

### PART 3

#### FINANCIAL POSITION AND OPERATING RESULT

#### 13. Financial position and operating results

(A) Summary of the Report of the Independent Auditor for 2011-2013.

In 2011-2012, appointed Miss Ratana jala, Certified Public Account no. 3734 of EY Office Limited (Formerly known as Ernst & Young Office Limited), as auditor. And in 2013, appointed Ms. Rachada Yongsawadvanich Certified Public Account no. 4951 of EY Office Limited (Formerly known as Ernst & Young Office Limited), as auditor. In auditor's opinion, the financial position of the Company and its subsidiaries and of the Company as at 31<sup>st</sup> December 2013, 2012 and 2011, their financial performance and cash flows for the year 2013, 2012 and 2011, present fairly, in all material respects, 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 2011 - 2013.

#### KGI SECURITIES (THAILAND) PUBLIC COMPANY LIMITED AND ITS SUBSIDIARY COMPANIES STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2013 2012 and 2011

(Unit: Baht)

	Consolidated financial statements					
	2013		2012		2011	
<b>Assets</b>						
Cash and cash equivalents	985,216,088	12%	199,316,120	2%	1,121,558,722	15%
Deposits at financial institutions	89,536,253	1%	118,208,723	1%	202,271,738	3%
Securities purchased under resale agreements	365,000,000	4%	-	-	-	-
Receivables from Clearing House	371,152,530	4%	2,242,394,566	18%	969,977,856	13%
Securities and derivatives business receivables - net	4,105,047,443	50%	2,650,002,146	21%	2,387,194,585	32%
Derivatives assets	34,810,330	1%	17,138,595	-	6,612,561	-
Investments - net	1,893,896,610	23%	6,725,540,592	54%	2,297,649,300	31%
Premises and equipment - net	103,263,269	1%	107,635,744	1%	124,206,051	2%
Intangible assets - net	59,592,986	1%	58,918,170	1%	45,918,892	1%
Goodwill	26,713,599	-	26,713,599	-	26,713,599	-
Properties foreclosed - net	51,813,155	1%	51,843,155	1%	51,843,155	1%
Deferred tax assets	975,531	-	588,941	-	5,014,248	-
Other assets	171,719,694	2%	161,269,594	1%	123,284,072	2%
<b>Total assets</b>	<b>8,258,737,488</b>	<b>100%</b>	<b>12,359,569,945</b>	<b>100%</b>	<b>7,362,244,779</b>	<b>100%</b>

**KGI SECURITIES (THAILAND) PUBLIC COMPANY LIMITED AND ITS SUBSIDIARY COMPANIES**  
**STATEMENTS OF FINANCIAL POSITION**  
**AS AT 31 DECEMBER 2013 2012 and 2011**

(Unit: Baht)

	Consolidated financial statements					
	2013		2012		2011	
<b>Liabilities and owners' equity</b>						
Borrowings from financial institutions	-	-	2,549,000,000	21%	-	-
Securities sold under repurchase agreements	165,000,000	2%	2,124,384,829	17%	726,746,473	10%
Payables to Clearing House	307,042,599	4%	-	-	183,565,265	2%
Securities and derivatives business payables	1,976,947,119	24%	2,474,700,039	20%	1,025,084,485	14%
Accrued expenses	364,113,200	4%	225,915,335	2%	262,165,528	4%
Income tax payable	36,627,569	-	51,943,434	-	88,131,673	1%
Derivatives liabilities	164,408,911	2%	56,518,266	1%	28,063,962	-
Debt issued and borrowings	2,995,905	-	-	-	119,952,252	2%
Provisions for long-term employee benefits	41,020,621	1%	44,336,251	-	45,145,262	1%
Provisions for liabilities	39,347,767	1%	25,653,960	-	25,653,960	-
Deferred tax liabilities	28,059,734	-	3,880,762	-	-	-
Other liabilities	23,237,533	-	20,622,346	-	16,282,800	-
<b>Total liabilities</b>	<b>3,148,800,958</b>	<b>38%</b>	<b>7,576,955,222</b>	<b>61%</b>	<b>2,520,791,660</b>	<b>34%</b>
<b>Owners' equity</b>						
Share capital						
Registered, issued and fully paid-up						
1,991,763,130 ordinary shares of Baht 1.00 each	1,991,763,130	24%	1,991,763,130	16%	1,991,763,130	27%
Share premium	982,166,480	12%	982,166,480	8%	982,166,480	13%
Surplus from unexercised warrants	101,922,580	1%	101,922,580	1%	101,922,580	1%
Other component of owners' equity - exchange differences arising from translation of the financial statements of foreign operations	(51,885,273)	-	(53,759,939)	(1%)	(51,001,390)	-
Retained earnings						
Appropriated - statutory reserve	199,176,313	2%	199,176,313	2%	188,750,000	3%
Unappropriated	1,884,568,477	23%	1,559,431,876	13%	1,624,883,511	22%
<b>Equity attributable to equity holders of the parent</b>	<b>5,107,711,707</b>	<b>62%</b>	<b>4,780,700,440</b>	<b>39%</b>	<b>4,838,484,311</b>	<b>66%</b>
Non-controlling interests	2,224,823	-	1,914,283	-	2,968,808	-
<b>Total owners' equity</b>	<b>5,109,936,530</b>	<b>62%</b>	<b>4,782,614,723</b>	<b>39%</b>	<b>4,841,453,119</b>	<b>66%</b>
<b>Total liabilities and owners' equity</b>	<b>8,258,737,488</b>	<b>100%</b>	<b>12,359,569,945</b>	<b>100%</b>	<b>7,362,244,779</b>	<b>100%</b>

