

**PART 1**  
**THE COMPANY'S BUSINESS**

**1. Policy and Overview of the Company's business**

KGI Securities (Thailand) Public Company Limited ("the Company") was incorporated as a public limited company under the Public Limited Companies Act. Whereby it has been operating securities businesses and has been licensed and approved by the Office of the Securities and Exchange Commission ("SEC") to operate the following businesses.

- (a) Securities brokerage
- (b) Securities dealing
- (c) Investment advisory
- (d) Securities underwriting
- (e) Securities borrowing and lending
- (f) Securities registrar
- (g) Derivatives brokerage
- (h) Financial advisory
- (i) Over-the-Counter (OTC) derivative business and
- (j) Sales agent in investment units of mutual funds in the areas as specified by the SEC.

The Company's registered office is located on the 8<sup>th</sup> -11<sup>th</sup> floors of Asia Centre Building, No. 173 South Sathorn Road, Thungmahamek Sub-district, Sathorn District, Bangkok. As at 31 December 2013, the Company has altogether 15 branches, in Bangkok and other provinces.

The Company is recognized as one of the leaders in innovation in the development of financial products, giving more alternatives to clients. The Company's developments were as follows:

- The first securities company acting as a principal and agent of SBL services
- The first securities company providing OTC Derivatives services
- The first and only securities company acting as Market Maker and Participating Dealer of ThaiDEX SET50 ETF (TDEX), Thailand's first Equity ETF
- The first securities company to launch Derivative Warrant in Thailand
- The first securities company providing Private Repo

In addition, the Company has investments in 3 subsidiaries, One Asset Management ("ONEAM"), which is one of the leaders in Thailand's asset management market. And two offshore subsidiaries, which are KGI Securities (Thailand) International Holdings Limited ("HOLDCO") and KGI (Thailand) Holdings Limited ("KTHL"). The purpose of these subsidiaries is to explore opportunities to invest overseas in the future.

**1.1 Policy of the Company's business**

**Vision**

All the actions of the Company are rooted in the principles of integrity and honesty, which are the guiding principles of our professional workforce. Providing the very best in financial management and advice is the Company's vocation and duty. At the same time, as a responsible corporate citizen, the Company has made it a policy to share the fruits of its success with all of its employees, shareholders and clients, while also making substantial contributions to society.

**Objective**

The objective of the Company is to engage in securities and other financial businesses, and to offer the highest level of service to its clients and to effectively advise and assist in managing clients' assets whilst always acting in an ethical and positive way.

## Goal

The company's goal is to offer a full range of financial services and to be a leader in innovation and in new product development. The Company also aims to diversify its income in order to provide earnings stability and to operate successfully in all conditions.

## Strategy

- ☛ To expand and diversify its client base, both local and foreign.
- ☛ To develop new and innovative products and financial services covering the full range of client needs.
- ☛ To train and educate the Company's employees and clients about all new products.
- ☛ To deliver excellent service and to build strong relationships between employees and clients.
- ☛ To constantly adapt to changing markets and conditions.

## Awards and Achievement

<b>&gt; TFEX BEST AWARD</b>	
2556 / 2013	Most Active House Prop-Trading of the Year (1 <sup>st</sup> place) Best Market Maker for Equity Product Agent of the Year (3 <sup>rd</sup> place)
2553 / 2010	Most Active House
2549 / 2006	Best House of the Year Most Active House
<b>&gt; TFEX PROP-TRADING CHAMPION</b>	
2555 / 2012	Most Growth Champion Award
2554 / 2011	Most Growth Trader Award TFEX Best Trader
<b>&gt; FUTURES NETWORKING FORUM</b>	
2549 / 2006	Top Star Most Active
<b>&gt; THAI BMA AWARDS</b>	
2556 / 2013	Best Bond Securities Firm
2555 / 2012	Best Bond Securities Firm
2553 / 2010	Best Bond Securities Firm
2552 / 2009	Best Bond Securities Firm
2550 / 2007	Best Bond Securities Firm
<b>&gt; THE ASSET BENCHMARK SURVEY</b>	
2549 / 2006	Best Corporate Bond House (Thailand Baht)
<b>&gt; SET CONGRATULATIONS</b>	
2552 / 2009	The Company became the first securities company in Thailand to launch Derivative Warrants (DW).
<b>&gt; SET AWARDS</b>	
2548 / 2005	MAI Newly Listed STAR (Financial Advisor)

## 1.2 Significant Development

The Company was found as the name of "The Goldhill Securities Company Limited" on 7<sup>th</sup> March 1975 with register no. 212/1975 and had three licenses; securities broker, securities dealer, and investment advisory. In 1986, Thai Farmers Bank Public Company Limited, Finance One Public Company Limited, and a group of major shareholders of Finance One Public Company Limited acquired Goldhill Securities Company Limited and changed its name to "Securities One Company Limited." on 15<sup>th</sup> February 1988.

The Company registered as a public company with registered number 0107536000293 (formerly number Bor Mor Jor 103) and changed its name to “Securities One Public Company Limited.” on 6<sup>th</sup> May 1993.

In 1998, KGI Group became the major shareholder of the Company and changed its name to “KGI Securities One Public Company Limited” on 12<sup>th</sup> July 1999. Last, the Company changed its name to “KGI Securities (Thailand) Public Company Limited” on 25<sup>th</sup> May 2001.

2013 was a positive one for the the Company. Despite significant market volatility, political uncertainty and growing external economic concerns, the Company reported net profits of Baht 783.20 million. Compared with 2012 this figure represents an increase in net profit of 76.85%. This rise in profitability is even more impressive since this profit are remarkable from the growth of all business units.

In 2013, the Company ranked No.11 in terms of brokerage market share with an overall share of 4.04% up from 3.47% (ranked No. 12) from last year. About future business, the company has an outstanding performance, ranked No. 1 as the highest derivatives trading volume with market share of 11.74 % of TFEX market and received four awards from TFEX Best Awards 2013.

Our Equity Derivatives business unit launched 123 derivative warrants to increase investment opportunities for all of our clients last year. The Proprietary Trading business unit maintained its profitable performance with diversified, lower-risk strategies executed by its highly experienced team under constant risk monitoring.

In the Fixed Income business unit, the Company got the Best Bond Securities Firm 2013 from Thai Bond Market Association (TBMA). For Investment Banking business, the Company was appointed to perform as lead underwriter of 3 IPOs and perform as co- lead underwriter of 1 IPO and joined co-underwriting syndication for 9 IPOs last year.

### **1.3 The Company’s Shareholding Structure**

As of 31<sup>st</sup> December 2013, the Company has 3 subsidiaries as follows:

#### **A. One Asset Management Limited (“ONEAM”)**

To meet the diverse financial requirements of our customers, the Company provides professional service through a 99%-held subsidiary, One Asset Management Limited (“ONEAM”), which is one of the leader in Thailand’s asset management market. ONEAM has a full range of products including mutual fund, private fund and provident fund to help clients achieve optimal asset allocation in their wealth management.

ONEAM was established on 19<sup>th</sup> March, 1992 with registered capital of Baht 100 million (fully paid-up). As of 31<sup>st</sup> December 2013, ONEAM has its registered capital of Baht 105 million (fully paid-up) with KGI Securities (Thailand) holding 99%, ONEAM’s directors and employees holding 1% of outstanding shares.

ONEAM offers many types of funds to provide its clients with investment alternatives to suit their diversified investment requirements. The mutual funds under ONEAM are as follows:

- |                           |                            |
|---------------------------|----------------------------|
| 1. Equity Fund            | 6. Foreign Investment Fund |
| 2. Fixed Income Fund      | 7. Country Fund            |
| 3. Mixed Fund             | 8. Property Fund           |
| 4. Retirement Mutual Fund |                            |
| 5. Long Term Equity Fund  |                            |

In 2013, ONEAM’s net profit were of Baht 71.88 million (EPS of Baht 6.85). As of 31<sup>st</sup> December 2013, ONEAM’s total assets were Baht 277.64 million, total liabilities were 45.16 million, shareholders’ equity were Baht 232.48 million. ONEAM has built up a strong reputation with both individual and institutional

investor, as of 31st December 2013, ONEAM has total assets under management of Baht 74 billion. In 2013 ONEAM won “SET AWARD 2013” for outstanding Asset Management Company.

In 2013, ONEAM issued new 10 funds as follows:

	FUND	Starting date	AUM-Baht Million
1	ONE-FLEXACTIVE3	1 Feb 2013	228.73
2	TH100	18 Feb 2013	372.92
3	ONEPROP-D	11 March 2013	1,228.83
4	ONE-FLEXACTIVE4	28 March 2013	285.80
5	ONE-PREMIER	27 June 2013	127.03
6	1ENHANCED3M1	27 June 2013	375.81
7	1ENHANCED3M2	18 July 2013	404.47
8	ONE-HYPER	28 Aug 2013	90.72
9	ONE-JAPAN	13 Sept 2013	107.43
10	UNIPF	29 Oct 2013	515.00
	Total		3,736.74

### B. KGI Securities (Thailand) International Holdings Limited (“HOLDCO”)

Formerly known as “KGI Securities One International Holdings Limited”, a wholly owned offshore subsidiary established in Hong Kong. Its name was changed to “KGI Securities (Thailand) International Holdings Limited (“HOLDCO”)” on 7<sup>th</sup> December, 2001. The purpose of the subsidiary is to explore the opportunity to invest overseas in future.

