> |                      | <b>Separate<br/>financial statements</b> |                      |
|-------------------------------------|-------------|--|----------------------|--|----------------------|
|                                     | <i>Note</i> | 2012   | 2011                 | 2012                                     | 2011                 |
|                                     |             | <i>(in thousand Baht)</i>                    |                      |  |                      |
|                                     |             | <u>62,744</u>                                | <u>58,488</u>        | <u>62,588</u>                            | <u>58,488</u>        |
| <b><i>Euro</i></b>                  |             |  |                      |  |                      |
| Cash and cash equivalents           | 5           | 20   | 2,951                | 20                                       | 2,951                |
| Trade accounts receivable           | 7           | <u>53,390</u>                                | <u>65,212</u>        | <u>53,390</u>                            | <u>65,212</u>        |
|                                     |             | <u>53,410</u>                                | <u>68,163</u>        | <u>53,410</u>                            | <u>68,163</u>        |
| <b><i>Indonesian Rupiahs</i></b>    |             |  |                      |  |                      |
| Other payables                      | 14          | <u>(234)</u>                                 | <u>-</u>             | <u>(234)</u>                             | <u>-</u>             |
| <b><i>Japanese Yen</i></b>          |             |  |                      |  |                      |
| Cash and cash equivalents           | 5           | 23   | -                    | 23                                       | -                    |
| Other payables                      | 14          | <u>(54,632)</u>                              | <u>-</u>             | <u>(54,632)</u>                          | <u>-</u>             |
|                                     |             | <u>(54,609)</u>                              | <u>-</u>             | <u>(54,609)</u>                          | <u>-</u>             |
| <b>Gross balance sheet exposure</b> |             | <b>61,311</b>                                | <b>126,651</b>       | <b>61,155</b>                            | <b>126,651</b>       |
| Currency forwards                   |             | <u>-</u>                                     | <u>(30,486)</u>      | <u>-</u>                                 | <u>(30,486)</u>      |
| <b>Net exposure</b>                 |             | <b><u>61,311</u></b>                         | <b><u>96,165</u></b> | <b><u>61,155</u></b>                     | <b><u>96,165</u></b> |

***Credit risk***

Credit risk is the potential financial loss resulting from the failure of a customer or counterparty to settle its financial and contractual obligations to the Group as and when they fall due.

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount. At the reporting date there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statements of financial position. However, due to the large number of parties comprising the Group's customer base, management does not anticipate material losses from its debt collection.

***Liquidity risk***

The Group monitors its liquidity risk and maintains a level of cash and cash equivalents deemed adequate by management to finance the Group's operations and to mitigate the effects of fluctuations in cash flows.

***Determination of fair values***

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. The fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

The fair value of all financial assets and liabilities is taken to approximate the carrying value.

The fair value of forward exchange contracts are based on counter party's quotes at the reporting date.

## 26 Commitments with non-related parties

|   | <b>Consolidated<br/>financial statements</b> |                | <b>Separate<br/>financial statements</b> |                |
|---|--|----------------|--|----------------|
|   | 2012   | 2011           | 2012                                     | 2011           |
|   | <i>(in thousand Baht)</i>                    |                |  |                |
| <b><i>Capital commitments</i></b>         |  |                |  |                |
| <i>Contracted but not provided for</i>    |  |                |  |                |
| Machinery and equipment                   | 104,154                                      | 1,210          | 104,154                                  | 1,210          |
| <b><i>Operating lease commitments</i></b> |  |                |  |                |
| Within one year                           | 1,297  | 1,875          | 1,257                                    | 1,875          |
| After one year but within<br>five years   | 371  | 369            | 371                                      | 369            |
| <b>Total</b>                              | <b>1,668</b>                                 | <b>2,244</b>   | <b>1,628</b>                             | <b>2,244</b>   |
| <b><i>Other commitments</i></b>           |  |                |  |                |
| Bank guarantees                           | 27,713                                       | 27,694         | 27,713                                   | 27,694         |
| Purchase orders for raw materials         | 202,877                                      | 122,795        | 202,877                                  | 122,795        |
| <b>Total</b>                              | <b>230,590</b>                               | <b>150,489</b> | <b>230,590</b>                           | <b>150,489</b> |

As at 31 December 2012, the Group had:

- several rental agreements covering its office equipments, office space and other utility expense for periods ranging from one (1) to four (4) years ending on various dates up to January 2016.
- commitments of approximately Baht 32.90 million and USD 5.52 million, relating to purchases of raw materials.
- commitment for letters of guarantee issued by a local financial institution and a branch of a foreign financial institution in respect of purchase natural gas agreement and to guarantee electricity usage and others.

## 27 Events after the reporting period

During the period from 1 January 2013 to 22 February 2013, the Company resold treasury shares of 16.93 million shares in total amount of Baht 44.83 million which represents cost of treasury shares of Baht 41.40 million and surplus on treasury shares of Baht 3.43 million.

At the Board of Directors' Meeting hold on February 22, 2013, the directors resolved to propose the dividend payment in at value Baht 0.08 per share. The dividend payment shall be approved by its shareholders at the ordinary shareholders' meeting will be held on April 26, 2013.