**KGI SECURITIES (THAILAND) PUBLIC COMPANY LIMITED AND ITS SUBSIDIARY COMPANIES**  
**Statements of comprehensive income**  
**AS AT 31 DECEMBER 2013 2012 and 2011**

(Unit: Baht)

	Consolidated financial statements					
	2013		2012		2011	
<b>Profit or loss:</b>						
<b>Revenues</b>						
Brokerage fees	1,241,237,892	45%	819,622,797	43%	948,621,148	41%
Fees and service income	442,040,076	16%	283,286,092	15%	238,170,557	10%
Gains (losses) on securities	(590,488,315)	(21%)	459,726,272	24%	(794,940,715)	(34%)
Gains on derivatives	1,302,256,092	47%	7,101,275	-	1,592,751,449	68%
Interest and dividends	270,526,888	10%	259,192,848	14%	250,825,364	11%
Interest on margin loans	90,377,379	3%	71,187,885	4%	80,076,613	3%
Other income	2,707,485	-	8,444,517	-	17,420,572	1%
<b>Total revenues</b>	<b>2,758,657,497</b>	<b>100%</b>	<b>1,908,561,686</b>	<b>100%</b>	<b>2,332,924,988</b>	<b>100%</b>
<b>Expenses</b>						
Finance costs	113,587,207	4%	109,374,737	6%	118,603,762	5%
Fees and service expenses	282,507,846	10%	181,635,667	10%	204,729,738	9%
Operating expenses						
Personnel expenses	895,082,035	33%	632,319,228	33%	732,623,980	32%
Premises and equipment expenses	205,703,070	8%	178,044,325	9%	166,691,396	7%
Directors' remuneration	29,593,613	1%	20,155,982	1%	17,152,350	1%
Other expenses	227,988,681	8%	197,242,679	10%	217,798,784	9%
Total operating expenses	1,358,367,399	50%	1,027,762,214	53%	1,134,266,510	49%
Bad debts and doubtful accounts (reversal)	(1,697,005)	-	1,822,579	-	3,745,835	-
<b>Total expenses</b>	<b>1,752,765,447</b>	<b>64%</b>	<b>1,320,595,197</b>	<b>69%</b>	<b>1,461,345,845</b>	<b>63%</b>
<b>Profits before income tax expenses</b>	<b>1,005,892,050</b>	<b>36%</b>	<b>587,966,489</b>	<b>31%</b>	<b>871,579,143</b>	<b>37%</b>
Income tax expenses	(222,017,460)	(8%)	(144,496,907)	(8%)	(277,616,655)	(12%)
<b>Profits for the years</b>	<b>783,874,590</b>	<b>28%</b>	<b>443,469,582</b>	<b>23%</b>	<b>593,962,488</b>	<b>25%</b>
<b>Other comprehensive income (loss):</b>						
Gains (losses) on translation of the financial statements						
of foreign operation	1,874,666	-	(2,758,549)	-	(9,903,422)	-
Other comprehensive income (loss) for the years	1,874,666	-	(2,758,549)	-	(9,903,422)	-
<b>Total comprehensive income for the years</b>	<b>785,749,256</b>	<b>28%</b>	<b>440,711,033</b>	<b>23%</b>	<b>584,059,066</b>	<b>25%</b>
<b>Profits attributable to:</b>						
Equity holders of the parent	783,197,074	28%	442,853,459	23%	593,429,024	25%
Non-controlling interests	677,516	-	616,123	-	533,464	-
	<b>783,874,590</b>	<b>28%</b>	<b>443,469,582</b>	<b>23%</b>	<b>593,962,488</b>	<b>25%</b>

**KGI SECURITIES (THAILAND) PUBLIC COMPANY LIMITED AND ITS SUBSIDIARY COMPANIES**  
**Statements of comprehensive income (Continued)**  
**AS AT 31 DECEMBER 2013 2012 and 2011**

(Unit: Baht)

	Consolidated financial statements					
	2013		2012		2011	
<b>Total comprehensive income attributable to:</b>						
Equity holders of the parent	785,071,740	28%	440,094,910	23%	583,525,602	25%
Non-controlling interests	677,516	-	616,123	-	533,464	-
	<u>785,749,256</u>	28%	<u>440,711,033</u>	23%	<u>584,059,066</u>	25%
<b>Earnings per share attributable to equity holders</b>						
<b>of the parent</b>						
Basic earning per share	<u>0.39</u>		<u>0.22</u>		<u>0.30</u>	

**KGI SECURITIES (THAILAND) PUBLIC COMPANY LIMITED AND ITS SUBSIDIARY COMPANIES**  
**Cash flow statements**  
**AS AT 31 DECEMBER 2013 2012 and 2011**

(Unit: Baht)

