
PART 3
FINANCIAL POSITION AND OPERATING RESULT

13. Financial position and operating results**(A) Summary of the Report of the Independent Auditors for 2014 - 2016**

In 2014 - 2016, the Company appointed Mr. Chavala Tienpasertkij, Certified Public Accountant no. 4301 of Deloitte Touche Tohmatsu Jaiyos Audit Co. Ltd, “Deloitte” as auditor. In the opinion of Deloitte, the consolidated and separate financial statements present fairly, in all material respects, the financial position of the Company and its subsidiaries as at 31st December 2014 and 2015 and 2016, and the financial performance and cash flows for the year in accordance with Thai Financial Reporting Standards.

(B) Summary of audited financial statements for the Company and its subsidiary companies for the years ended 31st December 2014 - 2016.

KGI SECURITIES (THAILAND) PUBLIC COMPANY LIMITED AND ITS SUBSIDIARIES

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2016 , 2015 AND 2014

UNIT : BAHT

	CONSOLIDATED FINANCIAL STATEMENTS					
	2016		2015		2014	
ASSETS						
ASSETS						
Cash and cash equivalents	392,296,992	3%	446,998,146	5%	393,172,029	3%
Deposits at financial institutions	166,321,791	1%	243,358,190	3%	196,524,352	2%
Securities purchased under resale agreements	370,000,000	3%	140,000,000	1%	-	-
Receivables from Clearing House	2,126,104,398	15%	939,090,312	10%	740,715,454	7%
Securities and derivatives business receivables - net	5,099,765,234	36%	5,053,543,518	52%	4,885,697,887	49%
Derivatives assets	61,203,198	-	22,492,971	-	34,498,195	-
Investments - net	5,414,609,460	38%	2,308,088,852	24%	3,825,683,010	36%
Premises and equipment - net	107,465,327	1%	112,550,014	1%	103,879,967	1%
Intangible assets - net	66,935,399	1%	68,116,837	1%	69,384,791	-
Goodwill	26,713,599	-	26,713,599	-	26,713,599	-
Properties foreclosed - net	31,556,355	-	35,075,355	-	44,838,573	-
Deferred tax assets	6,295,557	-	3,335,742	-	1,567,588	-
Other assets	261,458,183	2%	249,940,826	3%	199,768,733	2%
Total assets	14,130,725,493	100%	9,649,304,362	100%	10,522,444,178	100%

KGI SECURITIES (THAILAND) PUBLIC COMPANY LIMITED AND ITS SUBSIDIARIES

STATEMENT OF FINANCIAL POSITION (CONTINUED)

AS AT 31 DECEMBER 2016, 2015 AND 2014

UNIT : BAHT

	CONSOLIDATED FINANCIAL STATEMENTS					
	2016		2015		2014	
LIABILITIES AND OWNERS' EQUITY						
LIABILITIES						
Borrowings from financial institutions	1,700,000,000	12%	-	-	600,000,000	6%
Securities sold under repurchase agreements	540,000,000	4%	10,000,000	-	130,000,000	1%
Payables to Clearing House	-	-	117,450,667	1%	-	-
Securities and derivatives business payables	3,918,283,270	28%	3,388,911,531	35%	3,236,018,804	31%
Accrued expenses	485,804,033	3%	349,712,382	4%	414,025,989	4%
Income tax payable	107,886,231	1%	24,159,758	-	72,306,169	1%
Derivatives liabilities	258,924,876	2%	103,999,988	1%	116,470,811	1%
Debt issued and borrowings	1,478,402,837	10%	454,671,746	5%	657,193,094	6%
Provisions for long-term employee benefits	88,765,202	1%	71,387,291	1%	46,737,284	1%
Provisions for liabilities	42,372,143	-	46,697,251	1%	39,861,562	-
Deferred tax liabilities	2,445,081	-	13,090,925	-	25,742,445	-
Other liabilities	24,186,454	-	25,919,971	-	22,974,552	-
Total liabilities	8,647,070,127	61%	4,606,001,510	48%	5,361,330,710	51%
OWNERS' EQUITY						
Share capital						
Registered, issued and fully paid-up						
1,991,763,130 ordinary shares of Baht 1.00 each	1,991,763,130	14%	1,991,763,130	21%	1,991,763,130	19%
Share premium	982,166,480	7%	982,166,480	10%	982,166,480	9%
Surplus from unexercised warrants	101,922,580	1%	101,922,580	1%	101,922,580	1%
Other component of owners' equity	(28,987,912)	-	(14,183,911)	-	(45,470,837)	-
Retained earnings						
Appropriated - statutory reserve	199,176,313	1%	199,176,313	2%	199,176,313	2%
Unappropriated	2,234,488,542	16%	1,779,748,786	18%	1,928,957,423	18%
Equity attributable to equity holders of the parent	5,480,529,133	39%	5,040,593,378	52%	5,158,515,089	49%
Non-controlling interests	3,126,233	-	2,709,474	-	2,598,379	-
Total owners' equity	5,483,655,366	39%	5,043,302,852	52%	5,161,113,468	49%
Total liabilities and owners' equity	14,130,725,493	100%	9,649,304,362	100%	10,522,444,178	100%

