
PART 3
FINANCIAL POSITION AND OPERATING RESULT

13. Financial position and operating results

(A) Summary of the Report of the Independent Auditors for 2015 - 2017

In 2015 - 2017, the Company appointed Mr. Chavala Tienpasertkij, Certified Public Accountant no. 4301 of Deloitte Touche Tohmatsu Jaiyos Audit Co. Ltd, “Deloitte” as Auditor. The Auditor reported unqualified opinion that the Company’s consolidated and separate financial statements present fairly, in all material respects and the financial performance and cash flows for the year in accordance with Thai Financial Reporting Standards (“TFRSs”).

Emphasis of Matter in Report of the independent certified public accountant of the Company’s financial statement for 2017

“Without modifying our conclusion, we draw attention to Note 3 to the financial statements that KGI Securities (Thailand) Public Company Limited and its subsidiaries have elected to change accounting policy relating to investments in subsidiaries in the separate financial statements from cost method to equity method for the financial statements for the periods beginning on or after January 1, 2017 onwards and the Company restated the separate statement of financial statements for the year ended December 31, 2016 and the separate statement of financial position as at January 1, 2016 which are presented as comparative information, to be in accordance with the revised Thai Financial Reporting Standard.”

(B) Summary of audited financial statements for the Company and its subsidiary companies for the years ended 31st December 2015 - 2017.

KGI SECURITIES (THAILAND) PUBLIC COMPANY LIMITED AND ITS SUBSIDIARIES

STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31, 2017 and 2016 and 2015

UNIT : BAHT

	CONSOLIDATED FINANCIAL STATEMENTS					
	As at		As at		As at	
	December 31, 2017		December 31, 2016		December 31, 2015	
ASSETS						
ASSETS						
Cash and cash equivalents	322,234,867	2%	392,296,992	3%	446,998,146	5%
Securities purchased under resale agreements	360,000,000	2%	370,000,000	3%	140,000,000	1%
Receivables from Clearing House and broker - dealers	481,468,149	3%	2,117,084,930	15%	874,170,607	9%
Securities business receivables and						
Derivatives business receivables	6,590,014,892	39%	5,098,933,496	36%	5,053,291,873	52%
Accrued fees and service income						
from asset management business	52,817,905	-	59,238,044	-	49,278,596	1%
Derivatives assets	131,503,021	1%	72,399,616	1%	93,269,455	1%
Investments	8,621,732,023	51%	5,580,931,251	39%	2,551,447,042	26%
Property, plant and equipment	107,717,090	1%	107,465,327	1%	112,550,014	1%
Intangible assets	73,408,881	-	66,935,399	1%	68,116,837	1%
Goodwill	26,713,599	-	26,713,599	-	26,713,599	-
Properties foreclosed	30,456,355	-	31,556,355	-	35,075,355	1%
Deferred tax assets	5,612,956	-	6,295,557	-	3,335,742	-
Other assets	221,391,487	1%	202,220,138	1%	200,662,230	2%
TOTAL ASSETS	17,025,071,225	100%	14,132,070,704	100%	9,654,909,496	100%

KGI SECURITIES (THAILAND) PUBLIC COMPANY LIMITED AND ITS SUBSIDIARIES

STATEMENT OF FINANCIAL POSITION (CONTINUED)

