

**PART 3**  
**FINANCIAL POSITION AND OPERATING RESULT**

**13. Financial position and operating results**

(A) Summary of the Report of the Independent Auditors for 2013-2015.

In 2013, the Company appointed Ms. Rachada Yongsawadvanich Certified Public Accountant no. 4951 of EY Office Limited, as its auditor. In the opinion of EY Office Limited, the financial position of the Company and its subsidiaries as at 31<sup>st</sup> December 2013, their financial performance and cash flows for the year 2013 were presented fairly, in all material respects, in accordance with Thai Financial Reporting Standards.

In 2014-2015, the Company appointed Mr. Chavala Tienpasertkij, Certified Public Accountant no. 4301 of Deloitte Touche Tohmatsu Jaiyos Audit Co. Ltd, “Deloitte” as auditor. In the opinion of Deloitte, the consolidated and separate financial statements present fairly, in all material respects, the financial position of the Company and its subsidiaries as at 31<sup>st</sup> December 2014 and 2015, and the financial performance and cash flows for the year in accordance with Thai Financial Reporting Standards.

(B) Summary of financial statements for the Company and its subsidiary companies for the years ended 31<sup>st</sup> December 2013 - 2015.

**KGI SECURITIES (THAILAND) PUBLIC COMPANY LIMITED AND ITS SUBSIDIARIES**  
**STATEMENT OF FINANCIAL POSITION**  
**AS AT 31 DECEMBER 2015 , 2014 AND 2013**

UNIT : BAHT

	CONSOLIDATED FINANCIAL STATEMENTS					
	2015		2014		2013	
<b>ASSETS</b>						
<b>ASSETS</b>						
Cash and cash equivalents	446,998,146	5%	393,172,029	3%	985,216,088	12%
Deposits at financial institutions	243,358,190	3%	196,524,352	2%	89,536,253	1%
Securities purchased under resale agreements	140,000,000	1%	-	-	365,000,000	4%
Receivables from Clearing House	939,090,312	10%	740,715,454	7%	371,152,530	4%
Securities and derivatives business receivables - net	5,053,543,518	52%	4,885,697,887	49%	4,105,047,443	50%
Derivatives assets	22,492,971	-	34,498,195	-	34,810,330	1%
Investments - net	2,308,088,852	24%	3,825,683,010	36%	1,893,896,610	23%
Premises and equipment - net	112,550,014	1%	103,879,967	1%	103,263,269	1%
Intangible assets - net	68,116,837	1%	69,384,791	-	59,592,986	1%
Goodwill	26,713,599	-	26,713,599	-	26,713,599	-
Properties foreclosed - net	35,075,355	-	44,838,573	-	51,813,155	1%
Deferred tax assets	3,335,742	-	1,567,588	-	975,531	-
Other assets	249,940,826	3%	199,768,733	2%	171,719,694	2%
<b>Total assets</b>	<b>9,649,304,362</b>	<b>100%</b>	<b>10,522,444,178</b>	<b>100%</b>	<b>8,258,737,488</b>	<b>100%</b>

## KGI SECURITIES (THAILAND) PUBLIC COMPANY LIMITED AND ITS SUBSIDIARIES

## STATEMENT OF FINANCIAL POSITION (CONTINUED)

AS AT 31 DECEMBER 2015 , 2014 AND 2013

UNIT : BAHT

	CONSOLIDATED FINANCIAL STATEMENTS					
	2015		2014		2013	
<b>LIABILITES AND OWNERS' EQUITY</b>						
<b>LIABILITES</b>						
Borrowings from financial institutions	-	-	600,000,000	6%	-	-
Securities sold under repurchase agreements	10,000,000	-	130,000,000	1%	165,000,000	2%
Payables to Clearing House	117,450,667	1%	-	-	307,042,599	4%
Securities and derivatives business payables	3,388,911,531	35%	3,236,018,804	31%	1,976,947,119	24%
Accrued expenses	349,712,382	4%	414,025,989	4%	364,113,200	4%
Income tax payable	24,159,758	-	72,306,169	1%	36,627,569	-
Derivatives liabilities	103,999,988	1%	116,470,811	1%	164,408,911	2%
Debt issued and borrowings	454,671,746	5%	657,193,094	6%	2,995,905	-
Provisions for long-term employee benefits	71,387,291	1%	46,737,284	1%	41,020,621	1%
Provisions for liabilities	46,697,251	1%	39,861,562	-	39,347,767	1%
Deferred tax liabilities	13,090,925	-	25,742,445	-	28,059,734	-
Other liabilities	25,919,971	-	22,974,552	-	23,237,533	-
<b>Total liabilities</b>	<b>4,606,001,510</b>	<b>48%</b>	<b>5,361,330,710</b>	<b>51%</b>	<b>3,148,800,958</b>	<b>38%</b>
<b>OWNERS' EQUITY</b>						
<b>Share capital</b>						
Registered, issued and fully paid-up						
1,991,763,130 ordinary shares of Baht 1.00 each	1,991,763,130	21%	1,991,763,130	19%	1,991,763,130	24%
Share premium	982,166,480	10%	982,166,480	9%	982,166,480	12%
Surplus from unexercised warrants	101,922,580	1%	101,922,580	1%	101,922,580	1%
Other component of owners' equity	(14,183,911)	-	(45,470,837)	-	(51,885,273)	-
<b>Retained earnings</b>						
Appropriated - statutory reserve	199,176,313	2%	199,176,313	2%	199,176,313	2%
Unappropriated	1,779,748,786	18%	1,928,957,423	18%	1,884,568,477	23%
<b>Equity attributable to equity holders of the parent</b>	<b>5,040,593,378</b>	<b>52%</b>	<b>5,158,515,089</b>	<b>49%</b>	<b>5,107,711,707</b>	<b>62%</b>
Non-controlling interests	2,709,474	-	2,598,379	-	2,224,823	-
<b>Total owners' equity</b>	<b>5,043,302,852</b>	<b>52%</b>	<b>5,161,113,468</b>	<b>49%</b>	<b>5,109,936,530</b>	<b>62%</b>
<b>Total liabilities and owners' equity</b>	<b>9,649,304,362</b>	<b>100%</b>	<b>10,522,444,178</b>	<b>100%</b>	<b>8,258,737,488</b>	<b>100%</b>