KGI SECURITIES (THAILAND) PUBLIC COMPANY LIMITED AND ITS SUBSIDIARIES

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEARS ENDED 31 DECEMBER 2016 , 2015 AND 2014

UNIT : BAHT

	CONSOLIDATED FINANCIAL STATEMENTS					
	2016		2015		2014	
REVENUES						
Brokerage fees	1,085,349,861	34%	957,368,708	39%	1,084,137,945	42%
Fees and service income	629,251,086	19%	562,696,146	23%	406,103,548	16%
Gains (losses) on securities	291,553,344	9%	(100,304,408)	(4%)	222,444,613	9%
Gains on derivatives	873,290,916	27%	678,734,108	27%	507,211,244	20%
Interest and dividends	260,696,461	8%	262,466,973	11%	262,605,880	10%
Interest on margin loans	99,412,181	3%	100,257,584	4%	89,189,361	3%
Other income	6,301,384	-	20,726,038	-	11,944,116	-
Total revenues	3,245,855,233	100%	2,481,945,149	100%	2,583,636,707	100%
EXPENSES						
Finance costs	113,163,106	3%	112,311,789	5%	109,371,813	4%
Fees and service expenses	360,395,286	11%	353,350,229	14%	249,416,253	10%
Operating expenses						
Personnel expenses	1,013,367,477	31%	824,568,397	33%	865,112,355	33%
Premises and equipment expenses	205,328,008	7%	194,196,169	8%	176,019,798	7%
Directors' remuneration	34,152,880	1%	24,671,400	1%	27,128,613	1%
Other expenses	231,291,467	7%	228,742,882	9%	197,201,920	8%
Total operating expenses	1,484,139,832	46%	1,272,178,848	51%	1,265,462,686	49%
Bad debts and doubtful accounts (reversal)	7,215,754	-	(1,600,701)	-	(3,468,037)	-
Total expenses	1,964,913,978	61%	1,736,240,165	70%	1,620,782,715	63%
Profits before income tax expenses	1,280,941,255	39%	745,704,984	30%	962,853,992	37%
Income tax expenses	(257,402,145)	(8%)	(157,423,178)	(6%)	(200,703,174)	(8%)
Net Profits	1,023,539,110	31%	588,281,806	24%	762,150,818	29%

KGI SECURITIES (THAILAND) PUBLIC COMPANY LIMITED AND ITS SUBSIDIARIES

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (CONTINUED)