AS AT DECEMBER 31, 2017 and 2016 and 2015

UNIT : BAHT

	CONSOLIDATED FINANCIAL STATEMENTS					
	As at December 31, 2017		As at December 31, 2016		As at December 31, 2015	
LIABILITIES AND OWNERS' EQUITY						
LIABILITIES						
Borrowings from financial institutions	3,700,000,000	22%	1,700,000,000	12%	-	-
Securities sold under repurchase agreements	403,000,000	2%	540,000,000	4%	10,000,000	-
Payables to Clearing House and broker - dealers	109,312,910	1%	-	-	117,450,667	1%
Securities business payables and						
Derivatives business payables	3,588,190,091	21%	3,918,283,270	28%	3,388,911,531	35%
Accrued fees and service expenses						
from asset management business	12,989,914	-	9,927,067	-	7,452,437	-
Derivatives liabilities	531,668,585	3%	260,270,087	2%	109,605,122	1%
Accrued expenses	429,136,008	3%	475,876,966	3%	342,259,945	4%
Current tax liabilities	95,515,808	-	107,886,231	1%	24,159,758	-
Debts issued and borrowings	2,382,765,876	14%	1,478,402,837	10%	454,671,746	5%
Provisions for long-term employee benefits	106,776,849	1%	88,765,202	1%	71,387,291	1%
Provisions for liabilities	39,811,557	-	42,372,143	-	46,697,251	1%
Deferred tax liabilities	579,114	-	2,445,081	-	13,090,925	-
Other liabilities	28,160,218	-	24,186,454	-	25,919,971	-
Total liabilities	11,427,906,930	67%	8,648,415,338	61%	4,611,606,644	48%
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	12%	1,991,763,130	14%	1,991,763,130	21%
Share premium	982,166,480	6%	982,166,480	7%	982,166,480	10%
Surplus from unexercised warrants	101,922,580	-	101,922,580	1%	101,922,580	1%
Retained earnings						
Appropriated - statutory reserve	199,176,313	1%	199,176,313	1%	199,176,313	2%
Unappropriated	2,365,502,610	14%	2,234,488,542	16%	1,779,748,786	18%
Other component of owners' equity	(46,928,521)	-	(28,987,912)	-	(14,183,911)	-
Equity attributable to equity holders of the parent	5,593,602,592	33%	5,480,529,133	39%	5,040,593,378	52%
Non-controlling interests	3,561,703	-	3,126,233	-	2,709,474	-
Total owners' equity	5,597,164,295	33%	5,483,655,366	39%	5,043,302,852	52%
TOTAL LIABILITIES AND OWNERS' EQUITY	17,025,071,225	100%	14,132,070,704	100%	9,654,909,496	100%

KGI SECURITIES (THAILAND) PUBLIC COMPANY LIMITED AND ITS SUBSIDIARIES

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED DECEMBER 31, 2017 and 2016 and 2015

UNIT : BAHT

	CONSOLIDATED FINANCIAL STATEMENTS					
	2017		2016		2015	
REVENUES						
Brokerage fees	917,036,355	30%	1,045,937,174	32%	906,006,228	37%
Fees and service income	672,198,509	22%	669,451,623	21%	616,879,780	25%
Interest on margin loans	136,710,784	4%	99,412,181	3%	100,257,584	4%
Gains and return on financial instruments	1,327,898,375	43%	1,424,752,871	44%	838,075,519	34%
Other incomes	4,428,223	1%	6,301,384	-	20,726,038	-
Total revenues	3,058,272,246	100%	3,245,855,233	100%	2,481,945,149	100%
EXPENSES						
Employee benefits expenses	1,015,492,905	33%	1,047,520,357	32%	849,239,797	34%
Fees and service expenses	357,452,055	12%	360,395,286	11%	353,350,229	14%
Finance costs	140,565,253	5%	113,163,106	3%	112,311,789	5%
Bad debt and doubtful accounts (reversal)	(20,059,617)	(1%)	7,215,754	1%	(1,600,701)	-
Other expenses	457,601,190	15%	436,619,475	13%	422,939,051	17%
Total expenses	1,951,051,786	64%	1,964,913,978	60%	1,736,240,165	70%
Profits before income tax	1,107,220,460	36%	1,280,941,255	40%	745,704,984	30%
Income tax expenses	(219,146,936)	(7%)	(257,402,145)	(8%)	(157,423,178)	(6%)
Profits for the years	888,073,524	29%	1,023,539,110	32%	588,281,806	24%