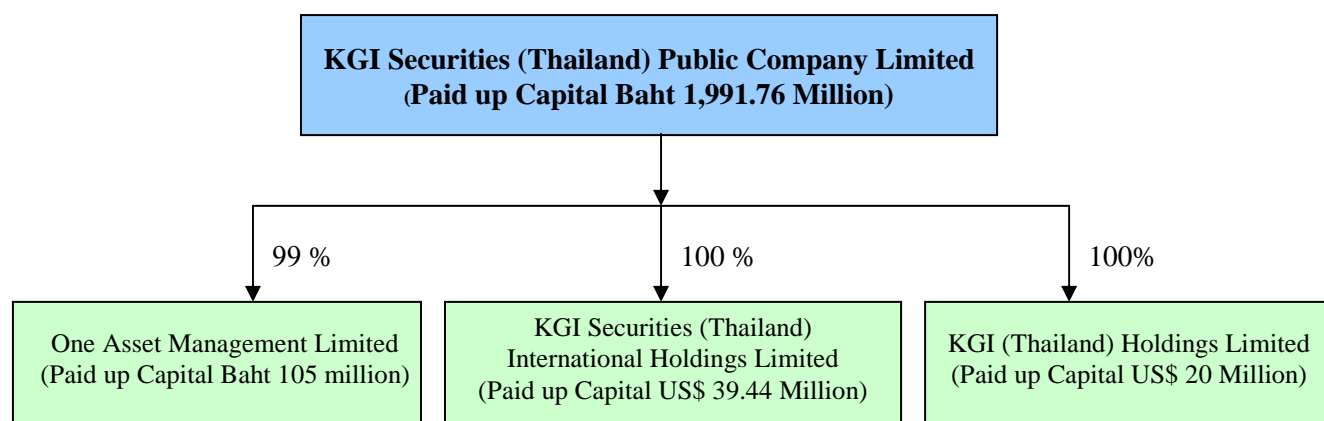
### C. KGI (Thailand) Holdings Limited (“KTHL”)

KGI (Thailand) Holdings Limited (“KTHL”), a wholly owned offshore subsidiary established in British Virgin Islands. The purpose of the subsidiary is to explore the opportunity to invest overseas in future.

#### The Company’s Shareholding Structure

Subsidiaries As of 31 <sup>st</sup> December 2013	Country of Incorporation	Business Type	% holding	Revenues as a percentage to the consolidated totals (%)
One Asset Management Limited	Thailand	Fund Management	99	12.21%
KGI Securities (Thailand) International Holdings Limited	Hong Kong	Investment	100	-
KGI (Thailand) Holdings Limited	British Virgin Islands	Investment	100	-

#### Shareholding Structure of the group



Policy for group operations

The Company and its subsidiaries have hired professional managers and the Company also appointed persons to be directors for setting policies of its subsidiaries to ensure the implementation of the various group companies effectively.

In 2013 the Company's total income of Bht 2,758.66 million, were income from investment in One asset Management Limited 12.21%, and no income from investment in KGI Securities (Thailand) International Holdings Limited and KGI (Thailand) Holdings Limited since no operating in this 2 offshore companies.

**1.4 Relationship with a business group of major shareholder.**

RICHPOINT COMPANY LIMITED (100% owned by KGI Securities Company Limited, Taiwan), is the Company's major shareholder, owning approximately 35% of the Company's shares as of 31<sup>st</sup> October 2013 (The last registration close book date).

KGI Securities Company Limited, Taiwan ("KGI TW") is a market leading securities company in Taiwan, providing services in a range of areas including brokerage, proprietary trading, underwriting, fixed income, and a variety of derivatives. KGI TW has expanded into the Asia-Pacific, Hong Kong and Thailand markets.

KGI TW has provided valuable assistance by transferring knowledge and technology to the Company. The KGI Group sent an expert staff to train our staff to be ready for new products in Thailand. As of 31<sup>st</sup> December 2013, the Company has no loans from group companies. If the Company requires new 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 a single source of funds.

In order to protect the shareholders' rights and for the best interest of shareholders, the KGI TW as a major shareholder, appointed 4 representative directors which are one-third of all directors and proper with the portion of share holding. The company also appointed 4 independent directors which are one-third of all directors, following the SEC's regulations to ensure the operations of the company meet the standards and move in the right direction.

**2. Business Lines****Income Structure**

The majority of the operations of the Company and its subsidiaries involve the single business segment of securities related business, including mutual fund management, and are carried on in Thailand. The Company's financial statements show its income from brokerage fees, fees and service income, gain (loss) on securities, gain (loss) on derivatives, interest and dividends, interest on margin loans and other income.

In 2013, the Company reported total income of Baht 2,758.66 million. The elements of the Company's securities income structure were a) 44.99% from brokerage fees, b) 25.80% from gain on securities and derivatives, c) 16.02% from fee and service income, d) 9.81% from interest and dividends, e) 3.28% from interest on margin loans and others income 0.10%

### Comparative Income Structure for the past 3 years

Income Structure	Operated By	% Share Holding by Company	2013 (Bt Mill)	%	2012 (Bt Mill)	%	2011 (Bt Mill)	%
1. Brokerage fee	the Company	-	1,241.24	44.99%	819.62	42.94%	948.62	40.66%
2. Fees and services income <sup>/1</sup>	the Company	-	113.20	4.10%	31.83	1.67%	37.62	1.61%
Fees and services income <sup>/1</sup>	ONEAM <sup>/2</sup>	99%	328.84	11.92%	251.45	13.18%	200.55	8.60%
3. Gain on securities and derivatives	the Company	-	711.77	25.80%	451.57	23.66%	743.31	31.86%
Gain on securities	KTHL <sup>/3</sup>	100%	-	-	15.26	0.80%	54.50	2.34%
4. Interest and dividends	the Company	-	265.75	9.64%	254.55	13.34%	246.72	10.58%
Interest and dividends	ONEAM <sup>/2</sup>	99%	4.77	0.17%	4.64	0.24%	4.10	0.18%
Interest and dividends	HOLDCO <sup>/4</sup>	100%	0.00	0.00%	0.00	0.00%	0.01	0.00%
5. Interest on margin loans	the Company	-	90.38	3.28%	71.19	3.73%	80.08	3.43%
6. Other income	the Company	-	2.94	0.11%	7.88	0.41%	16.18	0.69%
Other income	ONEAM <sup>/2</sup>	99%	(0.23)	(0.01%)	0.56	0.03%	1.24	0.05%
<b>TOTAL INCOME</b>			<b>2,758.66</b>	<b>100.00%</b>	<b>1,908.56</b>	<b>100.00%</b>	<b>2,332.93</b>	<b>100.00%</b>

Note /1 See note of financial statements No. 28: Fees and Services Income.

/2 ONEAM: One Asset Management Limited, 99% owned by the Company.

/3 KTHL : KGI (Thailand) Holdings Limited, 100% owned by the Company

/4 HOLDCO : KGI Securities (Thailand) International Holdings Limited , 100% owned by the Company

## 2.1 Types of Business

### 2.1.1 Securities Broker

The Company, a member of the Stock Exchange of Thailand (SET Broker seat No. 13), provides broking services to both local and foreign investors and to both individual and institutional investors with cash accounts and credit balance accounts with experienced marketing officers responsible for securities trading service and advisory service. The company also provides quality marketing officers who give best service to clients.

The Company's research department produces highly respected institutional level research and analysis of Thailand's financial markets and economy. As one of Thailand's top securities houses, the research team gains considerable insight from market flow and local color to help analyze trends and market movements, providing a considerable competitive advantage to the research team for investors to make timely and accurate investment decisions.

The Company has devoted a full team of analysts, each with a narrow sectorial focus. We have been working to expand the coverage list, and it now comprises over 80% of SET's market capitalization. We follow up with frequent visits to our coverage universe (at least once a month) to closely monitor any potential changes to our view. Further enhancement comes from KGI's regional presence, especially our extensive greater China research support, which greatly expands the team's information base beyond Thailand's borders to catch trends early and provide investors with information that could have a major impact in the longer term.

In 2013, the Company ranked No. 11 in terms of brokerage market share with an overall share of 4.04%. compared to 3.47% ranked no.12 in 2012. The main reason were an increase in number of marketing officer, and the Company launched the Young Professional Investment Consultant project class 2-3 to recruit new graduates and training them via lectures, workshops, field trips and on-the-job training to be new professional investment consultants. In addition, the company has opened two new branches at Silom Complex and Nakhon Pathom 2 which resulted in the higher of market share.



### The Company's market share information

Year	2013	2012	2011
Daily Trading Volume- SET (Baht Million)	50,329	32,304	29,473
Growth in Daily Trading Volume- SET (%)	55.80%	9.61%	1.40%
Daily Trading Volume- The Company (Baht Million)	4,838	2,644	2,944
Growth Daily Trading Volume- The Company (%)	82.98%	(10.19%)	3.05%
SET Index (Year ended)	1,298.71	1,391.93	1,025.32
The Company market share (%)	4.04%	3.47%	4.53%
Ranking	11	12	9
Number of total Broker	33	32	33

### Internet Trading (E-Business)

The Company provides internet trading services and also Futures online trading services. Clients can see real time information to follow price movements 24 hours a day, 7 days a week. The company provides the foremost high quality services that are fast and accurate. The company also employs high technology enabling clients to trade stock and derivatives trading via Smart phones and Tablet. Investors are being updated with various important information, they can trade, get updates on stock prices and check their portfolios anywhere and anytime online. The commission rates for trading online are lower than through a marketing representative.

Our company aims at providing services with a high level of customer satisfaction. In 2013, the company launched the Easy Trade program, a program of the company's securities trading via internet. Easy Trade is a program to defragment information for convenience and flexibility. Besides the provided screens, the clients can customize and create screens themselves. The Easy Trade program enables tracking of information through a variety of formats.

Should you have any inquiries or need further information, please visit our website: [www.kgiworld.co.th](http://www.kgiworld.co.th) or contact E-Business Department at Hotline: 02 658 8777 or email : [ebs@kgi.co.th](mailto:ebs@kgi.co.th)

### **2.1.2 Futures Business**

The company has received a license to conduct futures business from Securities and Exchange Commission (SEC) and also an approval to act as a futures broker from Thailand Futures Exchange Plc. (TFEX) and the Thailand Clearing House Co., Ltd. (TCH). Also Futures trading started on 28<sup>th</sup> April 2006.

In 2013, the company ranked No. 1 in derivatives trading volume with market share of 11.74 % of TFEX market. The Company earned four awards from Thailand Futures Exchange Plc ("TFEX") which are Most Active House, Prop-Trading of the Year (1<sup>st</sup> place), Market Maker Best Performance for Equity Product and and 4) Agent of the Year (3<sup>rd</sup> place).