FOR THE YEARS ENDED 31 DECEMBER 2016 , 2015 AND 2014

UNIT : BAHT

	CONSOLIDATED FINANCIAL STATEMENTS					
	2016		2015		2014	
Other comprehensive gain (loss):						
Items that will not be reclassified subsequently to profit or loss:						
Actuarial loss on defined benefit plan	-	-	(11,865,549)	-	-	-
Income tax relating to items that will not be reclassified subsequently to profit or loss	-	-	2,373,110	-	-	-
	-	-	(9,492,439)	-	-	-
Items that may be reclassified subsequently to profit or loss:						
Gain (loss) on remeasurement of available-for-sale investment	(12,706,802)	-	7,568,236	-	3,820,773	-
Gain (loss) on translation of the financial statements of foreign operation	(2,097,199)	-	23,718,690	1%	2,593,663	-
	(14,804,001)	-	31,286,926	1%	6,414,436	-
Total other comprehensive gain (loss)	(14,804,001)	-	21,794,487	1%	6,414,436	-
Total comprehensive income	1,008,735,109	31%	610,076,293	25%	768,565,254	29%
Profits attributable to:						
Equity holders of the parent	1,022,368,072	31%	587,215,008	24%	761,335,524	29%
Non-controlling interests	1,171,038	-	1,066,798	-	815,294	-
	1,023,539,110	31%	588,281,806	24%	762,150,818	29%
Total comprehensive income attributable to:						
Equity holders of the parent	1,007,564,071	31%	609,040,576	25%	767,749,960	29%
Non-controlling interests	1,171,038	-	1,035,717	-	815,294	-
	1,008,735,109	31%	610,076,293	25%	768,565,254	29%
Earnings per share attributable to equity holders of the parent						
Basic earning per share	0.51		0.29		0.38	

KGI SECURITIES (THAILAND) PUBLIC COMPANY LIMITED AND ITS SUBSIDIARIES
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED 31 DECEMBER 2016 , 2015 AND 2014

UNIT : BAHT

	CONSOLIDATED FINANCIAL STATEMENTS		
	2016	2015	2014
Cash flows from operating activities			
Profits before income tax expenses	1,280,941,255	745,704,984	962,853,992
Adjustments to reconcile profits before income tax expenses			
to net cash provided by (paid for) operating activities:			
Depreciation and amortisation	58,014,747	52,575,926	45,998,266
Bad debts and doubtful accounts	10,455,834	9,200,973	10,449,878
Provisions for liabilities	2,902,500	2,810,000	342,987
(Gains) losses on revaluation of trading			
securities and derivatives	(62,231,213)	34,295,774	(67,429,549)
Premium on investments in debt securities of a subsidiary	5,166	187,345	14,127
Discount on debts issued and other borrowings	(20,889,025)	(13,740,127)	(13,380,054)
(Gains) losses on disposals and written-off of equipment	274,005	(316,061)	(580,202)
(Gains) losses on disposals of property foreclosed	(5,381,000)	(10,176,782)	(3,045,418)
Interest income on deposits and investments	(130,773,972)	(142,699,124)	(164,549,106)
Dividend income	(129,922,489)	(119,767,849)	(98,047,583)
Finance costs	113,163,106	112,311,789	116,267,642
Provisions for long-term employee benefits	17,377,911	14,784,458	10,741,943
Cash received from interest income on deposits			
and investments	159,184,284	124,568,536	168,637,161
Cash paid for interest expenses	(93,008,917)	(92,667,746)	(108,445,353)
Cash paid for income taxes	(187,281,330)	(217,616,154)	(167,933,920)
Income from operating activities before			
changes in operating assets and liabilities	1,012,830,862	499,455,942	691,894,811
(Increase) decrease in operating assets			
Deposits at financial institutions	77,036,399	(46,833,838)	(106,988,099)
Securities purchased under resale agreements	(230,000,000)	(140,000,000)	365,000,000
Receivables from Clearing House	(1,242,586,189)	(236,472,579)	(377,938,892)
Securities and derivatives business receivables	(65,491,415)	(176,156,472)	(792,161,493)
Derivatives assets	(46,947,147)	(186,708)	32,749,079
Trading securities	(2,941,405,541)	1,513,645,972	(1,685,015,339)
Other assets	(36,019,117)	(33,357,718)	(30,607,583)

KGI SECURITIES (THAILAND) PUBLIC COMPANY LIMITED AND ITS SUBSIDIARIES
STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED 31 DECEMBER 2016 , 2015 AND 2014