KGI SECURITIES (THAILAND) PUBLIC COMPANY LIMITED AND ITS SUBSIDIARIES  
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME  
FOR THE YEARS ENDED 31 DECEMBER 2015, 2014 AND 2013

UNIT : BAHT

	CONSOLIDATED FINANCIAL STATEMENTS					
	2015		2014		2013	
REVENUES						
Brokerage fees	957,368,708	39%	1,084,137,945	42%	1,241,237,892	45%
Fees and service income	562,696,146	23%	406,103,548	16%	442,040,076	16%
Gains (losses) on securities	(100,304,408)	(4%)	222,444,613	9%	(590,488,315)	(21%)
Gains on derivatives	678,734,108	27%	507,211,244	20%	1,302,256,092	47%
Interest and dividends	262,466,973	11%	262,605,880	10%	270,526,888	10%
Interest on margin loans	100,257,584	4%	89,189,361	3%	90,377,379	3%
Other income	20,726,038	-	11,944,116	-	2,707,485	-
<b>Total revenues</b>	<b>2,481,945,149</b>	<b>100%</b>	<b>2,583,636,707</b>	<b>100%</b>	<b>2,758,657,497</b>	<b>100%</b>
EXPENSES						
Finance costs	112,311,789	5%	109,371,813	4%	113,587,207	4%
Fees and service expenses	353,350,229	14%	249,416,253	10%	282,507,846	10%
Operating expenses						
Personnel expenses	824,568,397	33%	865,112,355	33%	895,082,035	33%
Premises and equipment expenses	194,196,169	8%	176,019,798	7%	205,703,070	8%
Directors' remuneration	24,671,400	1%	27,128,613	1%	29,593,613	1%
Other expenses	228,742,882	9%	197,201,920	8%	227,988,681	8%
<b>Total operating expenses</b>	<b>1,272,178,848</b>	<b>51%</b>	<b>1,265,462,686</b>	<b>49%</b>	<b>1,358,367,399</b>	<b>50%</b>
Bad debts and doubtful accounts (reversal)	(1,600,701)	-	(3,468,037)	-	(1,697,005)	-
<b>Total expenses</b>	<b>1,736,240,165</b>	<b>70%</b>	<b>1,620,782,715</b>	<b>63%</b>	<b>1,752,765,447</b>	<b>64%</b>
Profits before income tax expenses	745,704,984	30%	962,853,992	37%	1,005,892,050	36%
Income tax expenses	(157,423,178)	(6%)	(200,703,174)	(8%)	(222,017,460)	(8%)
<b>Net Profits</b>	<b>588,281,806</b>	<b>24%</b>	<b>762,150,818</b>	<b>29%</b>	<b>783,874,590</b>	<b>28%</b>
<b>Other comprehensive gain (loss):</b>						
Items that will not be reclassified subsequently to profit or loss:						
Actuarial loss on defined benefit plan	(11,865,549)	-	-	-	-	-
Income tax relating to items that will not be reclassified subsequently to profit or loss	2,373,110	-	-	-	-	-
	(9,492,439)	-	-	-	-	-
Items that may be reclassified subsequently to profit or loss:						
Gain on remeasurement of available-for-sale investment	7,568,236	-	3,820,773	-	-	-
Gain on translation of the financial statements of foreign operation	23,718,690	1%	2,593,663	-	1,874,666	-
	31,286,926	1%	6,414,436	-	1,874,666	-
<b>Total other comprehensive gain (loss)</b>	<b>21,794,487</b>	<b>1%</b>	<b>6,414,436</b>	<b>-</b>	<b>1,874,666</b>	<b>-</b>
<b>Total comprehensive income</b>	<b>610,076,293</b>	<b>25%</b>	<b>768,565,254</b>	<b>29%</b>	<b>785,749,256</b>	<b>28%</b>

**KGI SECURITIES (THAILAND) PUBLIC COMPANY LIMITED AND ITS SUBSIDIARIES**  
**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2015 , 2014 AND 2013**

UNIT : BAHT

	CONSOLIDATED FINANCIAL STATEMENTS					
	2015		2014		2013	
<b>Profits attributable to:</b>						
Equity holders of the parent	587,215,008	24%	761,335,524	29%	783,197,074	28%
Non-controlling interests	1,066,798	-	815,294	-	677,516	-
	<u>588,281,806</u>	24%	<u>762,150,818</u>	29%	<u>783,874,590</u>	28%
<b>Total comprehensive income attributable to:</b>						
Equity holders of the parent	609,040,576	25%	767,749,960	29%	785,071,740	28%
Non-controlling interests	1,035,717	-	815,294	-	677,516	-
	<u>610,076,293</u>	25%	<u>768,565,254</u>	29%	<u>785,749,256</u>	28%
<b>Earnings per share attributable to equity holders</b>						
<b>of the parent</b>						
Basic earning per share	<u>0.29</u>		<u>0.38</u>		<u>0.39</u>	

**KGI SECURITIES (THAILAND) PUBLIC COMPANY LIMITED AND ITS SUBSIDIARIES**
**STATEMENT OF CASH FLOWS**
**FOR THE YEARS ENDED 31 DECEMBER 2015, 2014 AND 2013**