	Consolidated financial statements		
	2013	2012	2011
<b>Cash flows from operating activities</b>			
Profits before income tax expenses	1,005,892,050	587,966,489	871,579,143
Adjustments to reconcile profits before income tax expenses			
to net cash provided by (paid for) operating activities:			
Depreciation and amortisation	75,453,151	63,394,005	61,658,587
Bad debts and doubtful accounts	12,166,619	8,387,776	9,406,510
(Gains) losses on revaluation of securities			
and derivatives	14,748,707	(41,009,099)	182,377,967
Amortisation of premium on investment in debt securities	14,127	14,165	7,395
Gain on disposal of general investments	-	(13,378,156)	(42,199,398)
(Gains) losses on disposals and write-off of equipment	187,500	(2,945,028)	(1,907,135)
Impairment loss on properties foreclosed	30,000	-	-
Interest income on deposits and investments	(192,669,693)	(157,565,836)	(131,895,687)
Dividend income	(77,854,088)	(77,115,321)	(90,262,787)
Finance costs	113,587,207	109,374,737	118,603,762
Provisions for long-term employee benefits	831,870	6,037,158	9,591,418
Cash received on interest income on deposits			
and investments	189,603,562	141,412,411	130,547,206
Cash paid on interest expenses	(112,936,883)	(108,766,142)	(121,925,075)
Cash paid on income taxes	(213,540,943)	(172,379,078)	(468,242,652)
<b>Income from operating activities before</b>			
<b>changes in operating assets and liabilities</b>	815,513,186	343,428,081	527,339,254
(Increase) decrease in operating assets			
Deposits at financial institutions	28,672,470	84,063,015	(96,073,711)
Securities purchased under resale agreements	(365,000,000)	-	-
Receivables from Clearing House	2,060,751,651	(1,360,974,898)	(67,850,069)
Securities and derivatives business receivables	(1,468,651,041)	(271,195,337)	866,347,309
Derivatives assets	(27,463,212)	(5,818,216)	46,301,336
Trading securities	4,567,991,167	(4,347,743,660)	3,334,175,612
Other assets	(7,267,206)	(26,969,380)	(14,036,579)
Increase (decrease) in operating liabilities			
Borrowings from financial institutions	(2,549,000,000)	2,549,000,000	(200,000,000)
Securities sold under repurchase agreements	(1,959,384,829)	1,397,638,356	(1,656,217,398)
Payables to Clearing House	307,042,599	(183,565,265)	183,565,265
Securities and derivatives business payables	(459,424,625)	1,438,295,507	(1,330,337,593)
Accrued expenses	139,119,083	(36,811,040)	(43,817,477)
Derivatives liabilities	138,734,193	21,453,719	(570,946,522)
Debts issued and other borrowings	2,995,905	(120,000,000)	(88,000,000)
Payments on long-term employee benefits during the years	(4,147,500)	(6,846,169)	-
Other liabilities	1,974,937	2,088,701	(17,791,375)
<b>Net cash provided by (used in) operating activities</b>	<b>1,222,456,778</b>	<b>(523,956,586)</b>	<b>872,658,052</b>

**KGI SECURITIES (THAILAND) PUBLIC COMPANY LIMITED AND ITS SUBSIDIARY COMPANIES**  
**Cash flow statements (Continued)**  
**AS AT 31 DECEMBER 2013 2012 and 2011**

(Unit: Baht)

	Consolidated financial statements		
	2013	2012	2011
<b>Cash flows from investing activities</b>			
Cash paid for purchase of investment in			
held-to-maturity debt securities	-	-	(8,056,545)
Cash received from investment in			
held-to-maturity debt securities	-	-	8,000,000
Cash paid for general investments	-	(5,910,057)	-
Proceeds from disposal of general investments	-	82,306,517	615,883,084
Cash paid for investment in a subsidiary	(121,566)	(1,255,959)	(865,979)
Dividends received on investment in securities	79,176,448	82,252,605	83,544,463
Cash paid for purchases of equipment and intangible assets	(59,545,234)	(58,087,595)	(60,923,993)
Proceed from disposals of equipment	364,759	3,460,492	2,424,841
<b>Net cash provided by investing activities</b>	<b>19,874,407</b>	<b>102,766,003</b>	<b>640,005,871</b>
<b>Cash flows from financing activities</b>			
Dividends paid	(458,060,473)	(497,878,781)	(656,853,986)
Dividends paid for non-controlling interests	(245,410)	(414,689)	(574,782)
<b>Net cash used in financing activities</b>	<b>(458,305,883)</b>	<b>(498,293,470)</b>	<b>(657,428,768)</b>
Changes in translation adjustments	1,874,666	(2,758,549)	(9,903,421)
<b>Net increase(decrease) in cash and cash equivalents</b>	<b>785,899,968</b>	<b>(922,242,602)</b>	<b>845,331,734</b>
Cash and cash equivalents as at 1 January	199,316,120	1,121,558,722	276,226,988
<b>Cash and cash equivalents as at 31 December</b>	<b>985,216,088</b>	<b>199,316,120</b>	<b>1,121,558,722</b>

**Supplemental cash flows information**

Non-cash items consist of

Increase in fixed assets and provision for liabilities

in relation to estimation of decommissioning costs

12,122,266

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**(C) Ratios for years 2013, 2012 and 2011**