UNIT : BAHT

	CONSOLIDATED FINANCIAL STATEMENTS		
	2016	2015	2014
Increase (decrease) in operating liabilities			
Borrowings from financial institutions	1,700,000,000	(600,000,000)	600,000,000
Securities sold under repurchase agreements	530,000,000	(120,000,000)	(35,000,000)
Payables to Clearing House	(117,450,667)	117,450,667	(307,042,599)
Securities and derivatives business payables	513,770,424	213,947,256	1,243,388,039
Accrued expenses	133,862,676	(63,316,517)	48,703,156
Derivatives liabilities	167,050,056	(29,462,731)	(67,035,296)
Debts issued and other borrowings	1,024,965,863	(208,076,061)	660,072,596
Payments on long-term employee benefits during the years	-	(2,000,000)	(5,025,280)
Other liabilities	3,569,225	1,249,178	2,115,442
Net cash from operating activities	483,185,429	689,886,391	237,108,542
Cash flows from investing activities			
Cash paid for available-for-sales investment	-	-	(164,815,000)
Cash paid for held-to-maturity debt securities	(49,684,132)	(8,749,370)	-
Cash paid for investment in a subsidiary	(102,999)	(49,624)	-
Proceeds from disposals of held-to-maturity debt securities	-	8,000,000	-
Dividends received on investment in securities	127,176,091	120,193,929	97,405,723
Cash paid for purchases of equipment and intangible assets	(55,456,628)	(55,555,731)	(58,103,761)
Proceed from disposals of equipment	284,402	369,409	1,135,090
Proceed from disposals of property foreclosed	8,900,000	19,840,000	10,020,000
Net cash from investing activities	31,116,734	84,048,613	(114,357,948)
Cash flows from financing activities			
Dividends paid	(567,628,316)	(726,962,287)	(716,946,578)
Dividends paid to non-controlling interests	(651,280)	(874,998)	(441,738)
Net cash from financing activities	(568,279,596)	(727,837,285)	(717,388,316)
Changes in translation adjustments	(723,721)	7,728,398	2,593,663
Net increase(decrease) in cash and cash equivalents	(54,701,154)	53,826,117	(592,044,059)
Cash and cash equivalents as at January 1	446,998,146	393,172,029	985,216,088
Cash and cash equivalents as at December 31	392,296,992	446,998,146	393,172,029

(C) Ratios for years 2014-2016

Consolidated financial statements	2016	2015	2014
Profitability Ratios			
Gross profit margin (%)	85.38%	81.08%	86.05%
Net profit margin (%)	31.50%	23.66%	29.47%
Return on equity (%)	19.43%	11.52%	14.83%
Return on investment (%)	36.92%	27.42%	34.70%
Efficiency Ratios			
Return on assets (%)	8.60%	5.82%	8.11%
Assets turnover (times)	0.27	0.25	0.28
Financial Ratios			
Liquid assets to total liabilities (times)	0.63	0.52	0.72
Earning assets to total liabilities (times)	1.22	1.60	1.62
Liquid assets to total assets (%)	38.48%	24.97%	36.72%
Earning assets to total assets (%)	74.41%	76.29%	82.79%
Total Liabilities to equity (times)	1.58	0.91	1.04
Dividend payment (%)	77.71%	98.96%	99.18%
(DPS / EPS separate financial statements)			
Other Ratios			
Securities investment to total assets (%)	38.32%	23.92%	36.36%
Net Capital Ratio (NCR) (%)	59.31%	131.06%	116.27%
Net Liquid Capital (Million Baht)	4,066	3,756	3,974
Per Share Information			
Par Value per share (Baht)	1.00	1.00	1.00
Book Value per share (Baht)	2.75	2.53	2.59
Basic Earnings per share (Baht)	0.51	0.29	0.38
Dividend per share (Baht)	0.380	0.285	0.365

14. Management Discussion & Analysis

(Consolidated financial statements as of 31st December 2016, “Company” refers to the “Company and its subsidiaries”)

14.1 Overview

For the whole of 2016, the SET Index staged an impressive rally of 19.8% to close the year at 1,542.94pts. The daily average market turnover (both SET and MAI) stood at Baht 52.5 billion, increasing by 18.5% from Baht 44.3 billion in 2015. Foreign investors reported a moderate net buying position of Baht 78.0 billion in 2016, compared to a large degree of foreign net selling of Baht 154.3 billion during 2015.