UNIT : BAHT

	CONSOLIDATED FINANCIAL STATEMENTS		
	2015	2014	2013
<b>Cash flows from operating activities</b>			
Profits before income tax expenses	745,704,984	962,853,992	1,005,892,050
Adjustments to reconcile profits before income tax expenses			
to net cash provided by (paid for) operating activities:			
Depreciation and amortisation	52,575,926	45,998,266	75,453,151
Bad debts and doubtful accounts	9,200,973	10,449,878	12,166,619
Provisions for liabilities	2,810,000	342,987	-
(Gains) losses on revaluation of trading securities and derivatives	34,295,774	(67,429,549)	14,748,707
Premium on investments in debt securities of a subsidiary	187,345	14,127	14,127
Discount on debts issued and other borrowings	(13,740,127)	(13,380,054)	-
(Gains) losses on disposals and written-off of equipment	(316,061)	(580,202)	187,500
(Gains) losses on disposals of property foreclosed	(10,176,782)	(3,045,418)	30,000
Interest income on deposits and investments	(142,699,124)	(164,549,106)	(192,669,693)
Dividend income	(119,767,849)	(98,047,583)	(77,854,088)
Finance costs	112,311,789	116,267,642	113,587,207
Provisions for long-term employee benefits	14,784,458	10,741,943	831,870
Cash received from interest income on deposits and investments	124,568,536	168,637,161	189,603,562
Cash paid for interest expenses	(92,667,746)	(108,445,353)	(112,936,883)
Cash paid for income taxes	(217,616,154)	(167,933,920)	(213,540,943)
<b>Income from operating activities before changes in operating assets and liabilities</b>	<b>499,455,942</b>	<b>691,894,811</b>	<b>815,513,186</b>
(Increase) decrease in operating assets			
Deposits at financial institutions	(46,833,838)	(106,988,099)	28,672,470
Securities purchased under resale agreements	(140,000,000)	365,000,000	(365,000,000)
Receivables from Clearing House	(236,472,579)	(377,938,892)	2,060,751,651
Securities and derivatives business receivables	(176,156,472)	(792,161,493)	(1,468,651,041)
Derivatives assets	(186,708)	32,749,079	(27,463,212)
Trading securities	1,513,645,972	(1,685,015,339)	4,567,991,167
Other assets	(33,357,718)	(30,607,583)	(7,267,206)
Increase (decrease) in operating liabilities			
Borrowings from financial institutions	(600,000,000)	600,000,000	(2,549,000,000)
Securities sold under repurchase agreements	(120,000,000)	(35,000,000)	(1,959,384,829)
Payables to Clearing House	117,450,667	(307,042,599)	307,042,599
Securities and derivatives business payables	213,947,256	1,243,388,039	(459,424,625)
Accrued expenses	(63,316,517)	48,703,156	139,119,083
Derivatives liabilities	(29,462,731)	(67,035,296)	138,734,193
Debts issued and other borrowings	(208,076,061)	660,072,596	2,995,905
Payments on long-term employee benefits during the years	(2,000,000)	(5,025,280)	(4,147,500)
Other liabilities	1,249,178	2,115,442	1,974,937
<b>Net cash from operating activities</b>	<b>689,886,391</b>	<b>237,108,542</b>	<b>1,222,456,778</b>

KGI SECURITIES (THAILAND) PUBLIC COMPANY LIMITED AND ITS SUBSIDIARIES

STATEMENT OF CASH FLOWS (CONTINUED)

FOR THE YEARS ENDED 31 DECEMBER 2015, 2014 AND 2013

UNIT : BAHT

	CONSOLIDATED FINANCIAL STATEMENTS		
	2015	2014	2013
<b>Cash flows from investing activities</b>			
Cash paid for available-for-sales investment	-	(164,815,000)	-
Cash paid for held-to-maturity debt securities	(8,749,370)	-	-
Cash paid for investment in a subsidiary	(49,624)	-	(121,566)
Proceeds from disposals of held-to-maturity debt securities	8,000,000	-	-
Dividends received on investment in securities	120,193,929	97,405,723	79,176,448
Cash paid for purchases of equipment and intangible assets	(55,555,731)	(58,103,761)	(59,545,234)
Proceed from disposals of equipment	369,409	1,135,090	364,759
Proceed from disposals of property foreclosed	19,840,000	10,020,000	-
<b>Net cash from investing activities</b>	<u>84,048,613</u>	<u>(114,357,948)</u>	<u>19,874,407</u>
<b>Cash flows from financing activities</b>			
Dividends paid	(726,962,287)	(716,946,578)	(458,060,473)
Dividends paid to non-controlling interests	(874,998)	(441,738)	(245,410)
<b>Net cash from financing activities</b>	<u>(727,837,285)</u>	<u>(717,388,316)</u>	<u>(458,305,883)</u>
Changes in translation adjustments	<u>7,728,398</u>	<u>2,593,663</u>	<u>1,874,666</u>
<b>Net increase(decrease) in cash and cash equivalents</b>	<u>53,826,117</u>	<u>(592,044,059)</u>	<u>785,899,968</u>
Cash and cash equivalents as at January 1	<u>393,172,029</u>	<u>985,216,088</u>	<u>199,316,120</u>
<b>Cash and cash equivalents as at December 31</b>	<u><u>446,998,146</u></u>	<u><u>393,172,029</u></u>	<u><u>985,216,088</u></u>
<b>Supplemental cash flows information</b>			
Non-cash items consist of			
Increase in fixed assets and provision for liabilities in relation to estimation of decommissioning costs	-	-	12,122,266

## (C) Ratios for years 2013-2015

Consolidated financial statements	2015	2014	2013
<b>Profitability Ratios</b>			
Gross profit margin (%)	81.08%	86.05%	85.63%
Net profit margin (%)	23.66%	29.47%	28.39%
Return on equity (%)	11.52%	14.83%	15.84%
Return on investment (%)	27.42%	34.70%	22.79%
<b>Efficiency Ratios</b>			
Return on assets (%)	5.82%	8.11%	7.60%
Assets turnover (times)	0.25	0.28	0.27
<b>Financial Ratios</b>			
Liquid assets to total liabilities (times)	0.52	0.72	0.88
Earning assets to total liabilities (times)	1.60	1.62	1.91
Liquid assets to total assets (%)	24.97%	36.72%	33.64%
Earning assets to total assets (%)	76.29%	82.79%	72.64%
Total Liabilities to equity (times)	0.91	1.04	0.62
Dividend payment (%)	98.96%	99.18%	99.17%
(DPS / EPS separate financial statements)			
<b>Other Ratios</b>			
Securities investment to total assets (%)	23.92%	36.36%	22.93%
Net Liquid Capital Rule (NCR) ratio (%)	131.06%	116.27%	211.01%
Net Liquid Capital Rule (NCR) (Million Baht)	3,756	3,975	4,162
<b>Per Share Information</b>			
Par Value per share (Baht)	1.00	1.00	1.00
Book Value per share (Baht)	2.53	2.59	2.56
Basic Earnings per share (Baht)	0.29	0.38	0.39
Dividend per share (Baht)	0.285	0.365	0.360