### The Company's market share information

Year	2013	2012	2011
TFEX Volume (Contract)	16,664,126	10,457,928	10,027,116
Daily Average Volume - TFEX (Contract)	68,017	42,685	41,095
The Company market share (%)	11.74%	5.97%	5.42%
Ranking	1	5	5
Number of Total Broker	42	41	41

Currently, the company provides trade on the following derivative products:

- SET50 Index Futures
- SET50 Index Options
- Single Stock Futures

- Gold Futures
- Silver Futures
- Brent Crude Oil Futures
- Interest Rate Futures
- Currency Futures
- Sector Futures

Besides Futures retail brokerage business, the company also trades futures in Proprietary Trading and furthermore acted as a Market Maker of SET50 Index Options, Gold Futures, Silver Futures, and Brent Crude Oil Futures in Thailand Futures Exchange (TFEX) and Stock Exchange of Thailand.

### **2.1.3 Securities Dealer**

The Proprietary Trading Department and Fixed Income Department are responsible for stock, bond, and derivatives, futures and option, selection and investment allocation according to the established policy, while the Risk Management Department will closely track those departments' exposure to control the Company's overall risks. The Company's Proprietary Trading team performed well in 2013.

The Company based proprietary traders have years of experience. Individual traders are encouraged to adopt diverse trading strategies to suit their personal trading styles. However, to guard against misjudgment that could arise from an emphasis in individualism, all proprietary trading is conducted through a highly-efficient trading platform and is overseen by a stringent risk control system. These controls have engendered a strong culture of discipline among the Company's proprietary trading and have eliminated to the highest degree possible, the potential for mistrades.

The Company pays serious attention to conflict of interests, and the misuse of inside information. The Company regards such departments as investors; therefore, such departments have no right to receive information or research that differs from other clients of the Company.

### **2.1.4 Investment Advisory**

SEC granted an approval to the Company to operate investment advisory business on 6<sup>th</sup> January 2004, allowing the Company to provide a full range of services.

### **2.1.5 Financial advisory and securities underwriting**

The SEC has granted the Company approval to operate financial advisory business under the scope specified by the SEC which covers the full range of Investment Banking Services, including fund raising, IPOs and secondary market placements, mergers and acquisitions, firm valuations, loan arrangements, debt restructuring and other advisory works. In addition, the Company provides a securities underwriting service to those companies intending to issue securities including debt, equity, and equity-linked products.

In 2013, the SET Index was quite volatile. The index reached a new high of 1,643.43 pts in May, increasing 18.07% from the end of the prior year on upgraded earnings growth for listed companies and the extension of US QE Policy. However, during the second half of the year, the index dropped significantly to close at 1,298.71 pts at the end of 2013, down 20.98% from its peak in May, and 6.70% from the end of the previous year. However, the total value trading in 2013 was Baht 11.78 trillion, increasing 54.68% from 2012.

The positive stock market sentiment during the first half of 2013 attracted more companies to prepare to list on the stock market. Consequently, in 2013, there were 28 new companies listed on the stock exchange; 13 were listed in the SET and 15 listed in the mai, with issue size of Baht 39,062.12 million and Market Capital at IPO Price of Baht 193,967.93 million.



### Total Number of all Listed Companies in 2013

Year	Total Number of Listed Companies			Issued Size (Million Baht)	Market Capital at IPO Price (Million Baht)
	SET	mai	Total		
2013	13	15	28	39,062.12	193,967.93

### Information of securities that the Company performed as lead underwriter in 2013

Stock code	KGI's Role	First trading date	IPO size (Baht million)
PPP	Financial Advisor and Lead underwriter	14 <sup>th</sup> Feb 2013	413
PTG	Co-Lead underwriter	30 <sup>th</sup> May 2013	1,638
SEAOIL	Lead underwriter	5 <sup>th</sup> Sep 2013	242
BJCHI	Financial Advisor and Lead underwriter	28 <sup>th</sup> Nov 2013	2,400

In 2013, the Company was appointed to perform as lead underwriter of 3 IPOs, perform as co-lead underwriter of 1 IPO and joined co-underwriting syndication of 9 IPOs. These received a great response from investors. The Company also successfully performed financial advisor roles for fund raising through both debt and equity, equity-link for both listed and non-listed companies.

With our group of experienced staff and expertise in financial engineering to structure products that suit our clients' needs and with our regional group network, KGI's investment banking team can provide a full line of products and services in both the domestic and foreign markets.

#### 2.1.6 Securities Registrar

The Company received approval to conduct securities registrar business on 14<sup>th</sup> June 1994, and the Company continues to maintain its securities registrar license in order to support its derivatives products in the future.

#### 2.1.7 Fixed Income Business

The Company is a member of Bond Electronic Exchange (BEX) and Thai Bond Market Association (ThaiBMA), and provides trading fixed income securities services to the Company's clients. Investors can open an account for fixed income trading together with opening an account for securities trading. The Company has experienced staff that are proficient in providing services and advice that allow clients to make investment decisions in their best interest. The Company was also the only securities company to be appointed to be a government bond primary dealer (MOF Outright PD).

Rank by Outright Trading Value (Corporate Bond)			
Rank	Dealer	Outright Trading Value (Baht Million)	Market Share (%)
1	KBANK	121,170.37	26.87%
2	TISCO	103,198.81	22.89%
3	KGI	54,447.64	12.08%
4	KTB	44,272.20	9.82%
5	TBANK	39,885.61	8.85%
6	SCB	19,096.01	4.24%
7	BAY	18,676.44	4.14%
8	CIMBT	10,886.40	2.41%
9	ASP	7,498.45	1.66%
10	KTZMICO	5,940.24	1.32%
	Other	25,813.75	5.73%
Total		450,885.92	100.00%

In 2013, the Company earned “Best Bond Securities Firm Award” from Thai Bond Market Association (TBMA). The Company was ranked No. 1 in bond outright among securities dealers. It was ranked No. 3 in corporate bond trading value among all dealers.

### **2.1.8 Private Repo Business**

The Company, pioneered Private Repo to corporate and high net-worth clients, providing a new alternative investment. The Company was the first and the only one to provide Repo agreement in Thai version, approved by SEC, to offer clients with more convenience. In 2013, the Company was ranked No. 1 in terms of Repo volume among securities firms. Currently, Private Repo market continuously showed grow at significant pace and would further play an important role in developing bonds market.

### **2.1.9 KGI Wealth Management and Sales Agent in investment units of mutual funds Business**

The company has experienced professionals to provide appropriate financial advice under KGI Wealth Management to High Net Worth clients in order to meet investment objectives and risk appetite for the clients’ best interests.

The Company received a Sales Agent in investment units of mutual funds approval from SEC on 16<sup>th</sup> January 2002. As of 31<sup>st</sup> December 2013, the Company was appointed as a Sales Agent in investment units of mutual funds for 19 asset management firms. The client coverage includes both institutional and individual investors.

### **2.1.10 Securities Borrowing and Lending (“SBL”)**

The Company is the first security firm to act as a principal and agent assisting clients who want to lend or borrow securities: 1. Institutional Lenders, 2. Local and Foreign Institutional Borrowers, 3. Retail Borrowers. This service will help increase liquidity and price stability to the Thai capital market.

In order to attract both retail and institutional clients, the Company held SBL promotional campaigns such as no minimum day for borrowing securities. The Company, as the first SBL provider in Thailand, plans to expand its SBL business as follows:

- 1) Increase stock inventory for borrowers.
- 2) Expand client base, both foreign and local clients, who are increasingly interested in borrowing and lending Thai securities.

### **2.1.11 OTC Derivatives**

The Company is recognized as one of the leaders in innovation in the development of derivatives products in Thailand. The Company has spent more than 10 years preparing for issuing and trading of derivatives products. The major shareholder, the KGI Taiwan, has also provided valuable assistance by transferring knowledge and technology to the Company. The KGI Group sent derivatives experts to train our staff to be ready for this new market in Thailand. At the same time, the Company sent staff to its related companies in Taiwan and Hong Kong to closely study their sophisticated derivatives markets.

The Company adopted the same program and software as those used in Taiwan and Hong Kong. This software is widely recognized in developed derivatives markets in many countries and should be effective in the Thai market as well. Such a system will greatly enhance the risk management capability of the Company in hedging our derivatives positions. KGI Group and the Company always develop such systems to handle every market situation. The Company is completely ready for OTC Derivatives. At the moment, the Company focuses mainly on institutional clients who have better understanding about the risks and rewards of such products.

#### **1. OTC Equity Derivatives**

OTC Equity Derivatives products are tailor-made, and designed according to clients’ requests.

In 2013, OTC Equity Derivatives gained in popularity due to the volatile stock market. OTC Equity Derivatives are popular among local and foreign institutional clients, including Private Funds, to manage their risks and gain return. The Company provides various types of OTC Equity Derivatives, including

basic and exotic options, and will offer a wider variety of options to match clients' risks and return profiles in the future.

In 2014, the Company expects market volatility from inside and outside the country, especially local political factors. The Company expects OTC Equity Derivatives to remain a popular choice. The Company formed a partnership with KGI Group and reputed foreign banks in the area of OTC Equity Derivatives on foreign equity underlying covering markets; Hong Kong, Japan, Singapore, Australia, US, and Europe. The Company regularly organizes training/seminars to ensure that our clients thoroughly understand the products before investing in equity derivatives with us and that our equity derivatives products would help reduce risk and/or enhance return of their portfolios.

## 2. Structured Products

The Company is focusing on developing structured products that combine equity derivatives with money market instruments to serve clients who want to invest in both the equity market and money market. The Company offers structured products exclusively to institutional clients and private funds with a good understanding and knowledge of derivatives. The company launched Structured Notes since 2012. In December 2013, the Company continued summated filings of Structured Notes to SEC. Structured Notes (SN): To serve the needs of the clients who prefer investment in fixed income securities with embedded options. The return performance of SN will be related to the underlying debt obligation and the equity options embedded within it.

At present, the Company provides various types of SN with a maximum term of 270 days, whose returns are linked to the price of a single or a basket of SET listed stocks, SET index, SET 50 index, SET 100 index, and listed Exchange Traded Fund.