In 2016, the Company produced its best ever financial results. The Company achieved consolidated profits (attributable to equity holders of the parent) of Baht 1,022 million and earnings per share of Baht 0.51, an increase of 74% when compared to consolidated profits (attributable to equity holders of the parent) of Baht 587 million and earnings per share of Baht 0.29 the previous year.

The Company’s best ever financial results in 2016 reflect the strength and diversity of its operations plus the stable revenue streams from line of business other than the brokerage segment. In 2016, the fees earned from the Company’s securities brokerage and futures business accounted only 33 of its total revenues. By reducing its reliance on securities brokerage fees, the Company put itself in a better position to handle the intensifying competition after brokerage fees were fully liberalized.

In 2016, the Company’s gains on securities and derivatives represented 36% of its total revenues, were derived from a variety of activities, including derivative warrants (DWs), over-the-counter (OTC) derivatives, bond dealing, private repos, and investments in debt and equity securities for the Company’s own account.

The Company is considered to be one of the industry leaders in terms of product innovation. It can utilize the financial engineering know-how and the experience of the KGI Group, which is drawn from the more-developed Taiwanese financial market. This connection secures the Company a competitive edge in product development in Thailand. By offering a wide range of products, the Company can attract different groups of investors as 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.

The Company also has a recurring source of revenue from the fund management segment through its 99% ownership of ONE Asset Management Co., Ltd. (ONEAM). Revenues from fund management, which represented 16.75% of total revenues in 2016, are typically less volatile compared with other sources of revenue in the securities industry.

In 2016, TRIS Rating upgraded the Company’s credit rating to “A-” from “BBB+”. The upgraded rating reflects the continual improvement in the Company’s business stability and diversification. In addition, the rating reflects the explicit business support the Company receives from its major shareholder in Taiwan, KGI Securities Co., Ltd. (KGI Group). These strengths helped the Company earn its reputation as a leading creator of innovative products and gave it a proven track record of posting gains on proprietary trading.

The Company’s business

For Securities Broker Business, the Company developed and upgraded our internet trading platform, KGI POWER TRADE web-based version in 2016, which is available on both Window and OS X, and also provides more advanced features to serve clients’ needs and allows them to make timely and accurate investment decisions. In 2016, the Company ranked No.10 in terms of brokerage market share with an overall share of 3.76%. The Company again ranked No. 1 in derivatives trading volume with a market share of 12.59% of the TFEX market.

In 2016, the Equity Derivatives business also did well, producing a substantial increase in market share, and maintained its position as one of the leading DW issuers and market makers in Thailand. In 2016, the Company launched 248 DWs which were received a great response from investors.

Our Securities Trading business again produced a good performance, despite unusually high levels of volatility during the year. For Investment Banking business, the Company acted as the Lead Underwriter of two IPOs in 2016, including AMA Marines Plc and ASN Broker Plc, which were well received by investors. For the Fixed Income business, the Company continued to maintain its No. 1 ranking in bond trading among securities dealers in 2016.

Furthermore, One Asset Management Limited (the Company's subsidiary) issued 9 new funds, and increased assets under management.

In 2016, the Company won the "Best Derivatives House Award" from the SET AWARD 2016 and Best Bond Securities Firm Award from THAI BMA AWARDS 2016. One Asset Management Limited (the Company's subsidiary) also won "Most Innovative Fund House Thailand" from Global Business Outlook Awards 2016

14.2 Results of operations

Revenue

In 2016, the Company had total revenues, as shown in its consolidated financial statements, of Baht 3,246 million, an increase of 31 percent compared to the previous year. The increase was mainly attributable to an increase in revenue from gains on securities and derivatives, brokerage fees and fees and service income. The details are as follows:

<i>Unit: Thousand Baht</i>		Consolidated Financial Statement	
Revenues	2016	2015	% Change
Brokerage fees	1,085,350	957,369	13%
Fees and service income	629,251	562,696	12%
Gains on securities and derivatives	1,164,844	578,430	101%
Interest and dividends	260,696	262,467	(1%)
Interest on margin loans	99,412	100,258	(1%)
Other income	6,301	20,726	(70%)
Total revenues	3,245,855	2,481,945	31%

Brokerage fees

In 2016, the Company reported Brokerage fees of Baht 1,085 million, representing a 13% increase compared to 2015. The Brokerage fee income consisted of Brokerage fees from securities business of Baht 833 million, Brokerage fees from derivatives business of Baht 213 million and other brokerage fees of Baht 39 million.