## 14. Management Discussion & Analysis

(Consolidated financial statements as of 31<sup>st</sup> December 2015, “Company” refers to the “Company and its subsidiaries”)

### 14.1 Overview

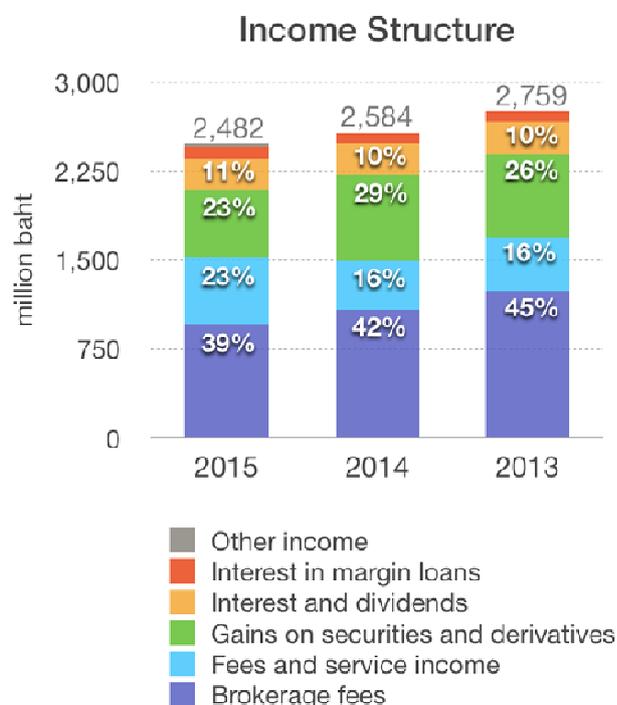
#### Thailand's economy and stock market in 2015

In 2015, Thailand’s economic growth was slower than expected due to more severe than expected drought, rising household debt and increased bad debt levels. A sharp fall in global oil prices in the second half of 2015 resulted in a losses for some energy companies and significant earnings downgrades in the Thai energy sector. However, government stimulus packages, focusing on boosting consumption and helping SME business, should help to support Thai GDP. Thai GDP growth for 2015 it is expected to have been in the range of 2.8 - 3.0%.

In 2015, the SET Index staged a significant drop of 209.7pts or 14.0% to close at 1,288.0pts. The daily average market turnover (both SET and MAI) was Baht 44.3 billion, decreasing by 2.6% from Baht 45.5 billion in 2014. Foreign investors were large net sellers of Baht 154.3 billion in 2015, compared to a more modest net selling of Baht 37.4 billion in 2014. The total market capitalization fell to Baht 12.28 trillion at the end of 2015, down by 11.4% from Baht 13.86 trillion at the end of 2014.

#### Business Overall in 2015.

2015 was a tough year. The securities business remained highly competitive and the stock market was volatile. However, the Company continued to be profitable in 2015. The Company ranked No.9 in terms of brokerage market share with an overall share of 3.88%. and continued to be ranked No. 1 in derivatives trading volume with a market share of 11.16%. The Equity Derivatives business issued a total of 236 derivative warrants during 2015, and the Proprietary Trading department had another profitable year despite unexpected market volatility.



For Fixed income Business, the Company was ranked No. 1 in bond trading among securities dealers and ranked No. 4 in corporate bond trading value among all dealers with a market share of 13.45%. In 2015 the Company’s Investment Banking department acted as Financial Advisor and Lead Underwriter of Ladprao General Hospital Public Company Limited, with a total funding of Baht 1,000 million and joined co-underwriting syndication of 9 IPOs. Asset management business, ONE Asset Management Limited :

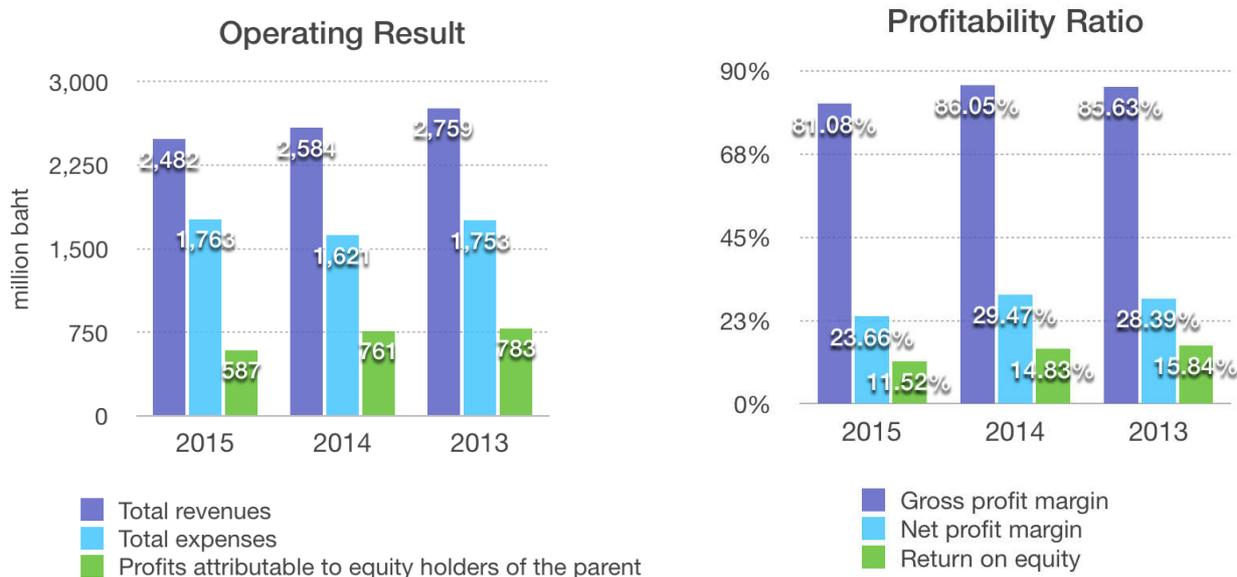
ONEAM (the Company’s subsidiary), continued to expand its range of funds by launching 21 new funds in 2015.