### 2.1.12 Exchange Traded Fund ("ETF")

The Company joined a group led by One Asset Management Limited (the Company's subsidiary) and four other leading securities companies as well as a foreign fund advisor that won the right to launch Thailand's first equity exchange traded fund (Equity ETF) in the name of ThaiDEX SET50 ETF or "TDEX" since 2007. The Company acts as Market Maker (MM), providing liquidity in the secondary market and as Participating Dealer (PD), facilitating the creation and redemption of TDEX in the primary market.

In 2009, the Company joined a group led by One Asset Management Limited (the Company's subsidiary) and five other leading securities companies to launch Thailand's third equity ETF in the name of ThaiDEX FTSE SET Large Cap ETF or "TFTSE".

Later, in 2010, the Company acted as Participating Dealer (PD) for Thailand's first ETF on foreign ETF in the name of W.I.S.E. KTAM-CSI300 China Tracker or "CHINA" which may invest in W.I.S.E. – CSI300 China Tracker fund, seeking to replicate the return of CSI300 Index.

ETF that the Company acts as Market Maker ("MM") and/or providing liquidity in the secondary market and as Participating Dealer ("PD")

ETF	Code	Underlyig Index	Registered Date	KGI's role	AUM (Baht Million) As of 27 Dec 13
ThaiDEX SET50 ETF	TDEX	SET50 index	6 Sept 2007	MM, PD	2,298.88
W.I.S.E. KTAM CSI 300 China Tracker	CHINA	W.I.S.E. -CSI 300 China Tracker	22 Nov 2010	PD	263.18
KTAM Gold ETF Tracker	GLD	SPDR Gold Trust (2840:HK)	8 Aug 2011	PD	457.49
ThaiDEX SET High Dividend ETF	IDIV	SET High Dividend 30 Index	16 Aug 2011	MM, PD	102.61
ThaiDEX Gold ETF	GOLD99	Gold price of London Gold Fixing A.M.	11Oct 2011	PD	112.48
Bualuang Chay Gold ETF	BCHAY	Gold price of High purity of 96.5 percent	1Nov 2011	PD	373.32
KTAM Hong Kong ETF	HK	Hang Seng Index	13 Jun 2012	MM, PD	42.08
ThaiDEX SET100 ETF	TH100	SET100 index	19 Feb 2013	MM, PD	157.31

In 2011, with SET Index closing at a 15-year high, the Company coordinated with One Asset Management Limited (the Company's subsidiary) to launch ThaiDEX SET High Dividend ETF or "1DIV". The Company acted both as Market Maker (MM) and Participating Dealer (PD). Within the same year, TFEX trading volume reached a historical high, particularly in Gold Futures trading; therefore, the Company joined and acted as Participating Dealer (PD) for three gold ETFs – "GLD", "GOLD99" and "BCHAY".

In 2012, the company coordinated with Krungthai Asset Management Public Company Limited to launch Hong Kong ETF Tracker or "HK". The Company acted both as Market Maker (MM) and Participating Dealer (PD).

In 2013, the company coordinated with One Asset Management Limited (the Company's subsidiary) to launch ThaiDEX SET100 ETF or "TH100" to meet customer needs. The Company acted as Market Maker (MM) for ThaiDex SET100 ETF.

### 2.1.13 Derivative Warrants ("DW")

Derivative Warrants ("DW"), are financial instruments that the issuers give rights to the buyers to buy the underlying securities in the future at a pre-determined price, quantity and period as specified by the issuers. A DW issuer is a third party, which is not related to the listed company issuing the underlying securities.

In 2009, the Company was the first securities company in Thailand launching DW. The first DW to be launched by the Company was PTT13CA in June 2009. Within the same year, the Company launched another two DWs - KBAN13CA and PTTE13CA.

The Company is one of the leaders in launching derivatives products in Thailand. In 2013, the company launched 123 DWs. These were highly successful and received a great response from investors, with total registered amount of all 123 DWs at around Baht 7,113 million. From 2009 to ended of 2013, the company launched a total of 366 DWs as detailed below;

Year	2009	2010	2011	2012	2013	total
Total DWs issued by the Company	3	21	114	105	123	366
-CALL Warrant	3	21	87	73	98	282
-PUT Warrant	-	-	27	32	25	84

As of 31<sup>st</sup> December 2013, of these 366 DWs, 291 expired by the end of 2013 and 75 remained outstanding, which were related to 63 underlying stocks listed on the SET. (See other information as an issuer of derivative warrants in topic 6.2.)

The Company and the underlying companies of the DW that the Company has issued are not related either in terms of capital structure or management. The Company is not an insider of any of the underlying companies for which it has issued DW.

In 2014, the Company plans to launch 100 more DWs linked to many leading stocks. The new DW may be based on new underlying securities, such as SET50 Index, SET100 Index, ETF and a component of SET100 Index, as approved by regulators. In addition to new underlying securities, new DWs may be physically settled.

DW is new investment product in Thailand, the Company has planed to educate about DW for employees, local institutional clients, including, local & foreign retail clients. The DW education was provided through many channels such as [www.thaiwarrant.com](http://www.thaiwarrant.com), Settrade's Blog (both Thai & English version), newspapers, interviews and print media, in order to enhance knowledge and build confidence in DW investment. The Company plans to roadshow to local and foreign institutional investors to publicize new financial products and attract new clients to invest in Thai Capital Market. The Company launched the first website in Thailand, [www.thaiwarrant.com](http://www.thaiwarrant.com) (both Thai & English version). This website provides information of all DW in Thailand which is useful for investors who are interested in DW.

## 2.2 MARKET OVERVIEW AND COMPETITION

### (A) Significant Marketing Activities

#### The Company's marketing policy in 2013

The Company's marketing policy is to maintain existing clients and expand new clients by organizing promotional activities and focusing on giving better service to clients. In 2013, the Company held the following marketing activities:

1. The Company opened booths at seminars at SET, universities, etc., to introduce its product and services.
2. The Company co-operated with MAI to produce research papers for medium and small listed companies in MAI and continues to conduct marketing activities for investors.
3. The Company held seminars to educate clients and investors on topics such as Internet Trading, Securities Fundamental-Technical Analysis and TFEX. The seminars not only educated the clients and investors, they also expanded the Company's customer base.
4. The Company arranged the Young Professional Investment Consultant project class 2-3 to recruit new graduates and training them via lectures, workshops, field trips and on-the-job training to be new professional investment consultants.
5. The Company developed an internet trading platform and launched a new campaign "EZ trade EZ Rewards" from 1<sup>st</sup> November 2013 – 31<sup>st</sup> December 2013.

#### Character of Clients, Target Client, Trading Order Channels, Portion of Local and Foreign Clients

The Company targets clients who have capital and want to invest in financial products in equities, fixed income and derivatives. This can be a natural person or juristic person. (Since most of the company's revenue comes from the Brokerage fees from Securities business. Content on character of clients will focus on the brokerage business.)

#### Information of the Company's clients in past 3 years.

Unit : Baht Millions						
Average Daily Trading Volume	2013	%	2012	%	2011	%
Daily Trading Volume- SET*	50,329		32,304		29,473	
Daily Trading Volume- The Company *	4,838		2,644		2,944	
(including the Company's portfolio)						
The Company's market share %	4.04%		3.47%		4.53%	
(excluding the Company's portfolio)						
Ranking	11		12		9	
Breakdown by types of clients						
1) Local corporate clients	330	7	149	6	186	6
2) Local retail clients	2,969	61	1,584	60	1,911	65
3) Foreign clients	257	5	220	8	223	8
Total clients volume	3,556	73	1,953	74	2,320	79
4) The Company's portfolio	1,282	27	691	26	624	21
Total	4,838	100	2,644	100	2,944	100
Breakdown by types of accounts						
1) Cash account clients	2,887	81	1,323	68	1,614	70
2) Credit balance account clients	669	19	630	32	706	30
Total	3,556	100	1,953	100	2,320	100
Breakdown by types of trading order channels						
1) Trading via marketing officers clients	1,490	42	919	47	1,180	51
2) Trading via internet trading clients	2,066	58	1,034	53	1,140	49
Total	3,556	100	1,953	100	2,320	100

Note : \* Trading volume referred to volume in both SET and MAI



In 2013, the Company's clients consisted 68% local clients, 5% foreign clients and 27% the Company's portfolio. Most of the foreign clients are from the United States and Taiwan, the Company did not depended on any client for more than 30% of total income.

For trading channels, beside the Company's head office, the Company also has 15 branches throughout the country to provide service to clients. The clients can use trading order channels via marketing officers or trading via internet. In 2013, the portion of trading via marketing officers : trading via internet was 42% : 58%.

## (B) Market Overview and Competition in 2013

The year 2013 was quite unique for the Thai stock market, as the investment picture in the first half and second half of the year differed significantly. The market backdrop was very positive, both globally and domestically, in the first half pushing the SET Index to a 16-year high. However, the market posted a dramatic correction in the second half of the year due to investor concerns about US monetary policy, Thai economic slowdown and local political instability. Macro difficulties in the second half were so significant that they wiped out the earlier gains, leading to SET closing the year 6.7% lower than 2012.

In the first half, notably before the end of May, the Thai market was bullish, tracking continued re-rating in Asian stocks due to global excess liquidity and regional inflows. The major driver was US bond purchase called QE. The FOMC in late 2012 announced the bond purchase program to shore up the US economy, promoting easy money to EM stocks. However, the SET began to face higher volatility in May when FOMC chairman Ben Bernanke, signaled that QE could be scaled back later in 2013.

The dynamics of expectation on QE tapering and a few negative domestic factors largely weighed on the SET in the second half of 2013. Thai economic slowdown was noticed as rising household debt restrained consumption spending, while the expiration of economic stimulus packages from the government meant that the spending momentum slowed. During the final month of 2013, the local political situation heated up and adversely affected the market. A large number of protesters gathered to object to the government's proposal to revamp sensitive bills. As a result, PM Yingluck Shinawatra decided to dissolve parliament on 9<sup>th</sup> December 2013. However, the protests continued with the aim of ousting the caretaker government and holding political reform before calling for a new election.