<b>Ratio</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
<b>Profitability Ratios</b>			
Gross profit margin (%)	85.63%	84.68%	86.04%
Net profit margin (%)	28.39%	23.20%	25.44%
Return on equity (%)	15.84%	9.21%	12.17%
Return on investment (%)	22.79%	16.09%	24.59%
<b>Efficiency Ratios</b>			
Return on assets (%)	7.60%	4.49%	6.40%
Assets turnover (times)	0.27	0.19	0.25
<b>Financial Ratios</b>			
Liquid assets to total liabilities (times)	0.88	0.91	1.26
Earning assets to total liabilities (times)	1.91	1.24	2.15
Liquid assets to total assets (%)	33.64%	55.62%	43.11%
Earning assets to total assets (%)	72.64%	75.83%	73.80%
Debt to equity (times)	0.62	1.59	0.52
Dividend payment (%) (DPS/EPS separate FS)	99.17%	99.14%	81.17%
<b>Other ratios</b>			
Securities investment to total assets (%)	22.93%	54.37%	31.18%
NCR to net liquid assets (SEC requirement) (%)	211.01%	73.90%	328.12%
<b>Per Share Information</b>			
Par Value per share (Baht)	1.00	1.00	1.00
Book Value per share (Baht)	2.56	2.40	2.43
Basic Earning per share (Baht)	0.39	0.22	0.30
Dividend per share (Baht)	0.36	0.23	0.25

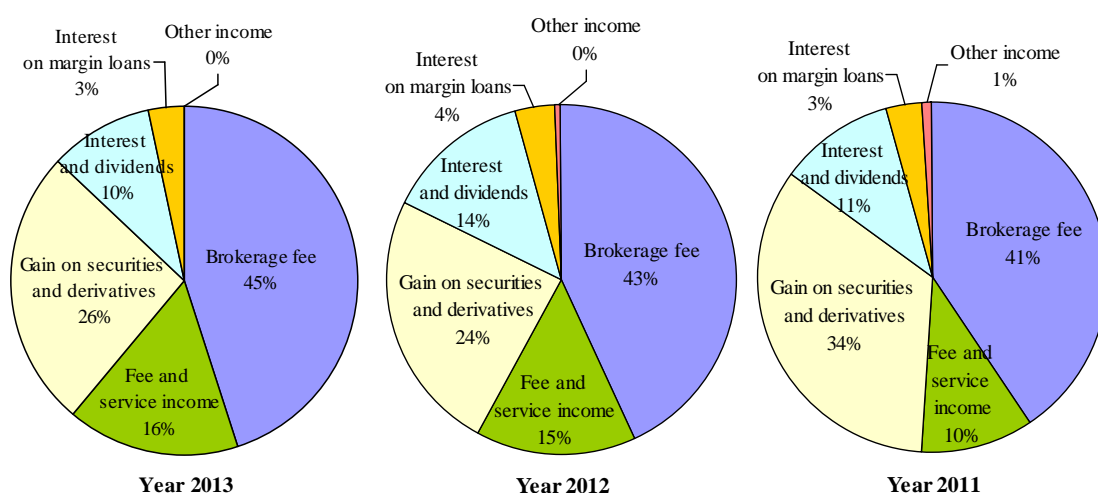
## 14. Management Discussion & Analysis

(Consolidated financial statements as of 31<sup>st</sup> December 2013, “Company” refers to “Company and its subsidiaries”)

### 1. Overview

The Stock Exchange of Thailand (SET) index was volatile in 2013. During the year, the SET index rose by 18.07% to a high of 1643.43 points in May, supported by positive earning growth forecasts. In the second half of the year, the market became concerned about the ending of the US Fed’s QE policy, political unrest, and economic slowdown, whilst economic recovery in the United States, Japan and Europe made investors more interested in developed markets. As a result, the SET Index fell significantly and ended the year at 1,298.71, a decline of 27% compared with the highest point of the year, and a decline of 6.70% for the whole year. Trading volume on the SET in 2013 was the highest ever at Baht 50,329 million per day, an increase of 55.8% compared with 2012. However, in 2013, foreign investors were net sellers of Baht 194,702 million.

The Company’s sources of income are well-diversified and not concentrated in brokerage fees. Over the last three years, the fees earned from the Company’s securities and derivatives brokerage businesses accounted for no more than 45% of its total revenues, compared with the industry average of 70%. By diversifying away from securities brokerage income, the company has put itself in a better position to handle the intensifying competition following the liberalization of brokerage fees.



In terms of securities brokerage trading volume, the Company’s market share for 2013 was 4.04% (ranked 11<sup>th</sup> in the industry), which was higher than its share of 3.47% (ranked 12<sup>th</sup>) in 2012. The main reason for the increase in market share was an increase in the number of marketing officers and the opening of 2 new branches.

The Company’s exposure to credit risk from margin lending is comparable to peers. Its margin loan portfolio as of 31<sup>st</sup> December 2013 jumped to Baht 1,692.88 million (represented around 33% of the value of the Company’s equity), compared with less than Baht 1,100 million at the end of 2011 and 2012.

The full liberalization of brokerage fees since 2012 has resulted in industry commission rates steadily declining, and the Company’s brokerage fee income has also been affected. However, the company has adjusted its strategy and responded by recruiting talented marketing staff, providing high quality services to meet customer needs, including the continuous development of its information technology systems. In 2013, the company launched Easy Trade. This an Internet based trading system which offers clients a high degree of flexibility and allows them to create and customize trading and informational screens. The Easy Trade program allows the monitoring of information in a variety of formats.