The Company’s sources of revenue are diverse and not overly concentrated in brokerage fees. Brokerage fees were 45%, 42% and 39% of the total revenue in 2013 - 2015 respectively. The Company’s gains on trading in securities and derivatives accounted for 23% to 28% of total revenues in each of the last three years. The Company’s gains on trading were derived from a variety of business activities, including bond dealing, private repos, derivative warrants, over-the-counter (OTC) derivatives, and investments in debt and equity securities for the company’s own account. The Company also generated fee and service income through its 99% owned subsidiary, ONEAM’s revenue accounted for 12% - 20% of the Company’s total revenues over the last three years.

Competition among Thai brokerage businesses in 2015 remained intense and market volatility high. However, the Company maintained a strong financial position with manageable debt and substantial balance sheet assets. The Company can also utilize KGI Taiwan’s financial product development know-how and experience in the more-developed Taiwanese financial market. By offering a wide range of products, the Company can attract different groups of investors to become its clients. The Company strives to stay ahead of its competitors by launching innovative financial products. The Company can then enjoy higher profit margins on the new products before competition crowds the market.

## 14.2 Results of operations

In 2015, the Company reported total revenue of Baht 2,482 million, profit attributable to equity holders of the parent of Baht 587 million and earnings per share of Baht 0.29. The gross profit margin, net profit margin and return on equity was as 81% , 24% and 12% respectively.



## Revenue

### Brokerage fees

In 2015, the Company reported Brokerage fees of Baht 957 million, representing a 12% decrease compared to 2014. The Brokerage fee income consisted of Brokerage fees from securities business of Baht 772 million, Brokerage fees from derivatives business of Baht 134 million and other brokerage fees of Baht 51 million.

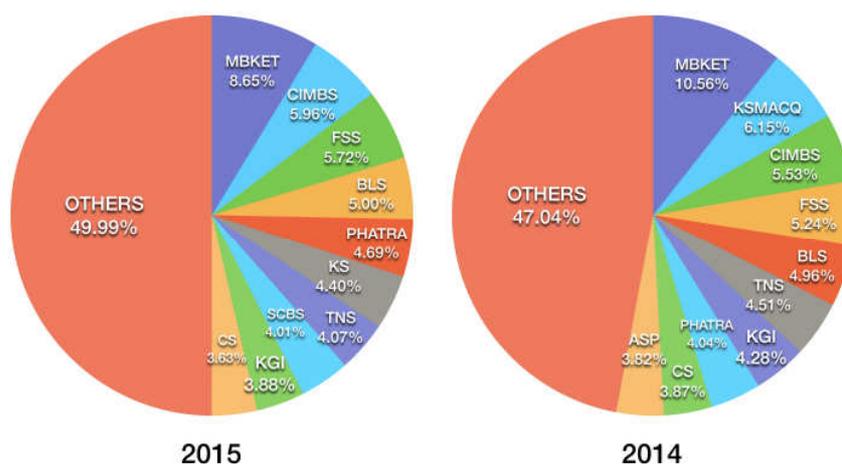
**CONSOLIDATED  
FINANCIAL STATEMENTS  
For the years ended**

*Unit: Thousand Baht*  
Brokerage fees income

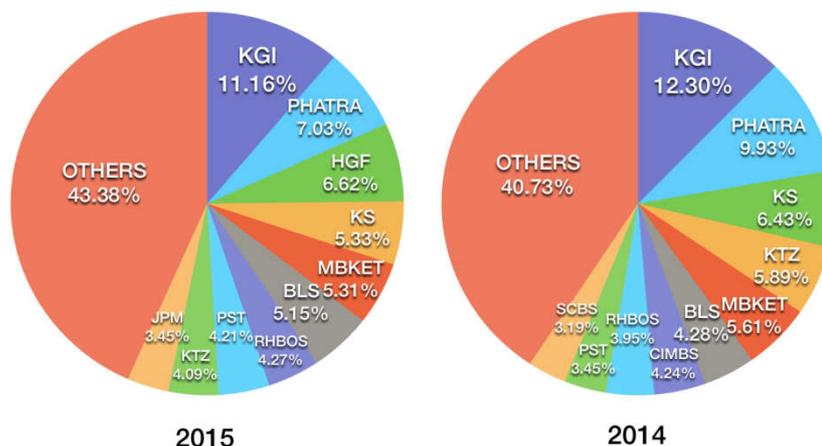
	<b>December 31,</b>	
	<b>2015</b>	<b>2014</b>
Brokerage fees from securities business	772,330	951,519
Brokerage fees from derivatives business	133,677	93,469
Other brokerage fees	51,362	39,150
<b>Total brokerage fees</b>	<b>957,369</b>	<b>1,084,138</b>

The decrease in Brokerage fee income was caused by a decrease in Brokerage fees from securities business which decreased from Baht 952 million in 2014 to Baht 772 million in 2015, mainly due to the company's market share in the brokerage business declining from 4.28% in 2014 to 3.88% in 2015.

The Company's brokerage market share in 2014 - 2015



The Company's futures market share in 2014 - 2015



In 2015, the Company launched "KGI POWER TRADE", a new application for cell phones which the company has developed for clients. Using the latest technology, KGI POWER TRADE is available on both Android and IOS operating systems. It incorporates a fast, intuitive touch screen and supports multi-market

trading of both securities and derivatives. The Company believes that this will help to increase its commission income in the future.

#### Fees and Service income

The company's fee and service income in 2015 was Baht 563 million, a increase of 39% from the previous year, mainly from an increase in mutual fund management fees and registrar fees of ONE Asset Management Limited (The Company's subsidiary).

In addition, the Company also had underwriting fee income of Baht 27 million and Financial advisory fee income of Baht 17 million, which represented a large increase from the previous year, because the Company was the Financial Advisor and Lead Underwriter of Lad-prao General Hospital Public Company Limited's IPO, with a total issue size of Baht 1,000 million. The Company also joined co-underwriting syndication of 9 other IPOs.