**28 Thai Financial Reporting Standards (TFRS) not yet adopted**

The Group 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 expected to become effective for annual financial periods beginning on or after 1 January in the year indicated in the following table.

| <b>TFRS</b>           | <b>Topic</b>                                     | <b>Year effective</b> |
|-----------------------|--|-----------------------|
| TAS 12                | Income Taxes                                     | 2013                  |
| TAS 21 (revised 2009) | The Effects of Changes in Foreign Exchange Rates | 2013                  |
| TFRS 8                | Operating Segments                               | 2013                  |

Management expects to adopt and apply these new TFRS in accordance with the FAP's announcement and has made a preliminary assessment of the potential initial impact on the consolidated and separate financial statements of those new standards assessed to have the greatest potential impact on the financial statements in the period of initial application. These standards are as follows:

***TAS 12 – Income taxes***

The principal change introduced by TAS 12 is the requirement to account for deferred tax liabilities and assets in the financial statements. Deferred tax liabilities and assets are the amounts of income taxes payable and recoverable, respectively, in future periods in respect of temporary differences between the carrying amount of the liability or asset in the statement of financial position and the amount attributed to that liability or asset for tax purposes; and the carryforward of unused tax losses. Currently, the Group does not recognise deferred tax in the financial statements.

The Group will adopt TAS 12 with effect from 1 January 2013. The effects of the change will be recognised retrospectively in the financial statements and the statement of financial position as at 31 December 2012 and 2011 will be adjusted accordingly. Management estimates that the impact on the statements of financial position as at 31 December 2012 and 2011 will be as follows:

|   | <b>Consolidated<br/>financial statements</b> |       | <b>Separate<br/>financial statements</b> |       |
|---|--|-------|--|-------|
|   | 2012   | 2011  | 2012                                     | 2011  |
|   | <i>(in thousand Baht)</i>                    |       |  |       |
| <b><i>Statement of financial position</i></b>   |  |       |  |       |
| Estimated changes as a result of the adoption retrospectively of TAS 12 – Income taxes: |  |       |  |       |
| Increase in deferred tax assets   | 13,474                                       | 9,785 | 13,074                                   | 9,785 |
| Increase in deferred tax liabilities  | 1,150  | 493   | 1,150                                    | 493   |
| Increase in retained earnings   | 12,324                                       | 9,292 | 11,924                                   | 9,292 |
| Increase in total equity  | 12,324                                       | 9,292 | 11,924                                   | 9,292 |

The impact on the statements of comprehensive income for 2013 and subsequent periods is not presently determinable.

**TAS 21 (revised 2009) – The effects of changes in foreign exchange rates**

The principal change introduced by TAS 21 is the introduction of the concept of functional currency, which is defined as the currency of the primary economic environment in which the entity operates. TAS 21 requires the entity to determine its functional currency and translate foreign currency items into its functional currency, reporting the effects of such translation in accordance with the provisions of TAS 21. Foreign currencies are defined by TAS 21 as all currencies other than the entity's functional currency.

Management has determined that the functional currency of the Company is Thai Baht. Accordingly, the adoption of TAS 21 from 1 January 2013 is not expected to have a significant impact on the Group's reported assets, liabilities, or retained earnings.

**TFRS 8 – Operating segments**

The principal change introduced by TFRS 8 is the introduction of the concept of presenting operating segments based on the information that internally is provided to the Group's chief operating decision maker. Since the change in accounting policy only impacts disclosure aspects, there is no impact on the Group's financial statements.

**29 Reclassification of accounts**

Certain accounts in the statement of financial position as at 31 December 2011 have been reclassified to conform to the presentation in the 2012 financial statements as follows:

|   | 2011                                 |           |                   |                                  |           |                   |
|---|--------------------------------------|-----------|-------------------|----------------------------------|-----------|-------------------|
|   | Consolidated<br>financial statements |           |                   | Separate<br>financial statements |           |                   |
|   | Before<br>reclass.                   | Reclass.  | After<br>reclass. | Before<br>reclass.               | Reclass.  | After<br>reclass. |
|   | (in thousand Baht)                   |           |                   |                                  |           |                   |
| <b>Statement of financial<br/>position as at 31<br/>December 2011</b> |                                      |           |                   |                                  |           |                   |
| Other current assets  | 17,742                               | (17,742)  | -                 | 17,702                           | (17,702)  | -                 |
| Other receivables   | -                                    | 17,742    | 17,742            | -                                | 17,702    | 17,702            |
| Trade accounts payable<br>and other payable                           | 230,462                              | (230,462) | -                 | 230,463                          | (230,463) | -                 |
| Trade accounts payable  | -                                    | 216,913   | 216,913           | -                                | 216,913   | 216,913           |
| Other payables  | -                                    | 43,532    | 43,532            | -                                | 43,532    | 43,532            |
| Income tax payable  | -                                    | 27,865    | 27,865            | -                                | 27,815    | 27,815            |
| Accrued expenses  | -                                    | 28,417    | 28,417            | -                                | 28,397    | 28,397            |
| Other current liabilities   | 97,620                               | (86,265)  | 11,355            | 97,549                           | (86,194)  | 11,355            |
|   |                                      | <u>-</u>  |                   |                                  | <u>-</u>  |                   |

The reclassifications have been made because, in the opinion of management, the new classification is more appropriate to the Company's business.



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