In 2011-2013, the Company's gains on trading in securities and derivatives represented 24%-34% of total revenues, 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 under the company's account. The Company's proprietary trading exposes the company to market risk. Its investment portfolio includes both fixed income and equity securities, and is one of the largest in the industry. The Company's Proprietary Trading team performed well in 2013. The company's return on investment was 22.79 %.

The Company's fee and service income has steadily increased, rising by 10, 15 and 16 % in 2011, 2012 and 2013 respectively. In 2013, the main increase came from underwriting fees and financial advisory fees of the Company's investment banking business. The Company was appointed to perform as lead underwriter of 3 IPOs and co-lead underwriter of 1 IPO; and joined co-underwriting syndication of 9 IPOs. These received a great response from investors.

Furthermore, the Company also has a recurring source of revenue from fund management, through its 99% ownership of ONE Asset Management Co., Ltd. (ONEAM). Revenues from fund management are considered to be less volatile compared with other sources of revenue in the securities business.

Trends in the securities business in 2014 still has an intense business competition and highly volatile, however, the company preparing to build a competitive advantage both in terms of financial strength and business strategies. The Company has the advantage of being able to utilize KGI Taiwan's financial engineering know-how and experience in the more-developed Taiwanese financial market to secure its competitive edge in product development in Thailand. 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.

EY Office Limited (Formerly known as Ernst & Young Office Limited) which was the Company's auditor, expressed an unqualified opinion on the Company's financial statements for the year 2013, auditors' opinion stated that the financial statements present fairly, in all material respects, the financial position of the Company and its subsidiaries and of the Company as at 31<sup>st</sup> December 2013, their financial performance and cash flows for the year then ended, in accordance with Thai Financial Reporting Standards.

## 2. Results of operations

2013 was another outstanding year for the company. The income and profit are remarkable from the growth of all business units. In 2013, the company reported the total income of Baht 2,758.66 million, net profit of Baht 783.20 million. When compared to the 2012, total income of Baht 1,908.56 million, net profit of Baht 442.85 million, this represents 44.54% and 76.85% increased from the previous year respectively.

Consolidated Financial Statements	2013	2012
The Growth rate of total revenues (%)	44.54%	-18.19%
The Growth rate of operating expenses (%)	32.33%	-9.39%
The Growth rate of Net profit (%)	76.85%	-25.37%
Gross Profit Margin (%)	85.63%	84.68%
Net Profit Margin (%)	28.39%	23.20%
Return on Equity (ROE) (%)	15.84%	9.21%

In 2013 the gross profit margin was 85.63%, net profit margin was 28.39% and ROE was 15.84%, which represent the better operating results from the last two years. The company's revenues from all business units increase while the company can control its costs operating at a level that not too high. As a result, the

net profit margin of the company increased from past 2 years, which was impressive result. The significant change in revenues and expenses are as follows:

### **Change in income**

#### **Brokerage fee**

In 2013, the Brokerage fee income was contributed by 3 business, Securities business, Derivatives Business and Sales agent in investment units of mutual funds Business. In 2013, the Company has total Brokerage fee of Baht 1,241.24 million, increased by 51.44% from 2012. Details as follows:

<u>Brokerage fee</u>	Consolidated financial statements		
	As of 31 <sup>st</sup> December (Million Baht)		Changes
	2013	2012	%
Brokerage fees from Securities business	1,092.53	718.83	51.99%
Brokerage fees from Derivatives business	124.13	90.25	37.54%
Other fee	24.58	10.55	133.04%
Total	1,241.24	819.62	51.44%

#### 1. Brokerage fees from Securities business

In 2013 the Company report Brokerage fees from securities business of Baht 1,092.53 million, represents a 51.99 % increase compared to the 2012 since the Company has more marketing officer and open 2 new branches at Silom Complex and Nakorn Pathom 2, result the Company's market share increased from 3.47% (ranked 12<sup>th</sup>) in 2012 to 4.04% (ranked 11<sup>th</sup>) in 2013.

#### 2. Brokerage fees from Derivatives business

In 2013, the revenue commission of derivatives business was Baht 124.13 million, an increase 37.54% from the previous year, the Company's market share was ranking no. 1 with market share of 11.74%, continue increase from past 2 years. The reason is that the market share of the company increased due to its clients are using derivatives to manage the risk of the investment such as when the market going down, clients can open a short position to hedge equity downside to make short-term profit. The company was a pioneer with a Block Trade for Single Stock Futures, which can serve clients need very well.

The company is organized seminar to provide knowledge about the products to the clients and marketing officer regularly, such as technical analysis by focusing on the benefits of the trading system (Systematic Trading) and the technical trading signals TTS from Research Department, which encourages clients to have more confidence in trading.

In year 2014, the company plans to add a variety of technical trading signals to serve all group of clients. Along with the development of the KGI Bridge which is a Future order system that developed by the client themselves. Using it on Smart Phone or Tablet, to facilitate our clients even better. The company is confident that it can maintain its leading position in derivatives markets.

#### 3. Other brokerage fee.

Other brokerage fee s the fee from Selling Agent of Unit Trust Business. As of 31<sup>st</sup> December 2013, the Company was appointed as a selling agent of unit trust for 19 asset management firms. In 2013, the Company has expanded its Selling Agent of Unit Trust Business, by recruiting new sales and supporting staff, result the Company's fee from this business was Baht 24.58 million, up 133.04 % from last year.