	<b>CONSOLIDATED FINANCIAL STATEMENTS</b>	
	<b>For the years ended</b>	
	<b>December 31,</b>	
<i>Unit: Thousand Baht</i>	<b>2015</b>	<b>2014</b>
<b><u>Fees and service income</u></b>		
Mutual fund management	327,181	262,766
Private fund management	67,524	66,204
Provident fund management	6,824	3,112
Registrar and custodian	64,381	33,955
Securities borrowing and lending	4,769	5,821
Underwriting	27,156	872
Financial advisory	17,220	7,615
Placement agent	12,511	7,695
Others	35,130	18,064
Total fees and service income	562,696	406,104

#### Gains on securities and derivatives

The Company's proprietary trading activity exposes it to a certain level of market risk. The Company's investment portfolio, one of the largest in the industry, includes both fixed income and equity securities. A large proportion of gains on trading are derived from selling financial products, such as DWs and other OTC derivatives. With the proper hedging strategies, the market risks from issuing these types of financial products are relatively low.

The Company's gain on securities and derivatives trading in 2015 was Baht 578 million, a decrease of 21% from the previous year, mainly due to the volatility of the stock and futures markets.

The total gain on securities and derivatives of Baht 578 million, included loss on securities of Baht 100 million and gains on derivatives of Baht 679 million. The gain on securities and derivatives included gains from the Proprietary Trading business and Derivatives Warrant business as follows.

##### a) Proprietary Trading Businesses

The Company invests in equity securities, derivatives and fixed income instruments by considering the economic outlook, fundamental factors of each industry, as well as financial statements and technical analysis. Risk management is an important part of the investment process and the Company continuously monitors risk exposure.

##### b) Derivative Warrant Business

The Company has a hedging strategy to protect against potential risks as follows.

- Where the Company has issued a Call Warrant, the Company is exposed to risk when the underlying stock price increases. Therefore, the Company hedges such risk by buying the underlying stocks in

appropriate proportion calculated from the Net Delta Value. The risk of loss from issuing Call DWs may be offset by the gain on the underlying stock bought by the Company as a hedge.

- Where the Company has issued a Put Warrant, the Company is exposed to risk when the underlying stock price decreases. To hedge this risk the Company may sell the underlying stock in proportion to the Net Delta Value. The risk of loss from issuing Put DWs will be offset by the gain on the underlying stock if the share price declines.

To protect against the risks from stock price fluctuations, the Company may hedge the risk by taking an appropriate position in the underlying stock, such that the DW exposure and the underlying stock exposure of the Company hedge each other.

#### Interest and Dividend Income

The Company's interest and dividend income in 2015 was Baht 262 million, almost the same as in 2014. The Company's interest income mainly came from interest on bank deposits and bonds. The Company's dividend income mainly came from dividends paid on stocks owned by the Company.

#### Interest on margin loans

The Company's interest on margin loans in 2015 was Baht 100 million, an increase of 12% from the previous year, due to the increase in the Company's margin loan balance. As at 31<sup>st</sup> December 2015, the Company's margin loan balance was Baht 1,718 million, an increase of 18% from the previous year.

#### Other Income

The Company's other income in 2015 was Baht 21 million, an increase of 74% from the previous year, mainly from an increase in gains on disposal of properties foreclosed and income from restructuring of debt securities investments.

#### Expenses

The Company's expenses in 2015 was Baht 1,736 million, an increase of 7% from the previous year, the majority of the Company's expenses came from Finance costs, Fees and service expenses and Operating expenses, details as follows:

##### Finance costs

The Company's financial costs in 2015 was Baht 112 million, an increase of 3% from the previous year, mainly due to an increase in interest paid on borrowings from financial institutions and on bill of exchange.

##### Fees and service expenses

The Company's fees and service expenses in 2015 was Baht 353 million, an increase of 42% from the previous year, mainly from an increase in fees paid in respect of securities borrowing and lending, securities trading and derivatives trading.

##### Operating expenses

The Company's operating expenses in 2015 were Baht 1,272 million, almost the same as in 2014, and represented 51% of total revenue. The operating expenses consisted of 1) personnel expenses of Baht 825 million which are correlated with the Company's revenue, 2) premises and equipment expenses of Baht 194 million, 3) Directors' remuneration of Baht 25 million and 4) other expenses of Baht 229 million. The majority of the other expenses came from advertising expenses, communication expenses, travelling expenses, Legal advisor fee, Auditor fee and others.

#### Profitability Ratios

The Company's profitability ratios generally decreased in 2015 when compared with the previous two years. Gross profit margin was 81.08%, lower than 86.05% and 85.63% in 2014 and 2013. Net profit margin was 23.66% which was lower than 29.47% and 28.39 % in 2014 and 2013. The main reason for the decline were a decrease in brokerage fee revenue from the securities business as well as a decrease in gains in securities.

### 14.3 Asset Structure and Management

#### Operating Asset Structure

As of 31<sup>st</sup> December 2015, the Company had total assets of Baht 9,649 million, compared with Baht 10,522 million in 2014, representing a decrease of 8% from the previous year. The Company decreased the size of its investment portfolios in 2015 to reduce the Company's risk given high market volatility.

The Company's ratio of earning assets to total assets in the past 3 years was 73% - 83%. At the end of 2015, the Company's earning assets were Baht 7,362 million which consisted of the securities and derivatives business receivables - net of Baht 5,054 million and investments - net of Baht 2,308 million.

In 2015, the Company had an asset turnover ratio of 0.25. The Company's Return on Assets (ROA) was 5.82%, down from 8.11% in 2014, mainly due to the Company's lower return on investments caused by weak market conditions.

#### The quality of Securities and derivatives business receivables

The Company's securities and derivatives business receivables were of a good quality. As of 31<sup>st</sup> December 2015, the Company's securities and derivatives business receivables were Baht 5,497 million. Accrued interest receivables were Baht 10 million. Allowance for doubtful accounts was Baht 454 million. Thus the net total securities and derivatives business receivables were 5,054 million.

The Company has provided allowances for doubtful accounts on securities and derivatives business receivables based on a review of the debtor's ability to make repayment, taking into consideration recovery risk and the value of any collateral. Such debt classifications and provisions are made in accordance with the guidelines laid down in the Notification No. Kor. Thor. 5/2544 dated 15<sup>th</sup> February 2001 of the Office of the Securities and Exchange Commission, and after taking into consideration other relevant factors. The Company's doubtful debts as of 31<sup>st</sup> December 2015 were Baht 402 million, for which the Company had made full provision. The Company had also set additional reserves for uncollectible receivables of Baht 12 million. The Company believes that the provisions are adequate and meet the regulators' requirement.