### *Stock Exchange of Thailand*

	2013	2012	2011
Total trading value (Baht million)*	12,330,669	7,914,567	7,191,481
Average daily trading value (Baht million)*	50,329	32,304	29,473
Total market capitalization (Baht million)	11,496,765	11,831,448	8,407,696
SET Index (year-end)	1,298.71	1,391.93	1,025.32
Dividend Yield (%)	3.2	3.0	3.7
P/E ratio (times)	14.6	18.3	12.1
P/BV ratio (times)	2.0	2.4	1.9
No. of listed companies	490	477	471

\*including MAI

For the whole 2013, the SET Index was very volatile and closed lower. The main index closed at 1,298.71 pts, falling 6.70% for the year. The performance of the Thai stock market was significantly weaker than that in 2012, when the SET Index rose 35.76% from the end of 2011.

Signs of Thai economic slowdown were more obvious since 2Q13, when quarterly GDP grew 3.8% YoY, which was significantly below the market expectation. The slowing momentum was confirmed by 3Q13 GDP which decelerated further to 2.7% YoY. Most economists on the street have been lowering their



forecasts on Thai GDP for both 2013 and 2014. The 2013 GDP is currently expected to grow below 3% while 2014 growth should be between 3.0-3.5%.

In 2013, the daily average market turnover (both SET and MAI) stood at Baht 50.3 billion, increasing by 55.8% from Baht 32.3 billion in 2012. Foreign investors reported massive net selling position of Baht 190.3 billion in 2013, compared to net buying of Baht 76.4 billion during 2012. The market capitalization rose to Baht 11.50 trillion at the end of 2013, down 2.8%, from Baht 11.83 trillion at the end of 2012.

There were 28 new companies listed in Thailand's stock markets (both SET and MAI) in 2013, compared to 18 new listings in 2012. Strong market sentiment in the first half resulted in a large number of IPOs. In the second half, though stock market conditions deteriorated, most companies were already prepared for the IPO so they did not cancel the listings. This explains why the IPO lineup remained strong in the second half of 2013 despite the worsening SET Index.

### IPO Stocks in 2013

Stock	First trading date	IPO size (Baht million)
1. EA	30 Jan 13	3,080
2. AKP	7 Feb 13	168
3. PPP	14 Feb 13	413
4. EUREKA	1 Mar 13	113
5. ECF	26 Mar 13	144
6. SANKO	9 May 13	57
7. CHO	13 May 13	360
8. CHG	16 May 13	1,386
9. PTG	30 May 13	1,638
10. MONO	6 Jun 13	2,793
11. NOK	20 Jun 13	3,250
12. MC	4 Jul 13	3,000
13. CKP	18 Jul 13	2,340
14. PACE	7 Aug 13	2,100
15. AUCT	9 Aug 13	220
16. M	15 Aug 13	9,107
17. CSS	3 Sep 13	600
18. SEAOL	5 Sep 13	242
19. BKD	25 Sep 13	270
20. WINNER	3 Oct 13	176
21. THREL	9 Oct 13	95
22. FVC	29 Oct 13	71.04
23. MEGA	19 Nov 13	2,271
24. NYT	25 Nov 13	2,445
25. BJCHI	28 Nov 13	2,400
26. GCAP	17 Dec 13	135
27. SPVI	19 Dec 13	99
28. OCEAN	23 Dec 13	90

Source: SET and MAI

### Competition among Thai Broker

Competition among Thai brokerage businesses remained intense in 2013, similar to the previous year. Although the stock market was on the rise and market turnover was high, the industry is undergoing liberalization of commission rates and pricing competition has been fierce. The major players in foreign institutional business and retail business shared the top positions in 2013. During the year, there have been a large number of IPO shares coming to market, and that was a support to the brokerage volume of

the companies having IPOs offered to clients. In 2013, the sum of the market share of the top 12 brokers stood at 63.63%.

### Top 12 securities broker (Year 2013)

Rank	Company Name	Name	Market Shares (%)
1	MAYBANK KIM ENG SECURITIES (THAILAND) PUBLIC COMPANY LIMITED	MBKET	11.39
2	KASIKORN SECURITIES PUBLIC COMPANY LIMITED	KSMACQ	6.11
3	FINANSIA SYRUS SECURITIES PUBLIC COMPANY LIMITED	FSS	5.72
4	CREDIT SUISSE SECURITIES (THAILAND) LIMITED	CS	5.44
5	COUNTRY GROUP SECURITIES PUBLIC COMPANY LIMITED	CGS	4.71
6	THANACHART SECURITIES PUBLIC COMPANY LIMITED	TNS	4.66
7	PHATRA SECURITIES PUBLIC COMPANY LIMITED	PHATRA	4.58
8	CIMB SECURITIES COMPANY LIMITED	CIMBS	4.45
9	BUALUANG SECURITIES PUBLIC COMPANY LIMITED	BLS	4.42
10	ASIAPLUS SECURITIES PUBLIC COMPANY LIMITED	ASP	4.18
11	KGI SECURITIES (THAILAND) PUBLIC COMPANY LIMITED	KGI	4.04
12	KT ZMICO SECURITIES PUBLIC COMPANY LIMITED	KTZ	3.93
	OTHERS		36.37
	Total		100.00

### Industry Trend in 2014

The trend of Thailand's brokerage industry in 2014 should be similar to 2013. First, competition is intense as brokerage commission fees continue to be cut. Second, as macro conditions on the market were less positive to those in 2013, trading volume may slow and lead to even more intense competition. Third, the trend to divert from traditional brokerage business to non-brokerage business like derivatives and other fee-based services should remain obvious this year.

### 2.3 Product or Services Procurement

#### A. Production or services factor

##### Employee

Employees are important factors for the Company. As of 31<sup>st</sup> December 2013, the Company had a total of 577 employees and One Asset Management Limited (a subsidiary of the Company) had a total of 110 employees. See details of employee in topic 8.5.

##### The Company's Offices

As of 31<sup>st</sup> December 2013, the Company has 15 branches located throughout the country:

Bangkok	Provincial	
1) Pin Klao	1) Chiang Rai	6) Suphan Buri
2) Changwattana	2) Nakhon Sawan	7) Nakhon Pathom 1
3) Thapra	3) Nakhon Ratchasima	8) Nakhon Pathom 2
4) Silom Center	4) Udon Thani	9) Phetchaburi
5) Silom Complex	5) Samut Sakhon	10) Hat Yai

##### Fund Management

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

If the Company requires new funds, its policy is to try to procure the cheapest source of funds available, and to match the duration of any loan to its needs. As far as possible, the Company will not depend upon one source of funds. The Company analyzes its cash flow needs on a daily basis and tries to match its funding and investment in money market instruments to its needs as forecast.

The Company has a policy to maintain a Net Capital Rule and a Net Capital Ratio (NCR) that are higher than the requirements under the SEC regulations, which specified that the Net Capital Rule must be at least Baht 25 million and the Net Capital Ratio must be at least 7% of liabilities and guarantees.

#### Investment Policy

The Risk Management Committee manages the risk of the Company's proprietary trading. Board of Directors of the Company, date 10<sup>th</sup> November 2010, approved the Investment Policy of its Proprietary Trading. The Board authorized the Company's Risk Management Committee to implement and amend the policy as necessary and ask the Risk Management Department to review the Company's investments to comply with related regulations. The principle of the investment policy are as follows:

1. The Company has both Proprietary Trading Department (PT) and Fixed Income Department (FI) responsible for stock and bond selection and investment allocation of its proprietary trading. The Board of Directors approved a set of investment universe for each business.
2. PT and FI must notify the Company's Risk Management Committee before undertaking new activities which may give rise to market risks not previously identified or defined. The Company's Risk Management Committee will have to approve the new activities before business units can conduct any transactions.
3. The Company's Risk Management Committee would consider the investment size at least on an annual basis. However, the business units are able to ask for special approval of additional credit line when there is a change in investment strategies. The Board delegates the task of approving the temporary credit line to Chief Operating Officer, Head of Financial and Accounting Department and Head of Risk Management department.
4. Risk Management Department will evaluate stress testing and the net capital for extreme market movement. If the worst case scenario is beyond the acceptable range or net capital drops significantly, the Risk Management Department will report this to the Company's Risk Management Committee to consider corresponding actions.
5. The Company's Risk Management Committee will approve risk limit for PT and FI, at least on an annual basis. The Risk Management Department will monitor risk activities and will take action following the Stop Loss Policy when the risk measures reach the limit.
6. Risk Management Department will report Market Risk Summary Report and Risk Analysis to the Chief Operating Officer daily, monthly and quarterly, to ensure that the Company's investment is effective.

#### Credit Balance Policy

The Customer who wishes to open a Margin Loan; Credit Balance Account ("Margin Account") shall disclose to the Marketing Officer the adequate personal information which represents the proper debt payment ability. After the Company has approved the opening of any Margin Account, such Customer shall sign the related Loan Agreement for Securities Trading to acknowledge the term and condition and risk in relation to the Margin Account.

Margin Account is an account recorded the loan to the Customer for securities trading. The Customer shall pledge the assets as prescribed by the Office of SEC not less than 50% of loan amount or any rate which prescribed by the Stock Exchange of Thailand (SET) as collateral for debt payment. In addition, the Company has announced the additional material condition concerning the loan for securities trading as follow;

1. The Company will not lend the loan for securities trading to any person which the Company know or should know that such person is a nominee.
  2. Before serving any services to the Customer, the Company shall collect and evaluate Customer's information for the following purpose;
    - 2.1 Know Your Customer & Customer Due Diligence: KYC / CDD
    - 2.2 Evaluate the suitable and acceptable risk level for its loan for securities trading through Suitability Test
- With compliance to the regulation issued by the Office of SEC, in case where i) the Customer does not cooperate or refuse to provide any information, or ii) the existing information is inadequate or not up to date materially and iii) the Company may not use such information as a part of lending consideration due to any suspicious causes. The Company reserves its right to suspend or deny all services provided or will provide to the Customer.
3. The Company has set out the Marginable Securities list. In this regard, the Company has considered the qualification of any securities such as liquidation, good fundamental, price volatility and relevant risk etc. In addition, the Company will monthly review the Marginable Securities list or when any significant market change in the marginable lists are occurred and giving prior notification to the Customer as the Company deem appropriate on company's website.
  4. The Company has imposed the Initial Margin Rate for all marginable securities and required the Customer to deposit cash or assets as their collaterals before trading is made. In addition, the Company has set the Call Margin Rate and Force Sale Rate which not lower than the rate prescribe by the SET and comply with the Company's internal working process. The Company will require the Customers to add up more collateral or force sale their securities when the collateral is less than the required rate.
  5. The Company has imposed the interest which shall be i) charged from the loan for securities trading or ii) paid from the cash which the Customer has deposited as collateral in Margin Account, has comply with the regulation prescribed by the Office of SEC and/or the Company.
  6. All Customers' cash including benefit/return deposited with the Company shall not be subjected to the protection of the Financial Institutions Development Fund.