<i>Unit: Thousand Baht</i>		Consolidated Financial Statement	
Brokerage fees income	2016	2015	% Change
Brokerage fees from securities business	833,100	772,330	8%
Brokerage fees from derivatives business	212,837	133,677	59%
Other brokerage fees	39,413	51,362	(23%)
Total brokerage fees	1,085,350	957,369	13%

The increase in Brokerage fee income from securities business mainly due to an increase in average daily trading volume of the SET and the increase in Brokerage fees income from derivatives business mainly due to an increase in the Company's market share in TFEX which increased from 11.16% in 2015 to 12.59% in 2016.

In 2016, the Company developed KGI POWER TRADE web-based version, which is available for both Window and Mac OS, and also provides advanced features to better serve clients' needs.

Fees and Service income

In 2016, the Company reported Fees and service income of Baht 629 million, representing an 12% increase compared to 2015, Fees and Service income mainly from mutual fund management fee and registrar fee from ONE Asset Management Limited (The Company's asset management subsidiary).

<i>Unit: Thousand Baht</i>	Consolidated Financial Statement		
Fees and service income	2016	2015	% Change
Mutual fund management	385,772	327,181	18%
Private fund management	54,068	67,524	(20%)
Provident fund management	8,305	6,824	22%
Registrar and custodian	86,734	64,381	35%
Securities borrowing and lending	6,963	4,769	46%
Underwriting	31,001	27,156	14%
Financial advisory	6,846	17,220	(60%)
Placement agent	15,383	12,511	23%
Others	34,179	35,130	(3%)
Total fees and service income	629,251	562,696	12%

Gains on securities and derivatives

The Company's gains on securities and derivatives were derived from a variety of activities, including derivative warrants (DWs), over-the-counter (OTC) derivatives, bond dealing, private repos, and investments in debt and equity securities for the Company's own account. With the proper hedging strategies, the market risks from issuing these types of financial products are relatively low.

The Company's gain on securities and derivatives in 2016 was Baht 1,165 million, an increase of 101% from the previous year. The total gain on securities and derivatives of Baht 1,165 million consist of gains on derivatives of Baht 873 million and gains on securities of Baht 292 million. Gains on derivatives mainly derived from the Derivatives Warrant business.

The Company has risk management strategy to prevent risks from Derivative Warrant Business and Proprietary Trading Businesses, as follows;

a) Derivative Warrant Business

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

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

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

b) Proprietary Trading Businesses

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

and the Company continuously monitors risk exposure. 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. The Risk Management Department closely tracks the business' exposure to control the Company's overall risks.

Interest and Dividend Income

The Company's interest and dividend income in 2016 was Baht 261 million, almost the same as in 2015. The Company's interest income mainly came from interest on bank deposits and bonds. The Company's dividend income mainly came from dividends from investments in stock market.

Interest on margin loans

The Company's interest on margin loans in 2016 was Baht 99 million, almost the same as in 2015. As at 31st December 2016, the Company's margin loan balance was Baht 1,971 million, an increase of 15% from the previous year.

Other Income

The Company's other income in 2016 was Baht 6 million, compared with Baht 21 million from previous year. The income mainly arose from gains on disposal of properties foreclosed.

Expenses

The Company's expenses in 2016 were Baht 1,965 million, represented 61% of total income, a decreased compared with 70% of total revenue in 2015. The majority of the Company's expenses came from Finance costs, Fees and service expenses and Operating expenses, as follows:

Finance costs

The Company's financial costs in 2016 were Baht 113 million, almost the same as in 2015. The finance costs are mainly interest paid on borrowings from financial institutions and on bills of exchange.

Fees and service expenses

The Company's fees and service expenses in 2016 were Baht 360 million, almost the same as in 2015. Fees and service expenses are mainly fees paid in respect of securities trading, futures trading and securities borrowing and lending.