KGI SECURITIES (THAILAND) PUBLIC COMPANY LIMITED AND ITS SUBSIDIARIES

STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2017 and 2016 and 2015

UNIT : BAHT

	CONSOLIDATED FINANCIAL STATEMENTS					
	2017		2016		2015	
Other comprehensive gain (loss):						
Items that will not be reclassified subsequently to profit or loss:						
Actuarial gain (loss) on defined benefit plan	1,210,999	-	-	-	(11,865,549)	-
Income tax relating to items that will not be reclassified subsequently to profit or loss	(242,200)	-	-	-	2,373,110	-
	968,799	-	-	-	(9,492,439)	-
Items that may be reclassified subsequently to profit or loss:						
Gains (Loss) on remeasuring available-for-sale investments	4,471,186	-	(12,706,802)	(1%)	7,568,236	-
Exchange differences on translating the financial statements	(22,330,926)	(1%)	(2,097,199)	-	23,718,690	1%
Income tax relating to items that may be reclassified subsequently to profit or loss	(80,869)	-	-	-	-	-
	(17,940,609)	(1%)	(14,804,001)	(1%)	31,286,926	1%
Total other comprehensive gain (loss) after tax	(16,971,810)	(1%)	(14,804,001)	(1%)	21,794,487	1%
Total comprehensive income for the years	871,101,714	28%	1,008,735,109	31%	610,076,293	25%
Profits for the years attributable to:						
Equity holders of the parent	886,882,976	29%	1,022,368,072	32%	587,215,008	24%
Non-controlling interests	1,190,548	-	1,171,038	-	1,066,798	-
	888,073,524	29%	1,023,539,110	32%	588,281,806	24%
Total comprehensive income for the years attributable to:						
Equity holders of the parent	869,911,166	28%	1,007,564,071	31%	609,009,495	25%
Non-controlling interests	1,190,548	-	1,171,038	-	1,066,798	-
	871,101,714	28%	1,008,735,109	31%	610,076,293	25%
Earnings per share attributable to equity holders of the parent						
Basic earning per share	0.45		0.51		0.29	

KGI SECURITIES (THAILAND) PUBLIC COMPANY LIMITED AND ITS SUBSIDIARIES

STATEMENT OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2017 and 2016 and 2015

UNIT : BAHT

	CONSOLIDATED FINANCIAL STATEMENTS		
	2017	2016	2015
Cash flows from operating activities			
Profits before income tax expenses	1,107,220,460	1,280,941,255	745,704,984
Adjustments to reconcile profits before income tax expenses to net cash provided by (paid for) operating activities:			
Depreciation and amortisation	61,611,899	58,014,747	52,575,926
Bad debts and doubtful accounts	9,170,364	10,455,834	9,200,973
Provisions for liabilities (reversal)	(2,810,000)	2,902,500	2,810,000
(Gains) Losses on revaluation of trading securities and derivatives	61,628,979	(62,231,213)	34,295,774
Gains on disposal of investments	(10,680,651)	-	-
Premium on investments in debt securities of a subsidiary	196,725	5,166	187,345
Discount on debts issued and other borrowings	(37,968,269)	(20,889,025)	(13,740,127)
Amortisation of deferred interest of financial lease	105,885	-	-
(Gains) losses on disposals and written-off of equipment	189,391	274,005	(316,061)
Gains on disposals properties foreclosed	(1,720,000)	(5,381,000)	(10,176,782)
Interest income on deposits and investments	(119,246,802)	(130,773,972)	(142,699,124)
Dividend income	(153,730,170)	(129,922,489)	(119,767,849)
Financial costs	140,565,253	113,163,106	112,311,789
Provisions for long-term employee benefits	20,355,796	17,377,911	14,784,458
Income from operating activities before changes in operating assets and liabilities	1,074,888,860	1,133,936,825	685,171,306
(Increase) decrease in operating assets			
Securities purchased under resale agreements	10,000,000	(230,000,000)	(140,000,000)
Receivables from Clearing House and brokers - dealers	1,635,616,781	(1,243,166,282)	(274,849,223)
Securities business receivables and Derivatives business receivables	(1,500,251,760)	(64,911,322)	(175,904,827)
Accrued fees and service income from asset management business	6,420,139	(9,959,448)	(7,542,774)
Derivatives assets	(48,399,351)	(46,947,147)	32,333,156
Trading securities	(2,908,755,924)	(2,941,405,541)	1,513,645,972
Other assets	(16,632,126)	(26,059,669)	(25,814,944)
Increase (decrease) in operating liabilities			
Borrowings from financial institutions	2,000,000,000	1,700,000,000	(600,000,000)
Securities sold under repurchase agreements	(137,000,000)	530,000,000	(120,000,000)
Payables to Clearing House and brokers - dealers	109,312,910	(117,450,667)	117,450,667
Securities business payables and Derivatives business payables	(333,021,084)	513,770,424	213,947,256
Accrued fees and service expenses from asset management business	3,062,847	2,474,630	1,248,182
Derivatives liabilities	250,409,947	167,050,056	(23,857,596)
Accrued expenses	(47,589,089)	131,388,046	(64,564,699)
Debts issued and other borrowings	907,400,320	1,024,965,863	(208,076,061)
Payments on long-term employee benefits during the years	(1,133,150)	-	(2,000,000)
Other liabilities	4,653,194	3,569,225	1,249,178
Cash received from operation	1,008,982,514	527,254,993	922,435,593