#### B. Environmental impact of production processes or eliminating raw material and waste

The company encourages employees to save energy and protect the environment by 1) turning off lights during lunch breaks, 2) shutting down computers and unplugging unused electrical equipment after work, 3) saving water, 4) saving paper by using recycled paper and 5) reducing the amount of toilet paper. The company has never been sued over any environmental issues.

### **3. Risk Factors**

#### **3.1 Company's Business Risks**

##### **3.1.1 Risk Associated with Rule and Regulation and Related Laws**

The Company operates in securities broker business. In 2013, the Company report brokerage fees of Baht 1,241.24 million or 45% of total income. Potential growth depends on each government policy and economic and monetary strategy. Changes in policies, including new laws and regulations, would affect the Company's growth. For example, changes in the interest rates that affect investment and income of the Company.

The Company manages those risks by analyzing economic and monetary policies and their effect to the Company. It manages those changes by participating in government meetings and seminars to gather information and closely monitor those changes.

The Company operates in a highly regulated business environment. Changes to existing regulations, or the introduction of new regulations, under SEC and SET may negatively affect the Company. Among other things, such changes may affect; the type of businesses or products the Company can offer, the level of fees or commissions the Company may charge, the amount of capital the Company must maintain or the qualifications or licenses the Company's employees must hold.

The Company's Legal and Compliance Department monitors and controls each department operation to ensure they follow the procedures and also advises the Company on the issuing of new products and legal transactions and also works with government agencies if necessary.

### **3.1.2 Risk from Dependence on Major Client**

In 2013, the Company did not depend on income from any one client for more than 30% of total income. The Company is concerned about the risk of dependence on major clients, so it continuously plans to expand its client base both in retail and institutional clients and both in local and foreign. One way this is seen is the development of internet trading system (EZ Trade) to expand internet trading clients.

### **3.1.3 Risk Associated with Human Resource**

Human resource is one of the key factors for securities businesses. Losing a key member of the staff may affect the continuity business of the Company.

In order to protect against such risk, the Company provides continuous training to enhance human resource development in terms of potential and expertise to better serve clients. Nevertheless, to create career paths for the Company's staff, the Company has a clear policy with properly compensated in accordance with current market conditions and competition. Lastly, the Company's management team is focused on building good relationships within the organization leading to good cooperation and better and safe working environment.

### **3.1.4 Risk of Renewal Premise Leasing Contract**

Currently, the Company has leased the premise for the business operation either in head office or 14 branches for certain period in many leasing contracts (except Supanburi Branch which the land and building belong to the Company). Therefore, the risk of contract renewal may be existed as well as the rental fee adjustment which may be increased by the lessor. However, most of leasing contracts grant the Company the right to renew the leasing contract as long as the company comply with terms and conditions in the contract. Nowadays, the company has performed its duties under the leasing contracts as a good lessee and often get renewal from the lessor. Considering the rental fee adjustment which may affect the cost of business operation, but it is accepted by the company due to the consistency with market rate. Therefore, the Company believes that provisions contained in the current premise leasing contracts will not give rise to a significant risk to the Company.

### **3.1.5 Risk Associated with Free Trade Area and Asean Economic Community ("AEC")**

Asean Economic Community (AEC) will be fully implemented in 2015. The AEC is a regional economic integration of ASEAN 10 countries which transform ASEAN into a region with free movement of goods, services, investment, skilled labour, and freer flow of capital. For securities trading business, SET has developed the Asian Link system to trade securities across countries easier. However, KGI still does not allow clients to trade internationally.

### **3.1.6 Market Risk**

Market risk refers to the risk that fluctuations in market trading volumes and interest rates will directly impact on the Company's revenue or the value of the Company's financial assets and liabilities at present and in the future. Factors causing volatility in market trading volumes and interest rates include political developments, the economic outlook, and domestic and investor sentiment, both domestically and internationally.

A variety of tools are used to implement comprehensive measurement and analysis of market risk. For example, Value-at-Risk is used to measure the potential loss on investment given a certain time horizon

and level of probability, and stress testing is implemented to evaluate the robustness of a company in any given stress scenarios. These analytical tools provide a picture of the Company's potential future losses. Moreover, the Company assesses and manages the losses potential resulting from market losses by setting stop loss limits and position limits that are appropriate to current market conditions, which change over time.

### **3.1.7 Risk from Competition in Securities Broker Business**

The securities broker business is highly competitive, especially as SET changed its policy on brokerage commissions to a cascade calculation. The commission will vary based on trading volume. Also, the brokerage commission fee is fully negotiable between brokers and members since January 2012. If the Company is unable to maintain a high quality of service compared to other brokers, it may lose its market share. Therefore, the Company has strategic planning and situation accommodation starting with a policy to continually enhance the efficiency of its staff in giving advice and service to clients, including technology development to support new products. The Company also has always developed its research and expanded with new businesses to give more convenience to clients and offer investment alternatives.

### **3.1.8 Credit Risk**

Credit risk refers to the risk that a counter party will default on its contractual obligations, resulting in a financial loss to the Company and its subsidiary companies.

The Company is exposed to credit risk primarily with respect to securities and derivatives business receivables, loans and other accounts receivable. The Company controls such risk by establishing credit limits for clients and counter parties and analyzing their financial position as an ongoing basis. The Company is not expected to have much concentration risk of credit exposure because it has a variety of client base and large number of clients.

The maximum exposure to credit risk is limited to the carrying amount of securities and derivatives business receivables, loans, and other receivables as stated in the statements of financial position. As of 31<sup>st</sup> December 2013, the Company has its securities and derivatives business receivables-net of Baht 4,105.05 million.

### **3.1.9 Risk from Securities Investment and Return**

Risk from securities investment and return is the risk that the Company may not get return from investment as it expects.

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 risk of losses due to market volatility and controlling risk limit on a daily basis. The Risk Management Committee will review on a regular basis to be consistent with market condition from time to time.

### **3.1.10 Risk from Investment in Subsidiaries**

This type of risk may arise if the subsidiaries incur losses which have an effect on the Company's performance. The Company's investments in subsidiaries are accounted for under the equity method. The Company appointed persons to be directors for setting management policies of its subsidiaries.

### **3.1.11 Risk from Investment Banking Business**

In operating an investment banking business, in the underwriting business, there is risk of losses from unsubscribed securities that must be transferred to the Company's portfolio. Inappropriate size or pricing of issues, unexpected fluctuations in the stock market, interest rates or foreign exchange rates can cause the investors not to subscribe to such securities. To reduce such risk, the Company studies and analyzes information regarding the issuer and the interest of clients or investors. In the financial advisory business, the Company always studies clients carefully and conducts due diligence before entering deals. The Company also set up the Investment Banking Sub-Committee to be responsible for approving underwriting deals and other investment banking businesses.



**3.1.12 Risk Associated with Derivatives Products**

Having taken into consideration various risks involved in derivatives, the Company has approved the Equity Derivatives Department and Fixed Income Department to sell derivative products to clients. However, the Risk Management Committee has to first approve the “Product Program” before the Equity Derivatives Department and Fixed Income Department can issue derivatives to clients. The Product Program mainly focuses on

- 1) Characteristics of securities, services, and target clients;
- 2) Risk management policies such as control of position risk (Var, Delta, and DV01) setting acceptable stop loss level and other risk policies depending on attributes of securities and services offered to clients; and
- 3) Internal operational procedures (Work Flow) including internal control.

The Risk Management Department monitors the Company’s exposure on a daily basis to ensure compliance with the approved risk policies. The Company is therefore confident that it has put in place a system for limiting risks associated with derivatives to an acceptable minimal level.

The Company was the first securities company launching Derivatives Warrants. The Company has a strict policy to control and monitor associated risk closely. Currently, the Company has total Credit Limit for issuing Derivative Warrants Baht 1,500 million.

**3.1.13 Risk Associated with Information Technology**

Information technological risk associated with technological limitations including ability to support large transactions and product variability plus operational system, backup and information security.

Much of the Company’s business is conducted using various computer or communications networks. In the event these systems or networks are disrupted or unavailable the Company’s operations would be affected. Examples of such disruptions include external network or system outages affecting market trading activities, and internal system outages affecting communication or data management.

The Company foresees the important of information technology in operating business, so it is always developing systems to support new product and various types of transactions. Also, the Company has set up an emergency plan and disaster recovery plan for each of its main systems and maintenance.

**3.1.14 Risk Associated with Fraud**

Fraud is a risk that can occur from employee, clients and contactors. The Company maintains close multiple operational and financial monitoring and controls to ensure that transactions, both on behalf of clients and for the Company, are performed correctly. However, the Company may be at risk of fraud. This includes failure of the Company’s monitoring systems to detect fraud.

**3.1.15 Risk Associated with Business Disruption**

The Company has performed extensive business continuity planning and preparation. However, major business disruption events beyond the control of the Company may affect its level of business operations. Examples of such events include natural disasters such as the major flooding in 2010, or political unrest in 2011.

**3.2 Financial Risk****3.2.1 Liquidity Risk**

Liquidity risk is the risk that the Company and its subsidiaries will be unable to liquidate financial assets and/or procure sufficient funds to discharge obligations in a timely manner, resulting in a financial loss.

The Company has procedure and process to monitor, follow and control liquidity risk. For example, when the Company is launching a new product, it assesses the impact on its liquid capital by estimating its net capital ratio after the product is launched using a stress test technique, and takes this information into consideration in determining the appropriate size of the product issue.