### **Fee and Service income**

The company's fee and service income in 2013 was Baht 442.04 million increased by 56.04% from last year. The main reason was the increase of income on underwriting fee and financial advisory fee from investment banking business. In 2013, 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 of nine IPOs. The company's income from securities underwriting was Baht 89.07 million and financial advisory Baht 7.16 million.

In addition, the Mutual fund management fee, Private fund management fee and Provident fund management fees from One Asset Management Limited ("ONEAM") (the Company's subsidiary) also increased. In 2013, ONEAM launched new 10 mutual funds, and increased sales of existing funds.

Consolidated financial statement Fee and service income	Consolidated financial statement		Change (%)
	As of 31st December		
	2013	2012	
Mutual fund management fee.	252.61	201.31	25.48%
Private fund management fee.	41.60	32.52	27.93%
Provident fund management fee.	2.97	2.11	40.76%
Registrar and custodian fees.	21.99	15.09	45.77%
Securities borrowing and lending fee.	3.94	6.36	-38.08%
Underwriting fee	89.07	1.16	7595.89%
Financial advisory fee.	7.16	2.41	197.05%
Placement agent fee	9.47	17.06	-44.47%
Other	13.22	5.27	150.95%
Total fee and service income	442.04	283.29	56.04%

### **Gain on securities and derivatives**

In 2013, The Company's gain on securities and derivative of Baht 711.77 million, increased by 52.47% from previous year due to the improved performance of the Company's investments.

The total gain on securities and derivatives of Baht 711.77 million, consisted of loss on securities of Baht (590.49) million and gains on derivatives of Baht 1,302.26 million. The Company will consider on operation result from total gain on securities and derivatives which come from the Proprietary Trading business and Derivatives Warrant business as follows.

#### **a) Proprietary Trading Business**

The Company invests in both equities in SET and derivatives in TFEX by considering the economic outlook, fundamental factors of each industry, and financial statements, including technical analysis. The Company has an investment strategy of opening long or short derivatives positions in TFEX at the same time as opening long or short positions or borrowing equities to short in SET to make gain on investment at acceptable risk. This is a low risk investment strategy called Arbitrage which makes profits from the difference between the price in the equity market and the derivatives market. During the year, the Company has long position in equities and short position in derivatives in TFEX, therefore, the Company had loss on investment when the stock price decreased but the Company had gain on derivatives in TFEX. The Company still had gain when offset between gain and loss of the two markets which was the difference of the prices between the two markets from the Arbitrage strategy.

#### **b) Derivative Warrant Business**

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

- In case of issuing Call Warrant, the Company will have risk when the underlying stock price increases that would make the Company have loss from issuing DWs. Therefore, the Company has a strategy to

hedge such risk by buying underlying stocks in appropriate proportion calculated from Net Delta Value. The occurred risk from loss from issuing Call DWs will be offset by gain on underlying stock which the Company bought to hedge before.

- In case of issuing Put Warrant, the Company will have risk when the underlying stock price decreases that would make the Company have loss from issuing DWs. Therefore, the Company has a strategy to hedge such risk by short selling underlying stocks in appropriate proportion calculated from Net Delta Value. The occurred risk from issuing Put DWs will be offset by gain on underlying stock which the Company did the short selling to hedge before.

To protect against risk from stock price fluctuations that impact gain and loss of underlying stock and derivatives positions; the Company will hedge risk by opening underlying stock position. Therefore, the Company will record gain and loss of underlying stock position and derivatives position in the opposite way.

#### Interest on margin Loans

In 2013, the Company's interest income on margin loans increased by 26.96% from previous year or Baht 90.38 million, as there was an increased in credit balance accounts and in the interest rates charged.

#### Change in Expenses

##### Fee and service expenses

The Company's fee and services expenses of Baht 282.51 million in 2013 increased by 55.54%. The increase was mainly due to increases in fees on securities borrowing and lending business.

##### Operating expenses

The Company's operating expenses of Baht 1,358.37 million in 2013 increased by 32.17%. The increase was mainly due to the increased in personnel expenses which are related to the Company's revenue. However the company can control operating expenses. As results, the operating expenses to total income ratio was decreased from 53.85% in 2012 to 49.24% in 2013.

### **3. Asset Management Ability**

As of 31<sup>st</sup> December 2013, the company had total assets of Baht 8,258.74 million, decrease from Baht 12,359.57 million in 2012, representing a decrease of 33.18 % from a previous year. The company has reduced the size of the investment in the second half of 2013 to reduce the risk since the market conditions do not facilitate and prepare investing again when the situation improves.

In 2013, the Return on Assets (ROA) was 7.60 %, up from 4.49 % and 6.40 % in 2012 and 2011 respectively, showed that the assets of the company can be more profitable. And the company has an asset turnover ratio of 0.27, which is higher than 0.19 and 0.25 in 2012 and 2011 respectively, which was also confirmed that the company can use the assets more efficiently, the ratio is comparable with competitors.