KGI SECURITIES (THAILAND) PUBLIC COMPANY LIMITED AND ITS SUBSIDIARIES
STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2017 and 2016 and 2015

UNIT : BAHT

	CONSOLIDATED FINANCIAL STATEMENTS		
	2017	2016	2015
Cash received from interest income on deposits and investments	116,916,254	159,184,284	124,568,536
Cash paid for interest expenses	(105,201,123)	(93,008,917)	(92,667,746)
Cash paid for income taxes	(233,023,794)	(187,281,330)	(217,616,154)
Net cash provided by operating activities	787,673,851	406,149,030	736,720,229
Cash flows from investing activities			
Cash paid for available-for-sale securities	(97,126,131)	-	-
Proceed from disposals of available-for-sale securities	10,742,640	-	-
Cash paid for held-to-maturity securities	(195,400,000)	(50,303,733)	(57,149,369)
Proceed from disposals of held-to-maturity securities	100,619,557	77,656,000	9,566,161
Cash paid for investment in a subsidiary	(103,798)	(102,999)	(49,624)
Dividends received on investment in securities	153,521,494	127,176,091	120,193,929
Dividends received from a subsidiary	-	-	-
Cash paid for purchases of equipment and intangible assets	(67,915,044)	(55,456,628)	(55,555,731)
Proceed from disposals of equipment	167,598	284,402	369,409
Cash paid for financial lease	(900,000)	-	-
Proceed from properties foreclosed	2,820,000	8,900,000	19,840,000
Net cash provided by (used in) investing activities	(93,573,684)	108,153,133	37,214,775
Cash flows from financing activities			
Dividends paid	(756,837,707)	(567,628,316)	(726,962,287)
Dividends paid to non-controlling interests	(651,280)	(651,280)	(874,998)
Net cash used in financing activities	(757,488,987)	(568,279,596)	(727,837,285)
Net decrease in cash and cash equivalents before changes in exchange differences on translating the financial statements	(63,388,820)	(53,977,433)	46,097,719
Exchange differences on translating the financial statements	(6,673,305)	(723,721)	7,728,398
Net decrease in cash and cash equivalents	(70,062,125)	(54,701,154)	53,826,117
Cash and cash equivalents as at January 1,	392,296,992	446,998,146	393,172,029
Cash and cash equivalents as at December 31,	322,234,867	392,296,992	446,998,146