Operating expenses

The Company's operating expenses in 2016 were Baht 1,484 million, represented 46% of total income, a decreased compared with 51% of total revenue in 2015. The operating expenses consisted of 1) personnel expenses of Baht 1,013 million, 2) premises and equipment expenses of Baht 205 million, 3) Directors' remuneration of Baht 34 million and 4) other expenses of Baht 231 million. The majority of the other expenses came from advertising expenses, communication expenses, travelling expenses, audit and legal fees and others.

Profitability Ratios

The Company's profitability ratios generally increased in 2016 when compared with the previous years. Gross profit margin, net profit margin, return on equity and return on investment were 85%, 32%, 19% and 37% respectively.

Consolidated financial statements	2016	2015
Profitability Ratios		
Gross profit margin (%)	85.38%	81.08%
Net profit margin (%)	31.50%	23.66%
Return on equity (%)	19.43%	11.52%
Return on investment (%)	36.92%	27.42%

14.3 Asset Structure and Management

Operating Asset Structure

As of 31st December 2016, the Company had total assets of Baht 14,131 million, compared with Baht 9,649 million in 2015, representing an increase of 46% from the previous year, mainly due to an increase in size of the Company's investment portfolios.

At the end of 2016, the Company's earning assets were Baht 10,515 million which consisted of the net securities and derivatives business receivables of Baht 5,100 million and net investments of Baht 5,415 million.

In 2016, the Company had an asset turnover ratio of 0.27. The Company's Return on Assets (ROA) was 8.60%, compared with 5.82% in 2015, due to the Company's better performance in 2016.

The quality of Securities and derivatives business receivables

The Company's securities and derivatives business receivables were of a good quality. As of 31st December 2016, the Company's securities and derivatives business receivables were Baht 5,100 million almost the same as in 2015. The Company has made provision for doubtful accounts on securities and derivatives business receivables based on a review of the debtor's ability to make repayment, taking into consideration recovery risk and the value of any collateral. Such debt classifications and provisions are made in accordance with the guidelines laid down in the Notification No. Kor. Thor. 5/2544 dated 15th February 2001 of the Office of the Securities and Exchange Commission, and after taking into consideration other relevant factors. The Company's doubtful debts as of 31st December 2016 were Baht 401 million, for which the Company had made full provision. The Company had also set additional reserves for uncollectible receivables of Baht 61 million. The Company believes that the provisions are adequate and meet the regulatory requirements.

<i>Unit: Thousand Baht</i>	Consolidated Financial Statements	
	December 31, 2016	December 31, 2015
Securities business receivables		
Cash accounts	2,119,303	2,099,788
Credit balance accounts	1,970,829	1,718,464
Receivables under securities borrowing and lending business		
- Guarantee deposit receivables	720,192	1,117,344
- Securities borrowing receivables	319,686	139,455
Other receivables		
- Installment receivables	421,236	421,871
- Overdue customers' accounts	304	-
- Other securities business receivables	832	252
Total securities business receivables	5,552,382	5,497,174
<u>Add</u> Accrued interest receivables	9,231	10,502
<u>Less</u> Allowance for doubtful accounts	(461,848)	(454,132)
Securities business receivables and accrued interest receivables - net	5,099,765	5,053,544
Securities and derivatives business receivables – net	5,099,765	5,053,544

For credit balance accounts, the Company's margin loan portfolio as of 31st December 2016 was Baht 1,971 million, equivalent to approximately 36% of the value of the Company's equity attributable to equity holders of the parent. The Company has set appropriate credit limits for each client and regularly reviews each client's financial strength. In 2016, the Company's credit lines complied with the Company's policies and were not concentrated in any industry or any client group.

As at 31st December 2016, the Company had other receivables with book values totaling Baht 419 million, on which the recognition of income had ceased. The Company has already made full provision for these debts.

Investments

The Company engaged in various investment activities during the year. As of 31st December 2016, the Company's net investments were valued at Baht 5,415 million, an increase of 135% from the previous year, because the Company had increased the size of its trading securities investments due to good market conditions.

The Company's investments consisted of trading securities of Baht 5,167 million, available-for-sale securities of Baht 178 million, held-to-maturity debt securities of Baht 48 million and general investments of Baht 21 million.