<b>Consolidated Financial Statements</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
Return on Assets (%)	7.60%	4.49%	6.40%
Asset Turnover (Times)	0.27	0.19	0.25
Earning Assets to total assets (%)	72.64%	75.83%	73.80%

In the last 3 years, the Company's earning asset to total assets ratio was 73-76 %, which is same level as the industry. As of 31<sup>st</sup> December 2013, the Company's earning asset was Baht 5,998.95 million which consisted of net securities and derivatives business receivables of Baht 4,105.05 million and net investments of Baht 1,893.90 million.

### The quality of receivables

#### Securities and derivatives business receivables

Securities and derivatives business receivables comprise the net securities and derivatives business receivables, after deducting allowance for doubtful accounts, and include related accrued interest receivables.

In addition, securities business receivables include the net receivable balances of cash accounts, credit balance accounts, securities borrowings receivables and guaranteed deposit receivables (which comprise cash placed as security with securities lenders or securities depositories) and other receivables such as overdue cash customer accounts and securities receivables which are subject to legal proceedings, are undergoing restructuring or are being settled by installments.

Thus, the increase or decrease of securities receivables varied to trading volume during the year. As of 31<sup>st</sup> December 2013, the Company's securities receivables consisting of cash account receivables 39.44%, credit balance account receivables 37.19%, receivables under securities borrowing and lending business 13.77% and other receivables 9.59%.

	2013	%	2012	%
	(Million Baht)		(Million Baht)	
<u>Securities business receivables</u>				
Cash accounts	1,795.01	39.44%	1,177.57	38.11%
Credit balance accounts	1,692.88	37.19%	1,053.34	34.09%
Receivables under securities borrowing and lending business				
- guaranteed deposit receivables	601.86	13.22%	323.70	10.48%
- securities borrowings receivables	25.21	0.55%	95.66	3.10%
Other receivables				
- installment receivables	434.90	9.55%	438.71	14.20%
- overdue customers' accounts	1.90	0.04%	0.76	0.20%
<b>Total securities business receivables</b>	<b>4,551.76</b>	<b>100.00%</b>	<b>3,089.74</b>	<b>100.00%</b>
Add: accrued interest receivables	11.75		16.82	
Less: Allowance for doubtful accounts	(458.47)		(456.56)	
Securities business receivables and accrued interest receivables – net	4,105.05		2,650.00	
Total securities and derivatives business receivables – net	4,105.05		2,650.00	

The Company has provided an allowance for doubtful debts based on a review of the debtor's ability to make repayment, taking into consideration recovery risk and the value of the 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 consideration of other relevant factors.

The Company has classified securities business receivables, including related accrued interest receivables, in accordance with the relevant notification issued by SEC. As of 31<sup>st</sup> December 2013, the Company had sub-standard debt of Baht 29 million, doubtful debt of Baht 426 million. The Company had set aside full provision for doubtful debt

### Investments

The Company's investment varied to investment activities during the year. As of 31<sup>st</sup> December 2013, the Company's net investments was Baht 1,893.90 million, decrease from Baht 6,725.54 million in 2012. Representing a decrease of 71.84 % from last year. However, the company's average investment of the year 2013 was Baht 4,309.72 million. The Company's Proprietary Trading team performed well in 2013 as resulted the Company has gain on securities and derivatives of Baht 711.77 million and interest and Dividend Income of Baht 270.53 million, calculated as return on investment of 22.79%.

The Company's net investment of Baht 1,893.90 million, consisted of trading securities of 98.48 (Equities securities of 68.66% and debt securities of 29.82%), investment in government bond of 0.42% and other investment of 1.10%. To diversify the risk of investment, the Company will not invest in any company concentrated in investments of all types.

	2013 (Million Baht)		
	Cost value/ amortised cost	Fair value	%
<b>Trading securities</b>			
Equity securities	1,423.45	1,300.37	68.66%
Debt securities	566.66	564.76	29.82%
Total trading securities	1,990.11	1,865.13	98.48%
Add (less): allowance for revaluation	(124.99)	-	
<b>Net trading securities</b>	1,865.13	1,865.13	98.48%
<b>Held-to-maturity debt securities</b>			
Government bonds	8.02		0.42%
<b>Net held-to-maturity debt securities</b>	8.02		
<b>Other investments</b>	30.54		
Less: allowance for impairment	(9.79)		
<b>Net other investments</b>	20.75		1.10%
<b>Total investments – net</b>	1,893.90		100.00%

The company has adjusted the investment to fair value. The fair value of marketable securities is based on the latest bid price of the last working day of the year as quoted on the Stock Exchange of Thailand. The fair value of debt instruments is determined based on yield rates quoted by the Thai Bond Market Association. The fair value of unit trusts is determined from their net asset value.

Loss on impairment of investments (if any) are included in profit or loss from operation.

### Portion of Intangible Assets and Goodwill

As of 31<sup>st</sup> December 2013, the Company had net intangible assets of Baht 59.59 million and goodwill Baht 26.71 million baht, which represent only 1 % of the total assets of the company. Intangible assets are carried at cost less accumulated amortization and allowance for impairment (if any). The Company and its subsidiaries will review the value of those assets at least at each financial year end.



#### **4. Liquidity and capital adequacy**

##### **4.1 Sources and uses of funds**

As of 31<sup>st</sup> December 2013, the Company had cash and cash equivalents of Baht 985.22 million. The Company's cash flow from operating activities and its profit from operation was not much different which mean the company has sufficient liquidity. The Company's sources and uses of funds are as follows.