The Company has a policy to maintain a Net Capital Rule and a Net Capital Ratio (NCR) that are higher than the requirements under the SEC regulations, which specified that the Net Capital Rule must be at least Baht 25 million and the Net Capital Ratio must be at least 7% of liabilities and guarantees.

### **3.2.2 Foreign Exchange Risk**

Foreign currency risk is the risk that the value of a financial instrument will fluctuate because of changes in foreign exchange rates.

As of 31 December 2013, the Company has investments in subsidiaries in foreign currency under cost method of USD 59.4 million (equivalent to Baht 2,383 million). However, the Company also has obtained Thai Baht loans from those subsidiaries totaling Baht 2,099 million.

The Company has exposure to foreign exchange risk in respect of its investments in foreign currencies. The Company has entered into any forward exchange contracts with maturities of up to 1 year to manage this risk.

### **3.2.3 Interest Rate Risk**

Interest rate risk is the risk that future fluctuations in market interest rates will affect the operating result and cash flows of the Company and subsidiary companies.

The exposure to interest rate risk of the Company and its subsidiary companies relates primarily to their deposits at financial institutions, securities purchased under resale agreements, securities and derivative business receivable - credit balance accounts, long-term investments in debt securities and debt issued and borrowings. However, as most of the financial assets and liabilities carry floating interest rate which fluctuates in line with the market interest rates or carry fixed interest rate which approximates to the current market interest rate, the Company and its subsidiary companies do not use derivatives to manage their interest rate risk.

## **3.3 Risk Affecting the Rights of Shareholders**

### **3.3.1 Risk From Having Major Shareholder**

Richpoint Company Limited (100% owned by KGI Securities Company Limited, Taiwan), is the company's major shareholder, owning approximately 35% of the company's paid up shares as of 31st October 2013 (the last registration close book date). A major shareholder may exercise greater influence over the company's management and business policies. However, if a major shareholder wishes to hold more than 50% of the company, it still needs to seek approval from relevant government agencies.

Currently, there are 4 independent directors from a total of 12 directors or equal to 33%. They are responsible for good corporate governance to ensure that the quality of management is effective, transparent and accessible for the minority shareholders.

### **3.3.2 Risk from Establishing a Thai Trust Fund and Having a Non-Voting Depository Receipts (NVDRs)**

Since investors in the Thai Trust Fund and NVDRs holders have no voting rights, this effectively leads to a decrease in the number of voting shares. As a result, major shareholders may have an increased level of control over the Company. However, as of 27<sup>th</sup> December 2013, there were no shares held by the Thai Trust Fund and investors had bought 207,758,395 NVDRs shares (equivalent to 10.43% of paid-up capital).

### **3.3.3 Risk Associated with Low Free Float Stock Which Effect Low Trading Liquidities**

As of 31<sup>st</sup> December 2013, 65.02% of KGI stock was held by retail investors, which makes trading liquidity high and means less risk that investors would be unable to trade at desired price.

**3.4 Risk as Issuer of Derivative Warrants (DW)**

The Company is the first securities company in Thailand launching Derivative Warrants (DW) and is continuing in the front row to launch DW into the market. The risks related to DW are as follows.

- 1) DW constitutes general unsecured contractual obligations of the Company and DW holders and will rank equally with the Company's other general unsecured contractual obligations.
- 2) The price of DW issued by the Company may increase or decrease rapidly. DW holders may lose all of their investment in DW. Before investing, selling, or exercising DW, DW holders should carefully consider, among other things, all information carefully, such as
  - 2.1) Trading price of the DW : depends on the factors affecting DW price including demand and supply of DW
  - 2.2) Trading price of the underlying asset : depends on the market condition including demand and supply of underlying asset
    - Generally, when the price of the underlying asset decreases, the price of a call DW may decrease, but the price of a put DW may increase
    - Generally, when the price of the underlying asset increases, the price of a call DW may increase, but the price of a put DW may decrease
  - 2.3) Volatility of the underlying asset : depends on the market condition including demand and supply of underlying asset
    - Generally, when the volatility of the underlying asset decreases, the prices of a call and put DW may decrease
    - Generally, when the volatility of the underlying asset increases, the prices of a call and put DW may increase
  - 2.4) Time to maturity of DW and last trading date of DW
    - Generally, as the time to maturity of DW decreases, the price of a call and put DW may decrease
  - 2.5) Changing of interest rates: depends on many factors such as in economic, political and market factors
    - Generally, when interest rates decrease, the price of a call DW may decrease, and the price of a put DW may increase
    - Generally, when interest rates increase, the price of a call DW may increase, and the price of a put DW may decrease
  - 2.6) Changing of dividend of the underlying company (Only in case of no right adjustment)
    - Generally, when dividend of the underlying company decreases, the price of a call DW may increase, but the price of a put DW may decrease
    - Generally, when dividend of the underlying company increases, price of call DW may decrease, but the price of a put DW may increase
  - 2.7) The liquidity of the underlying asset, the liquidity of DW : depends on the market condition, the demand and supply of underlying asset, the demand and supply of DW, and the Market Maker obligation
  - 2.8) Trading commission, exercise expenses, other related expenses of trading DW, and the credit and financial status of the Issuer
- 3) Trading of DW may be affected by an order temporarily prohibiting the purchase or sale of securities by posting the "H" (Halt) or "SP" (Suspension) sign on the board of the underlying asset of DW. As a

result of an order to prohibit the purchase or sale of underlying asset, DW also be prohibited in the same period.

- 4) The price of the underlying asset may change for many reasons including corporate action of the underlying company, performance of the underlying company and market situation. In some events such as corporate action that affect the price of the underlying asset, the Company may adjust the exercise price and the exercise ratio of DW. However, if there is a corporate action and the Issuer decides not to make any adjustment, the price of DW may be affected by the corporate action.
- 5) An investment in a DW is not the same as owning the underlying asset or having a direct investment in the underlying asset. The change in the value of the DW may be disproportionate to or opposite to the change in value of the underlying asset. DW holders may not receive a same right as the holders of underlying asset, for example, voting rights or rights to receive dividends.
- 6) On maturity, DW holders may receive the Net Cash Settlement later than normal if there is Events of Default under the Terms and Conditions of DW. Events of Default are defined as the event that is beyond the control of the Company, but not the failure of the Company. Events of Default may occur for many reasons including wars, political unrests, orders prohibiting on the purchase or sale of securities, and regulations affecting the prices of DW and underlying asset to cannot be assigned.

If Events of Default occur, DW holders may receive the Net Cash Settlement (if any) later than normal, for example, if any of the Events of Default occur before or on the last trading date, but resolve within thirty (30) days after the last trading date. Hence, the closing price of the underlying asset on the business day following the day that Events of Default have been resolved shall be used as the settlement price. The Company shall pay the Net Cash Settlement (if any) to DW holder's bank account or send a crossed cheque to the registered holder on the Automatic Exercise Date and send by registered mail within eight (8) business days following the day that the Company determines the Settlement Price.

- 7) DW holders may carry credit risks for either collateralized DW or non-collateralized DW. Therefore, DW holders shall study the financial status, overall operation, and credit rating of the Company.
- 8) DW holders may be required to pay taxes including tax on the Net Cash Settlement from the exercise

Not all of the risk factors described above will necessarily be applicable to a particular DW. Please consider all risks carefully prior to investing in any DW and carefully read the Terms and Conditions of DW. DW investors should be confident they understand all related risks before investing in DW.

#### 4. Assets used for business

##### 4.1 Fixed assets of the Company and its subsidiaries

###### A. Assets used in the Company's business are as follows:

Description (As of December 31 <sup>st</sup> 2013)	Net book value (Baht)	Ownership	Collateral/obligation
Land (Supanburi branch)	1,820,000	Company's asset	None
Building (Supanburi branch)	47,090	Company's asset	None
Office furniture	14,982,151	Company's asset	None
Office equipment	59,131,885	Company's asset	None
Vehicles	3	Company's asset	None
Work in progress	8,742,534	Company's asset	None
<b>Total</b>	<b>84,723,663</b>		

###### B. Assets used in subsidiaries' business are as follows:

Description (As of December 31 <sup>st</sup> 2013)	Net book value (Baht)	Ownership	Collateral/obligation
Building Renovation	4,417,011	Subsidiary's asset	None
Office furniture	2,915,928	Subsidiary's asset	None
Office equipment	5,166,741	Subsidiary's asset	None
Work in progress	6,039,926	Subsidiary's asset	None
<b>Total</b>	<b>18,539,606</b>		

##### 4.2 Rental property

The Company rents the following space to operate business at its head office and branches.

Rental Property	Lessor	Remaining period of lease as at 31 <sup>st</sup> December 2013
1. Head office	City Realty Co.,Ltd	1 year 1 month
2. Nakhon Ratchasima branch	K.R.Shopping Center Co.,Ltd.	11 months
3. Samut Sakhon branch	A.T. Asset Co., Ltd.	2 years 6 months
4. Nakhon Sawan branch	Individual	8 months
5. Pin Klao branch	CPN Retail Growth Leasehold Property Fund	2 years 9 months 15 days
6. Nakhon Pathom branch	Individual	6 months
7. Chiang Rai branch	Individual	6 months
8. Phetchaburi branch	Individual	1 year
9. Hat Yai branch	Lee Garden Hotel Co., Ltd.	3 years
10. Udon Thani branch	Individual	2 months 14 days
11. Changwattana branch	Na-Nakorn Estate Co.,Ltd.	1 year
12. Taphra branch	The Mall Shopping Complex Company Limited	1 year
13. Silom Center branch	Porn Real Estate Co.,Ltd	1 years 10 months 14 days
14.Silom Complex branch	Silom Building & Servise Co., Ltd	2 years 4 months 14 days

### 4.3 Intangible Assets

As of 31st December 2013, the Company's intangible assets were Baht 59.59 million, consisting of computer software which has useful lives for 5 and 7 years Baht 53.59 million and Computer software under development Baht 6.00 million. This intangible asset was the development in Information & Technology system to support the Company's future expansion. Intangible assets are carried at cost less any accumulated amortisation and allowance for impairment (if any).