	<b>CONSOLIDATED</b>	
	<b>FINANCIAL STATEMENTS</b>	
	<b>December 31,</b>	<b>December 31,</b>
	<b>2015</b>	<b>2014</b>
<i>Unit: Thousand Baht</i>		
<u>Securities business receivables</u>		
Cash accounts	2,099,788	1,853,618
Credit balance accounts	1,718,464	1,450,706
Receivables under securities borrowing and lending business		
- Guarantee deposit receivables	1,117,344	1,520,589
- Securities borrowing receivables	139,455	69,876
Other receivables		
- Installment receivables	421,871	432,494
- Overdue customers' accounts	-	1,607
- Other securities business receivables	252	6,587
Total securities business receivables	5,497,174	5,335,477
<u>Add</u> Accrued interest receivables	10,502	10,159
<u>Less</u> Allowance for doubtful accounts	(454,132)	(459,938)
Securities business receivables and accrued interest receivables - net	5,053,544	4,885,698
Securities and derivatives business receivables – net	5,053,544	4,885,698

Receivable classified by class and the provision of doubtful debts

	<b>CONSOLIDATED FINANCIAL STATEMENTS</b>		
	<b>December 31, 2015</b>		
<i>Unit: Thousand Baht</i>	<b>Debt balances</b>	<b>Allowances for doubtful accounts</b>	<b>Debt balances net of allowances for doubtful accounts</b>
Normal debts	5,076,467	-	5,076,467
Sub-standard debts	29,260	-	29,260
Doubtful debts	401,949	(401,949)	-
Total	<u>5,507,676</u>	<u>(401,949)</u>	<u>5,105,727</u>
Additional reserve for uncollectible debts	-	(52,183)	(52,183)
Carrying values	<u>5,507,676</u>	<u>(454,132)</u>	<u>5,053,544</u>

For credit balance accounts, the Company's margin loan portfolio as of 31<sup>st</sup> December 2015 was Baht 1,718 million, equivalent to approximately 34% of the value of the Company's equity attributable to equity holders of the parent. The Company has set appropriate credit limits for each client and regularly reviews each client's financial strength. In 2015, the Company's credit lines complied with the Company's policy and were not concentrated in any industry or any client group.

As at 31<sup>st</sup> December 2015, the Company had other receivables with book values totaling Baht 419 million, on which the recognition of income had ceased. The Company has already made full provision for these debts.

Investments

The Company engaged in various investment activities during the year. As of 31<sup>st</sup> December 2015, the Company's net investments were valued at Baht 2,308 million, a decrease of 40% from the previous year, due to the Company reducing the size of its trading securities investments to reduce the Company's risk.

The Company's investments consisted of trading securities of Baht 2,087 million, available-for-sale securities of Baht 192 million, held-to-maturity debt securities of Baht 8 million and general investments of Baht 21 million.

The Company's investments were diversified and were not concentrated in any one company or in any industry. The Company has a policy of making allowance for impairments and treats its investments as impaired when there has been a significant or prolonged decline in the fair value below their cost or where other objective evidence of impairment exists.

The Risk Management Committee manages the risk of the Company's proprietary trading activities. The Risk Management Committee approves and reviews a risk budget for each of the proprietary teams at least once a year. The Risk Management Department also monitors and takes action in accordance with the Company's Risk Management Policy when limits are reached.

Other Assets

As at 31<sup>st</sup> December 2015, the Company had other assets of Baht 250 million, an increase of Baht 50 million from Baht 200 million in the same period of the previous year. The main increase came from the increase of accrued interest income, and increase of fees and service income receivables due to ONEAM launching new funds (see note of financial statements no. 18)

## 14.4 Liquidity and capital adequacy

### Sources and uses of funds

Cash flow activities consisted of 3 types, which are; operating activities, investing activities and financing activities. As at 31<sup>st</sup> December 2015, the Company's cash and cash equivalents were Baht 447 million, which comprises beginning cash and cash equivalents of Baht 393 million, net cash from operating activities of Baht 690 million, net cash from investing activities of Baht 84 million, net cash from financing activities of Baht (728) million, and changes in translation adjustments of Baht 8 million.

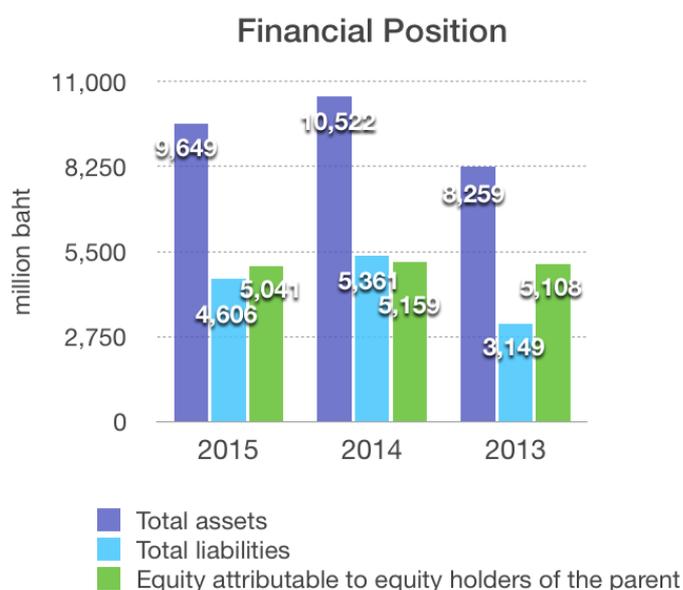
<b>Summary of Cash Flow Statements in 2015</b>	<b>Baht</b>
<b>Profits before income tax expenses</b>	745,704,984
Adjustments to reconcile profits before income tax expenses to net cash provided by (paid for) operating activities:	(246,249,042)
<b>Income from operating activities before changes in operating assets and liabilities</b>	499,455,942
<b>The Change in Assets and Liabilities</b>	
(Increase) decrease in operating assets	880,638,657
Increase (decrease) in operating liabilities	(690,208,208)
<b>Net cash from operating activities</b>	<b>689,886,391</b>
<b>Net cash from investing activities</b>	<b>84,048,613</b>
<b>Net cash from financing activities (Dividend Paid)</b>	<b>(727,837,285)</b>
Changes in translation adjustments	7,728,398
<b>Net increase (decrease) in cash and cash equivalents</b>	53,826,117
Cash and cash equivalents as at 1 <sup>st</sup> January 2015	393,172,029
<b>Cash and cash equivalents as at 31<sup>st</sup> December 2015</b>	<b>446,998,146</b>

The majority of net cash from operating activities of Baht 690 million came from operating profits and cash from decreasing of the Company investments in trading securities. The Company decreased the size of its investments to reduce the Company's risk. Net cash from investing activities of Baht 84 million, mainly came from dividends received on investments in securities and net cash from financing activities of Baht (728) million was due to dividends paid to shareholders in April 2015.