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

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

Other Assets

As at 31st December 2016, the Company had other assets of Baht 261 million, an increase of Baht 11 million from Baht 250 million at the same time of the previous year. The main increase came from the increase in accrued fees and service income of ONE Asset Management Limited (The Company's asset management subsidiary), due to ONE Asset Management Limited launch of new funds. (see note of financial statements no. 18)

14.4 Liquidity and capital adequacy

Sources and uses of funds

Cash flow activities consisted of 3 types, which are; operating activities, investing activities and financing activities. As at 31st December 2016, the Company's cash and cash equivalents were Baht 392 million, which comprises net cash from operating activities of Baht 483 million, net cash from investing activities of Baht 31 million, net cash from financing activities of Baht (568) million, changes in translation adjustments of Baht (0.72) million and plus beginning cash and cash equivalents of Baht 447 million.

Summary of Cash Flow Statements in 2016		Baht
Profits before income tax expenses		1,280.94
Adjustments to reconcile profits before income tax expenses to net cash provided by (paid for) operating activities:		(268.11)
Income from operating activities before changes in operating assets and liabilities		1,012.83
The Change in Assets and Liabilities		
(Increase) decrease in operating assets		(4,485.41)
Increase (decrease) in operating liabilities		3,955.77
Net cash from operating activities		483.19
Net cash from investing activities		31.12
Net cash from financing activities (Dividend Paid)		(568.28)
Changes in translation adjustments		(0.72)
Net increase (decrease) in cash and cash equivalents		(54.70)
Cash and cash equivalents as at 1 st January 2016		447.00
Cash and cash equivalents as at 31st December 2016		392.30

The majority of the net cash from operating activities of Baht 483 million came from income from operating activities and changes in operating assets and liabilities.

Net cash from investing activities of Baht 31 million, mainly came from dividends received on investments in securities and net cash from financing activities of Baht (568) million was due to dividends paid to shareholders in April 2016.

The Capital Structure

As of 31st December 2016, the Company's liabilities were Baht 8,647 million, and equity attributable to equity holders of the parent was Baht 5,481 million. The ratio of total liabilities to equity was 1.58 times.

At the end of 2016, the majority of total liabilities of Baht 8,647 million came from securities and derivatives business payables, borrowings from financial institutions and debt issued and borrowings. A majority of the equity attributable to equity holders of the parent of Baht 5,481 million came from capital and retained earnings.

Capital Expenditure

In 2016, the Company had 5 capital expenditure projects which were more than Baht 2 million, with a total budget of approximately Baht 41 million. The projects were investments in improving IT systems, computers and branch set up. The Company already paid for the projects of Baht 20 million in 2016 from the Company's working capital.

Adequacy of Liquidity

The Company has sufficient capital. As of 31st December 2016, the Company had cash and cash equivalents of Baht 392 million, deposits at financial institutions of Baht 166 million. Net Liquid Capital was Baht 4,066 million and Net Capital Ratio ("NCR") was 59%. The Company has a policy to maintain its Net Liquid Capital and NCR at a level that is higher than that required by SEC regulations (The regulations specify that the Net Liquid Capital must be at least Baht 25 million and the NCR must be at least 7%). The Company's Net Liquid Capital and NCR in past 3 years was as follows:

Capital Fund	31 st Dec 2016	31 st Dec 2015	31 st Dec 2014
Net Liquid Capital (Million Baht)	4,066	3,756	3,974
Net Capital Ratio ("NCR") (%)	59.31%	131.06%	116.27%

Ability to repay loans and comply with loan conditions and obligations

As of 31st December 2016, the Company had borrowings from financial institutions of Baht 1,700 million, and had debt issued and borrowings of Baht 1,478 million (see details in note of financial statement no. 19). The Company is confident that it will be able to repay the loans as necessary. The Company has a policy to treat creditors with fairness, responsibility and transparency by strictly complying with the terms of contracts with creditors. The Company does not use dishonest means nor does it conceal relevant information or facts from creditors.

The ability to find additional sources of funds

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

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

Factors that may affect the Company's credit rating

In July 2016, TRIS Rating upgraded the Company's rating to "A-" from "BBB+". Factors that may affect the Company's credit rating are as follows:

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

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

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

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

14.5 Commitments and contingent liabilities

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

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

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

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