(C) Ratios for years 2015-2017

Consolidated financial statements	2017	2016	2015
Profitability Ratios			
Gross profit margin (%)	83.69%	85.38%	81.08%
Net profit margin (%)	29.00%	31.50%	23.66%
Return on equity (%)	16.02%	19.43%	11.52%
Return on investment (%)	18.70%	35.04%	25.50%
Efficiency Ratios			
Return on assets (%)	5.69%	8.60%	5.82%
Assets turnover (times)	0.20	0.27	0.25
Financial Ratios			
Liquid assets to debt (times)	1.26	1.46	5.18
Earning assets to debt (times)	2.35	2.87	16.37
Liquid assets to total assets (%)	47.88%	38.48%	24.95%
Earning assets to total assets (%)	89.35%	75.57%	78.77%
Total Liabilities to equity (times)	2.04	1.58	0.91
Dividend pay-out ratio (%) (Dividend per share /Basic earning per share of separate financial statements*)			
-separate financial statements (Equity Method)	71.91%	-	-
-separate financial statements (Cost method)	76.74% **	77.71%	98.96%
Other Ratios			
Securities investment to total assets (%)	50.64%	39.49%	26.43%
Net Capital Ratio (NCR) (%)	42.79%	59.31%	131.06%
Net Liquid Capital (Million Baht)	4,157	4,066	3,756
Per Share Information			
Par Value per share (Baht)	1.00	1.00	1.00
Book Value per share (Baht)	2.81	2.75	2.53
Basic Earnings per share (Baht)	0.45	0.51	0.29
Dividend per share (Baht)	0.320	0.380	0.285

Note:

- * The Company has elected to change accounting policy relating to investments in subsidiaries in the separate financial statements from cost method to equity method for the financial statements for the periods beginning on or after January 1, 2017 onwards. (See details in Note to Financial Statements no.3)
- Year 2017: The separate financial statements presented investments in subsidiaries under equity method.
 - Year 2015-2016: The separate financial statements presented investments in subsidiaries under cost method.

** Presented as comparative information

14. Management Discussion & Analysis

(Consolidated financial statements as at 31st December 2017, “Company” refers to the “Company and its subsidiaries”)

14.1 Overview

For the whole of 2017, the SET Index extended its strong rally, rising 13.66% to close the year at 1,753.71pts. The daily average market turnover (both SET and MAI) stood at Baht 50.11 billion, decreasing by 4.6% from Baht 52.53 billion in 2016. Foreign investors reported a moderate net selling position of Baht 25.8 billion in 2017, compared to a foreign net buying of Baht 77.9 billion during 2016. The market capitalization increased to Baht 17.59 trillion at the end of 2017, rising by 16.6% from Baht 15.08 trillion at the end of 2016.

In 2017, the Company achieved consolidated profits (attributable to equity holders of the parent) of Baht 887 million and earnings per share of Baht 0.45, a decrease of 13% when compared to consolidated profits (attributable to equity holders of the parent) of Baht 1,022 million and earnings per share of Baht 0.51 the previous year.

The Company’s operations are strong and diverse, having stable revenue streams from lines of business other than the brokerage segment. Over the past 3 years, the fees earned from the brokerage fees accounted for 37%, 32% and 30% of total revenues for years 2015-2017 respectively, which is less than the industry average. By reducing its reliance on the brokerage fees, the Company has put itself in a better position to handle the intensifying competition following the full liberalization of brokerage fees.

As for its credit risk exposure, the Company’s margin loan portfolio as at 31st December 2017 was Baht 2,872 million or around 51% of the value of the Company’s equity. However, the Company controls such risk by establishing credit limits for clients and counter-parties and analyzing their financial position on an ongoing basis. The Company controls concentration risk of credit exposure, not too much lending in one stock or to the same industry.

In 2017, the Company’s gains and returns on financial instruments, which represented around 43% of annual revenues, were derived from a variety of activities, including derivative warrants (DWs), over-the-counter (OTC) derivatives, and investments in debt and equity securities for the company’s own account, bond dealing and private repos.

The Company’s DW business was also successful, producing a substantial increase in market share, and maintained its position as one of the leading DW issuers and market makers in Thailand. In 2017, the Company launched 297 DWs which received a great response from investors. In Jan 2018, to support the expansion of the Company’s Derivative Warrant business, an EGM approved an increase of the maximum outstanding issue size of all DWs issued by the Company from not exceeding Baht 2,000 million to not exceeding Baht 5,000 million.

The Company’s proprietary trading activity has a proven track record of generating steady profit from securities trading. The Company has investments in both debt and equity securities. By the end of 2017, the Company had total investments of Baht 8,622 million, up from Baht 5,581 million at the end of 2016. However, the Company has assigned its Risk Management Committee to set strict guidelines and policies regarding asset allocation, portfolio limits and risk control in order to manage the risk of losses due to market volatility and controls risk limits on a daily basis. The Risk Management Committee will review these on a regular basis to be appropriate for market conditions.