### The Capital Structure

The Company has an appropriate capital structure. As of 31<sup>st</sup> December 2015, the Company's total assets were Baht 9,649 million, liabilities were Baht 4,606 million, and equity attributable to equity holders of the parent was Baht 5,041 million. The ratio of total liabilities to equity was 0.91 times.

At the end of 2015, the majority of total liabilities of Baht 4,606 million came from securities and derivatives business payables, debt issued and borrowings, and accrued expenses. A majority of the equity attributable to equity holders of the parent of Baht 5,041 million came from capital and retained earnings. The total liabilities to equity ratio shows that the Company's capital structure has low risk as most of the Company's funding came from shareholders.



### Capital Expenditure

In 2015, the Company had 6 capital expenditure projects that were more than Baht 2 million, with a total budget of approximately Baht 29 million. Four projects were investments in improving IT systems totaling Baht 24 million, another two projects were to replace computers and relocate a branch office totaling Baht 5 million. The source of funds for all 6 capital expenditure projects was from the Company's working capital.

### Adequacy of Liquidity

The Company has sufficient capital. As of 31st December 2015, the Company had cash and cash equivalents of Baht 447 million, deposits at financial institutions of Baht 243 million. The Net Capital Ratio was 131%. The Company has a policy to maintain its Net Capital Ratio (NCR) at a level that is higher than that required by SEC regulations (The regulations specify that the Net Capital must be at least Baht 25 million and the Net Capital Ratio must be at least 7%). The Company's NCR in past 3 year are as follows:

Capital Fund	31 <sup>st</sup> Dec 2015	31 <sup>st</sup> Dec 2014	31 <sup>st</sup> Dec 2013
Net Capital Rule (Million Baht)	3,756	3,974	4,162
Net Capital Ratio (NCR) (%)	131.06%	116.27%	211.01%

### Ability to repay loans and comply with loan conditions and obligations

As of 31<sup>st</sup> December 2015, the Company had no borrowings from financial institutions, and had debt issued and borrowings of Baht 455 million which consisted of bills of exchange of Baht 450 million (maturity of less than 1 year and interest rate of 1.97% per annum) and structured notes (maturity of less than 1 year with interest rate of 9.85% per annum). The Company is confident that it will be able to repay the loans as necessary. The Company has a policy to treat creditors with fairness, responsibility and transparency by strictly complying with the terms of contracts with creditors. The Company does not use dishonest means nor does it conceal relevant information or facts from creditors.

### The ability to find additional sources of funds

If the Company requires additional funds, the Company's policy is to procure the most appropriate source of funds taking into account the cost of funds, and not to depend upon any one single source of funds. The Company analyses its cash flow needs on a daily basis and matches its short-term funding and investment needs using money market instruments.

The primary objectives of the Company's capital management process are to maintain the Company's ability to continue as a going concern and to maintain its net capital in accordance with the rules laid down by the Office of the Securities and Exchange Commission.

#### Factors that may affect the Company's credit rating

TRIS Rating Co., Ltd. affirmed the Company rating at "BBB+" with "stable" outlook on 23<sup>rd</sup> July 2015. The rating reflects KGI's strong capital position, the strength and diversity of its business operations and revenue base, and its ability to leverage the extensive experience and know-how of its major shareholder, KGI Group in Taiwan (KGI Taiwan). Factors that may affect the Company's credit rating are as follows:

1. The need to maintain its market position in the brokerage business given market volatility and continued downward pressure on commission rates;
2. Stock price volatility which may affect the operating results of the Company's proprietary trading business;
3. The Company's ability to control risk from margin loans and risk from new product launches;
4. Maintaining a consistent income from One Asset Management Limited (the Company's subsidiary).

The Company is aware of such factors and manages its operations in order to maintain stable financial and business positions. The Company has a policy to continually enhance the efficiency of its staff in giving advice and service to clients, and to develop the technology to support new products.

For the Company's proprietary trading, the Company has assigned its Risk Management Committee to set strict guidelines and policies regarding asset allocation, portfolio limits and risk control in order to manage the risk of losses due to market volatility and to control risk limits on a daily basis. The Risk Management Committee will review on a regular basis the controls to ensure that they are appropriate for market conditions.

Furthermore, the Company controls risk by establishing credit limits for clients and counter parties and analyzing their financial position on an ongoing basis. The Risk Management Department monitors the Company's exposure on a daily basis to ensure compliance with the approved risk policies.

#### **14.5 Commitments and contingent liabilities**

See information about the commitment and contingent liabilities that may be incurred in notes to the financial statements no. 37

#### **14.6 Factors which may affect the Company's operating results in future and risk management.**

Factors that may affect the company's operations are both external and internal. External factors include changes in government policies, regulations and laws, changes in the political and economic environment, changes in interest rates and foreign exchange rates. Internal factors include financial liquidity, loss of key employees, lac of operational control, risk management and technology. These factors may affect the business operations of the Company and may impact the Company's revenue.

However, the Company has established a Risk Management Committee as well as other control systems to ensure that risk is appropriately managed. The Company's Risk Management committee is comprised of representatives of all business units as well as senior, middle and back office executives and operational and administrative executives. The Committee acts as a forum where professional managers can join forces in coordinating risk-management initiatives. Initiatives include the installation of a mechanism for monitoring and managing market risk, credit risk and other financial risks. The Risk Management Department is responsible for monitoring all trading positions by systematically calculating Value at Risk (VaR) and also monitoring all client positions using computerized systems. The Company has been able to systematically identify relevant risks. The Company also has a variety of standardized operational procedures that have been developed to reduce risk in routine operations.