Intangible assets with finite lives are amortised on a systematic basis over the economic useful life and tested for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method of such intangible assets are reviewed at least at each financial year end. The amortisation expense is charged to profit or loss from operation (No amortisation is provided on computer software under development). Intangible assets have the estimated useful lives as follows:

	Useful lives
Deferred derivatives agent license fee	5 years
Computer softwares	5 and 7 years

### 4.4 Investment Policy in Subsidiary Companies

The Company is focused on investing in businesses that support the Company's business. Currently, the Company invests in an asset management company to meet the diverse financial requirements of our customers and invests in offshore companies to explore opportunities to invest overseas in the future. As of 31<sup>st</sup> December 2013, the Company's investment in subsidiary companies was Baht 2,549.73 million. The details of subsidiary companies are as follows:

Company's subsidiaries	Business	Paid-up capital	Shareholding percentage	Cost (Million Baht)
One Asset Management Limited	Mutual fund management	Baht 105 million	99	244
KGI Securities (Thailand) International Holdings Limited (incorporated in Hong Kong)	Holding	USD 39 million	100	1,549
KGI (Thailand) Holdings Limited (incorporated in British Virgin Islands)	Holding	USD 20 million	100	834
Total investments in subsidiaries				2,627
Less Allowance for impairment loss				(77)
Investments in subsidiaries - net				2,550

### 5. Legal Cases

As of 31<sup>st</sup> December 2013, the Company and its subsidiaries had no litigation which might have a potential negative impact in excess of 5% of the shareholders' equity per its consolidated financial statements as of the latest accounting period, no litigation that may significantly affect the Company or its subsidiaries' businesses but can not assess the impact numbers, no litigation that would be incurred from the Company's normal business.



## 6. General information and Other relevant information

### 6.1 General information

#### (1) Information of KGI Securities (Thailand) Public Company Limited

Business Type	Securities businesses
Head office address	No.173 Asia Centre Building, 8 <sup>th</sup> - 11 <sup>th</sup> Floor, South Sathorn Road, Thungmahamek Sub-District, Sathorn District, Bangkok 10120 Thailand
Company's PCL registration number	No. 0107536000293
Telephone number	66 (0) 2658 8888
Fax number	66 (0) 2658 8000
Website	<a href="http://www.kgiworld.co.th">www.kgiworld.co.th</a> and <a href="http://www.thaiwarrant.com">www.thaiwarrant.com</a>
Paid up capital	Baht 1,991,763,130
No. of paid-up shares	1,991,763,130 ordinary shares
Par Value	Baht 1.00 per share

#### (2) Juristic Information which is 10% up of paid-up shares owed by the Company

##### One Asset Management Limited ("ONEAM")

% of holding by the Company	99%
Business Type	Fund Management
Address	No.989 Siam Tower (Siam Discovery), 24 <sup>th</sup> Floor, Rama I Road, Pathumwan Sub-District, Pathumwan District, Bangkok 10330, Thailand
Telephone number	66 (0) 2659 8888
Fax number	66 (0) 2659 8860
Website	<a href="http://www.one-asset.com">www.one-asset.com</a>
Amount and Type of paid-up shares	Paid-up 10,500,000 ordinary shares at par value Baht 10.00

##### KGI Securities (Thailand) International Holdings Limited ("HOLDCO")

% of holding by the Company	100%
Business Type	Investment
Address	41/F Central Plaza, 18 Harbour Road, Wanchai, Hong Kong
Telephone number	(852) 2878 6888
Fax number	(852) 2878 6800
Amount and Type of paid-up shares	Paid-up 39,444,670 ordinary shares at par value US\$ 1.00

##### KGI (Thailand) Holdings Limited ("KTHL")

% of holding by the Company	100 %
Business Type	Investment
Address	P.O. Box 3340, Road Town, Tortola, British Virgin Islands
Telephone number	(852) 2878 6888
Fax number	(852) 2878 6800
Amount and Type of paid-up shares	Paid-up 20,000,000 ordinary shares at par value US\$ 1.00

### (3) Information of references

<u>Registrar</u>	Thailand Securities Depository Co., Ltd.
<u>Address</u>	No.62 The Stock Exchange of Thailand Building , 4 <sup>th</sup> , 6 <sup>th</sup> -7 <sup>th</sup> Floor, Rachadapisek Road, Klong Toey Sub-District, Klong Toey District, Bangkok 10110, Thailand
<u>Telephone number</u>	66 (0) 2229-2800
<u>Call Center</u>	66 (0) 2229-2888
<u>Fax number</u>	66 (0) 2359-1259
<u>Website</u>	<a href="http://www.tsd.co.th">www.tsd.co.th</a>
<u>E-mail</u>	<a href="mailto:contact.tsd@set.or.th">contact.tsd@set.or.th</a>

Auditor The the following auditors of EY Office Limited (Formerly known as Ernst & Young Office Limited) to be the Company's auditor for the 2013 accounting period.

<u>Auditor's name</u>	<u>CPA Number</u>
1. Ms. Ratana Jala	CPA No. 3734 and/or
2. Mrs. Nonglak Pumnoi,	CPA No. 4172 and/or
3. Ms. Somjai Khunapasut	CPA No. 4499 and/or
4. Ms. Rachada Yongsawadvanich	CPA No. 4951
Ernst and Young Office Limited	
<u>Address</u>	No.193/136-7 Lake Rachada Office Complex, 33 <sup>rd</sup> Floor, Rachadapisek Road, Klong Toey Sub-District, Klong Toey District, Bangkok 10110, Thailand
	G.P.O Box 1047, Bangkok 10501, Thailand
<u>Telephone number</u>	66 (0) 2264-0777
<u>Fax number</u>	66 (0) 2264-0789-90
<u>Website</u>	<a href="http://www.ey.com">www.ey.com</a>

## 6.2 Other relevant information.

### Other information as an issuer of Derivative Warrants

#### 1) Company Rating

TRIS Rating Co., Ltd. has affirmed the Company rating at "BBB+" with "stable" outlook on 8<sup>th</sup> July 2013. The rating reflects the Company's capable management team with a proven track record, strong position in derivatives trading, sufficient liquidity and a stable source of revenue from fund management, One Asset Management Co., Ltd. (the Company's subsidiary). Find company rating announcement on [www.kgieworld.co.th](http://www.kgieworld.co.th)

#### Rating Symbols and Definitions

TRIS Rating uses eight letter rating symbols for announcing credit ratings. The rating range from AAA, AA, BBB, BB, B, C and D. The AAA is highest rating and D is the lowest rating.

BBB : The rating indicates a company or a debt instrument with moderate credit risk. The Company has adequate capacity to pay interest and repay principal on time, but is more vulnerable to adverse changes in business, economic or other external conditions and is more likely to have a weakened capacity to pay interest and repay principal than debt in higher-rated categories.

The ratings from AA to C may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within a rating category.

## **2) Risk management of derivative warrants issued.**

### **2.1 Objective of DW Issuing**

To provide new investment products to investors and to diversify the Company's income.

### **2.2 Hedging Strategy and Risk management**

#### **2.2.1 Hedging Strategy**

To manage risk from DW issuing, the Company has hedging strategies such as:

##### **a) Hedging Strategy of Underlying Stock Price**

For Call Warrant, The Company has higher risk if the underlying stock price increases. The Company may lose from issuing Call Warrant. The Company will hedge by buying the underlying stock in proportion calculated from Net Delta Value. Therefore, the loss from DW issuing will be deducted by profit from the increase in the underlying stock.

For Put Warrant, the Company has higher risk if the underlying stock price decreases. The Company may lose from issuing Call Warrant. The Company will hedge by short selling the underlying stock in proportion calculated from Net Delta Value. Therefore, the loss from DW issuing will be deducted by profit from the short selling on the underlying stock.

##### **b) Hedging Strategy for Volatility of Underlying Stock**

For Call and Put Warrant, the Company has higher risk if volatility of the underlying stock increases. The Company may lose from issuing Call or Put Warrant. The Company will hedge through other products such as OTC Derivative, Structured Note, Derivative on related underlying stock or Options on TFEX. Those products may link to other underlying stocks or index that have the same direction with the underlying stock of the DW.

#### **2.2.2 The Company's Risk Management System**

In regards to the Company as the DW issuer, the Company has adopted a risk management framework on an integrated basis to manage risks across the enterprise effectively. The Company appointed the Risk Management Committee which is comprised of representatives of all business units as well as senior operational administrative executives, taking care of the overall risk of the Company. This includes the installation of a system to control and manage the credit and market risk. It also has established a standard operating procedure that was developed to reduce the risk of daily operations.

### **2.3 The role of top management in the risk management system**

Besides the Risk Management Committee, the Company's Risk Management Department coordinates and facilitates management in implementing the risk management according to the assigned policy, including regularly monitoring and reporting on the risk status to the Company's top management, and continually instills a risk management culture to executives and employees.

## 2.4 Supervision to comply with regulations to maintain position and liquidity of DW issuing

### Net Capital Rule and Net Capital Ratio (NCR)

The Company has a policy to maintain a Net Capital Rule and a Net Capital Ratio (NCR) that are higher than the requirements under the SEC regulations, which specified that the Net Capital Rule must be at least Baht 25 million and the Net Capital Ratio must be at least 7% of liabilities and guarantees.

## 2.5 DW issued by the Company for the last 2 years and underlying company information (see Attachment 5)

## 2.6 Conflict of interest of DW issuing

In the case that the Company or its affiliates have conducted business and/or performed other duties as per its approval, including but not limited to investment advisory, financial advisory and/or proprietary trading in which conflict of interest concerning the issuance of DW might have been caused, for the purpose of fair treatment and the prevention of any investment's advantage/disadvantage gain or lose by the Company and clients, the Company has determined a procedure on prevention of conflict of interest emphasizing insider trading. Under such procedure, any department who performs its duties as investment advisory, financial advisory and proprietary trading will presumably possess equivalent status as that of the normal client. The department will have no right to receive information or research paper which differs from other clients of the Company.

## 2.7 Guarantor of DW and associated contracts of DW Issuer (if any)

- None –

## 2.8 Details of the sale of derivative warrants which is fully insured or partially insured. (If any)

- None –