The Company also has a recurring source of revenue from asset management through its 99% ownership of ONE Asset Management Co., Ltd. (ONEAM). Revenues from fund management, which represented 18.51% of total revenues in 2017, are typically less volatile than other sources of revenue in the securities industry.

The Company is considered 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 KGI a competitive edge in product development in Thailand. By offering a wide range of products, KGI can attract different groups of investors as clients. KGI strives to stay ahead of its competitors by launching innovative financial

products. KGI can then enjoy higher profit margins on the new products before competition crowds the market.

The Company's net capital ratio (NCR) has been historically strong. It stood at 43% at the end of 2017, much higher than the regulatory minimum of 7%.

In 2017, the Company won the "Best Derivatives House Award" from the SET AWARD and TFEX Most Active House, TFEX Most Active Agent, Market Maker Best Performance 2017 for equity futures and Most Active Prop-Trading of the Year (2nd place) from TFEX BEST AWARDS.

14.2 Results of operations

Revenues

In 2017, the Company had total revenues, as shown in its consolidated financial statements, of Baht 3,058 million, a decrease of 6 percent compared to the previous year, mainly due to a decrease in Brokerage fees income and Gains and returns on financial instruments. The details are as follows:

CONSOLIDATED FINANCIAL STATEMENTS

For the years ended
December 31,

Unit: Thousand Baht

Revenues	2017	2016	% Change
Brokerage fees	917,036	1,045,937	(12%)
Fees and service income	672,199	669,452	0.4%
Interest on margin loans	136,711	99,412	38%
Gains and returns on financial instruments	1,327,898	1,424,753	(7%)
Other incomes	4,428	6,301	(30%)
Total revenues	3,058,272	3,245,855	(6%)

Brokerage fees

In 2017, the Company reported Brokerage fees of Baht 917 million, representing a 12% decrease compared to 2016. The Brokerage fee income consisted of Brokerage fees from securities business of Baht 706 million, Brokerage fees from derivatives business of Baht 211 million.

The decrease in Brokerage fee income from securities business was mainly due to a decrease in average daily trading volume of the SET and a decrease in the Company's market share from 3.76% in 2016 to 3.27% in 2017. The decrease in brokerage fee income from derivatives business was mainly due to a decrease in the Company's market share in TFEX which decreased from 12.59% in 2016 to 12.12% in 2017.

CONSOLIDATED FINANCIAL STATEMENTS

For the years ended
December 31,

Unit: Thousand Baht

Brokerage fees income	2017	2016	% Change
Brokerage fees from securities business	705,862	833,100	(15%)
Brokerage fees from derivatives business	211,174	212,837	(1%)
Total brokerage fees	917,036	1,045,937	(12%)

Fees and Service income

In 2017, the Company reported fee and service income of Baht 672 million, representing an 0.4% increase compared to 2016, fee and service income came mainly from mutual fund management fees, registrar and

custodian fees and private fund management fees from ONE Asset Management Limited (The Company's asset management subsidiary).

CONSOLIDATED FINANCIAL STATEMENTS
For the years ended
December 31,

Unit: Thousand Baht

	2017	2016	% Change
Fees and service income			
Mutual fund management	361,765	385,772	(6%)
Private fund management	70,680	54,068	31%
Provident fund management	11,958	8,305	44%
Registrar and custodian	79,852	86,734	(8%)
Securities borrowing and lending	6,918	7,751	(11%)
Underwriting	25,139	31,001	(19%)
Financial advisory	6,946	6,846	1%
Placement agent	11,675	15,383	(24%)
Sales agent of investment units Over-the-Counter	53,408	39,413	36%
Others	43,858	34,179	28%
Total fees and service income	672,199	669,452	0.4%

Interest on margin loans

The Company's interest on margin loans in 2017 was Baht 137 million, an increase of 38% from the previous year due mainly to an increase in the size of the Company's credit balance accounts. As at 31st December 2017, the Company's margin loan balance was Baht 2,872 million, an increase of 45% from the previous year. The Company controls such risk by establishing credit limits for clients and counter-parties and analyzing their financial position on an ongoing basis.