- a) Funds increase from assets decreased by Baht 4,789.03 million, which was due to a decrease in the Company's investments. The company has reduced the size of investments to reduce the risk of market conditions do not facilitate as mentioned above.
- b) Funds decrease from liabilities decreased by Baht (4,382.09) million, which was primarily due to the Company paid back the borrowing from financial institutions. Securities and derivatives business payables and advance reduced.
- c) Funds increase from investing activities Baht 19.87 million, which is mainly due to dividends received from investments Baht 79.18 million and other Baht 0.24 million, spending the money to purchase of equipment and intangible assets Baht (59.55) million.
- d) Fund decrease from paying dividends to shareholders in the amount of Baht (458.31) million.

<b>Cash Flow from Operating Activities in 2013</b>	<b>Million Baht</b>
Profits before income tax expenses	1,005.89
Adjustments to reconcile profits before income tax expenses to net cash paid for operating activities	(190.38)
Income from operating activities before changes in operating assets and liabilities	815.51
<b>The Change in Assets and Liabilities</b>	
Decrease in operating assets	4,789.03
Decrease in operating liabilities	(4,382.09)
<b>Net cash provided by operating activities</b>	<b>1,222.46</b>
Cash flows from investing activities	19.87
Net cash used in financing activities (Dividend Paid)	(458.31)
Changes in translation adjustments	1.87
Net increase in cash and cash equivalents	785.90
Cash and cash equivalents as at 1 January 2013	199.32
<b>Cash and cash equivalents as at 31<sup>st</sup> December 2013</b>	<b>985.22</b>

The company has the appropriate capital structure As of 31<sup>st</sup> December 2013, the Company's debt to shareholders' equity ratio was only 0.62 times. The ratio shows that the Company's capital structure has less risk due to its funding come from the Company's business operations, not from borrowing.

At the end of 2013, the Company's equity attributable to equity holders of the parent amounted to Baht 5,107.71 million, an increase of Baht 327.01 million baht from last year. The changes in the Company's equity attributable to equity holders of the parent is derived from the increase of profits of the year 2013 of Baht 785.07 million and less the dividend for 2012 which paid to its shareholders in May 2013 of Baht (458.06) million as follows.

##### **The Change in the Company's equity attributable to equity holders of the parent**

Balance as at 1 <sup>st</sup> January 2013	4,780.70	Million Baht
Dividend paid for the year 2012	(458.06)	Million Baht
Total comprehensive income for the period	785.07	Million Baht
Balance as at 31 <sup>st</sup> December 2013	5,107.71	Million Baht

#### 4.2 capital expenditure

In 2013, the Company has 1 significant capital expenditure which higher than Baht 10 million, details as follows:

##### Capital expenditure for new branched opening

Objective	To expand customer service
Details	The company has invested in new branches. By rent new office, decorate office, purchase office equipment and Computer.
Amount	Approximately Baht 15 million
The payment period	In 2013
Sources of Funds	The Company's working capital
Impact to the Company's liquidity	No impact to the Company's liquidity since the company has sufficient liquidity.
Expected Return	The Company's brokerage fee increase

#### 4.3 Adequacy of Liquidity

The Company has sufficient capital. As of 31st December 2013, the Company has cash and cash equivalents of Baht 985.22 million, deposits at financial institutions of Baht 89.54 million, and its Net Capital Ratio was 211.01%. 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. The Company's NCR in past 3 year are as follows:

Capital Fund	31 <sup>st</sup> Dec 2013	31 <sup>st</sup> Dec 2012	31 <sup>st</sup> Dec 2011
Net Capital Rule (Million Baht)	4,162	3,636	4,059
Net Capital Ratio (NCR) (%)	211.01%	73.90%	328.12%

##### The ability to find additional sources of funds

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. The Company analyses its cash flow needs on a daily basis and matches its funding and investment in money market instruments to its needs as forecasted.

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 Office of the Securities and Exchange Commission.

##### Factors that may affect the Company's credit 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). Factors that may affect the Company's credit rating are as follows:

1. Maintaining market position in the brokerage business among the volatility of securities business and pressure on commission rates after full liberalization;
2. Controlling the risks of investment among the volatility of stock prices which may affect the operating results of the Company's proprietary trading business;
3. The Company's ability to control risk from margin loans to buy securities and risk from new product launches;



4. Maintaining a consistent income from One Asset Management Limited (the Company's subsidiary).

However, the company was preparing to prevent the effects of such factors. 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.

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 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.

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.

Ability to repay the loan and the follow Loan's conditions and obligations

The company paid all borrowing to financial institutions so that as of 31<sup>st</sup> December 2556 the Company had no borrowings from financial institutions. The financial position of the company showed the Company's ability to repay loan. Additional, the Company has policy to treats creditors with fairness, responsibility and transparency by strictly complying with the terms of contracts with the creditor. The Company does not use dishonest means or conceal information and facts, which may be adverse to the creditors.

However, since the company has a good relationship with various financial institutions for a long time, so in case the company needs additional financing contingency. The company is confident that the Company will be financing the specified time.

**5. Obligations and liabilities**

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

**6. Factors affecting the Company's operating results in future and risk management.**

See Factors affecting the Company's operating results in future and risk management, described under the topic Risk Factors, page 18.