Gains and returns on financial instruments

The Company's gains and returns on financial instruments 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's gains and returns on financial instruments in 2017 was Baht 1,328 million, a decrease of 7% from the previous year. The total gains and returns on financial instruments of Baht 1,328 million consists of gains on securities of Baht 144 million, gains on derivatives of Baht 911 million, and interest and dividend income of Baht 273 million. (mainly came from dividends from investments in stock market, interest on bank deposits and bonds).

CONSOLIDATED FINANCIAL STATEMENTS
For the years ended
December 31,

Unit: Thousand Baht

	2017	2016	% Change
Gains and returns on financial instruments			
Gains on securities	144,019	291,553	(51%)
Gains on derivatives	910,902	873,291	4%
Interest and dividend income	272,977	259,909	5%
Total gains and return on financial instruments	1,327,898	1,424,753	(7%)

With the proper hedging strategies, the market risks from issuing these types of financial products are relatively low. The Company has risk management policies to control the 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 also using 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 the risk of losses due to market volatility and to control risk limits. The Risk Management Department closely tracks the business' exposure to control the Company's overall risk.

Other Income

The Company's other income in 2017 was Baht 4 million, compared with Baht 6 million in the previous year. The income mainly arose from gains on the disposal of properties foreclosed.

Expenses

The Company's expenses in 2017 were Baht 1,951 million, represented 64% of total income. The majority of the Company's expenses came from employee benefits expenses, fees and service expenses, finance costs, reversal of bad debt and doubtful accounts and other expenses, as follows:

Employee benefits expenses

The Company's Employee benefits expenses in 2017 were Baht 1,015 million, a decrease of 3% from the previous year, mainly from a decrease in personnel expenses which are related to the decrease in the Company's revenue.

Fees and service expenses

The Company's fees and service expenses in 2017 were Baht 357 million, almost the same as in 2016. Fees and service expenses are mainly fees paid in respect of securities trading, futures trading and securities borrowing and lending.

Finance costs

The Company's financial costs in 2017 were Baht 141 million, an increase of 24% from the previous year, mainly from an increase in interest paid on borrowings from financial institutions and bill of exchange.

Bad debt and doubtful accounts (reversal)

The Company reversed bad debts and doubtful accounts of Baht (20) million in 2017 due to cash received from doubtful debts, compared to the provision of bad debts and doubtful accounts of Baht 7 million in 2016.

Other expenses

The Company's other expenses in 2017 were Baht 458 million, an increase of 5% from previous year. The main other expenses were for premises and equipment, communication and information, publication and marketing, entertainment, traveling and professional fees, etc.

Profitability Ratios

The Company's profitability ratios generally decreased in 2017 when compared with the previous year. Gross profit margin, net profit margin, return on equity and return on investment were 84%, 29%, 16% and 19% respectively.

Consolidated financial statements	2017	2016
Gross profit margin (%)	83.69%	85.38%
Net profit margin (%)	29.00%	31.50%
Return on equity (%)	16.02%	19.43%
Return on investment (%)	18.70%	35.04%

14.3 Asset Structure and Management

Operating Asset Structure

As at 31st December 2017, the Company had total assets of Baht 17,025 million, compared with Baht 14,132 million in 2016, representing an increase of 20% from the previous year, mainly due to an increase in the size of the Company's investment portfolios.

The majority of total assets of Baht 17,025 million came from earning assets of Baht 15,211 million which were the net securities and derivatives business receivables of Baht 6,590 million and net investments of Baht 8,622 million. The Company had an asset turnover ratio of 0.20 and return on Assets (ROA) was 5.69%.

The quality of Securities and derivatives business receivables

The Company's securities and derivatives business receivables were of a good quality. As at 31st December 2017, the Company's securities and derivatives business receivables were Baht 6,590 million, an increase of 29% from previous year. 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.

For credit balance accounts, the Company's margin loan portfolio as at 31st December 2017 was Baht 2,872 million, equivalent to approximately 51% 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 2017, the Company's credit lines complied with the Company's policies and were not concentrated in any industry or any client group.

As at December 31, 2017, the Company had other receivables with book values totaling Baht 417 million, on which recognition of income has ceased. The Company has already made full provision for these doubtful accounts amounting to Baht 417 million.

Investments

The Company engaged in various investment activities during the year. As at 31st December 2017, the Company's net investments were valued at Baht 8,622 million, an increase of 54% 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 8,018 million, available-for-sale securities of Baht 264 million, held-to-maturity debt securities of Baht 319 million and general investments of Baht 21 million.

The Company's investments were diversified and were not concentrated in any one company or 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 2017, the Company had other assets of Baht 221 million, almost the same as the previous year. The main other assets were payments to the compensation fund for clearing and settlement, deposits, prepaid expenses and accrued interest income.

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 2017, the Company's cash and cash equivalents were Baht 322 million. The summary of cash flows for 2017 are as follows:

Summary of Cash Flow 2017	Baht Million
Cash flows from operating activities	
Profits before income tax expenses	1,107.22
Adjustments to reconcile profits before income tax expenses to net cash provided by (paid for) operating activities:	(32.33)
Income from operating activities before changes in operating assets and liabilities	1,074.89
(Increase) decrease in operating assets	(2,822.00)
Increase (decrease) in operating liabilities	2,756.09
Cash received from operation	1,008.98
Cash received from interest income on deposits and investments	116.91
Cash paid for interest expenses	(105.20)
Cash paid for income taxes	(233.02)
Net cash provided by operating activities	787.67
Net cash provided by (used in) investing activities	(93.57)
Net cash used in financing activities (Dividend Paid)	(757.49)
Exchange differences on translating the financial statements	(6.67)
Net decrease in cash and cash equivalents	(70.06)
Cash and cash equivalents as at January 1,	392.29
Cash and cash equivalents as at December 31,	322.23

The major contributors to the net cash from operating activities of Baht 787.67 million were income from operating activities, changes in operating assets and liabilities.

Net cash from investing activities of Baht (93.57) million, mainly came from dividends received on investments in securities. Net cash from financing activities of Baht (757.49) million was due to dividends paid to shareholders in May 2017.

The Capital Structure

As at 31st December 2017, the Company's liabilities were Baht 11,428 million, and equity attributable to equity holders of the parent was Baht 5,594 million. The ratio of total liabilities to equity was 2.04 times.

The majority of total liabilities of Baht 11,428 million came from borrowings from financial institutions, securities business payables and derivatives business payables and debts issued and borrowings.

A majority of the equity attributable to equity holders of the parent of Baht 5,594 million came from capital and retained earnings.

Capital Expenditure

In 2017, the Company had 8 capital expenditure projects of more than Baht 2 million, with a total budget of approximately Baht 75 million. The projects were investments in improving IT systems and computer equipment. The Company made payments of Baht 39 million towards the projects in 2017, which from the Company's working capital

Adequacy of Liquidity

The Company has sufficient capital. As at 31st December 2017, the Company had cash and cash equivalents of Baht 322 million. Net Liquid Capital was Baht 4,157 million and Net Capital Ratio ("NCR") was 43%. 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 were as follows:

Capital Fund	31 st Dec 2017	31 st Dec 2016	31 st Dec 2015
Net Liquid Capital (Million Baht)	4,157	4,066	3,756
Net Capital Ratio ("NCR") (%)	42.79%	59.31%	131.06%

Ability to repay loans and comply with loan conditions and obligations

As at 31st December 2017, the Company had borrowings from financial institutions of Baht 3,700 million, and had issued debt and borrowings of Baht 2,383 million (see details in note of financial statement no. 18 and 20 respectively). 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 June 2017, TRIS Rating affirmed the company rating of the Company at "A-". The rating reflects improvement in the stability of the Company's business and its diversification efforts.

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 the notes to the financial statements no. 38

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 controls, 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.
