

## PART 1 THE COMPANY'S BUSINESS

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

#### Overview

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

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

The Company's major shareholder is KGI Asia (Holdings) Pte. Ltd., which holds shares 34.97% of total issued shares. KGI Asia (Holdings) Pte. Ltd. is an investment holding company incorporated under the laws of Singapore. The ultimate parent of the Group is China Development Financial Holding Corporation, which is a financial holding company incorporated under the laws of Taiwan. In addition, the Company has investments in 3 subsidiaries, whose businesses are disclosed in section 1.3 -1.4.

The Company's registered office is located at No. 173, the 8<sup>th</sup> - 11<sup>th</sup> floors of Asia Centre Building, South Sathorn Road, Thungmahamek Sub-district, Sathorn District, Bangkok. As at December 31, 2018, the Company has altogether 18 branches in Bangkok and other provinces as follows:

Bangkok	Provincial
1) Pin Klao Branch	1) Hat Yai Branch
2) Changwattana Branch	2) Nakhon Ratchasima Branch
3) Thaniya Branch	3) Samut Sakhon Branch
4) Silom Complex Branch	4) Suphan Buri Branch
5) Pracha Chuen Branch	5) Nakhon Sawan Branch
	6) Nakhon Pathom 1 Branch
	7) Chiang Rai Branch
	8) Phetchaburi Branch
	9) Udon Thani Branch
	10) Nakhon Pathom 2 Branch
	11) Udon Thani Cyber Branch
	12) Chiang Mai
	13) Khon Kaen

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

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

## Accolades

### SET AWARDS

Year 2018	■ SET Award of Honor for its continued demonstration of excellence in derivatives service during 2016 – 2018
Year 2017	■ Best Derivatives House Award
Year 2016	■ Best Derivatives House Award
Year 2015	■ Outstanding Derivatives House
Year 2014	■ Outstanding Derivatives House
Year 2005	■ MAI Newly Listed STAR (Financial Advisor)

### THAI BMA AWARDS

Year 2018	■ Best Bond Securities Firm ■ Most Active Securities Firm in Corporate Bond Secondary Market
Year 2017	■ Best Bond Securities Firm ■ Most Active Securities Firm in Corporate Bond Secondary Market
Year 2016	■ Best Bond Securities Firm
Year 2015	■ Best Bond Securities Firm
Year 2014	■ Best Bond Securities Firm
Year 2013	■ Best Bond Securities Firm
Year 2012	■ Best Bond Securities Firm
Year 2010	■ Best Bond Securities Firm
Year 2009	■ Best Bond Securities Firm
Year 2007	■ Best Bond Securities Firm

### TFEX BEST AWARDS

Year 2018	■ Most Active House
Year 2017	■ Most Active House ■ Most Active Agent ■ Market Maker Best Performance 2017 for equity futures ■ Most Active Prop-Trading of the Year (2 <sup>nd</sup> place)
Year 2015	■ Most Active House ■ Prop-Trading of the Year (1 <sup>st</sup> place) ■ Agent of the Year (1 <sup>st</sup> place)
Year 2014	■ Most Active House ■ Prop-Trading of the Year (1 <sup>st</sup> place) ■ Market Maker Best Performance for Equity Product
Year 2013	■ Most Active House ■ Prop-Trading of the Year (1 <sup>st</sup> place) ■ Market Maker Best Performance for Equity Product ■ Agent of the Year (3 <sup>rd</sup> place)
Year 2010	■ Most Active House
Year 2006	■ Best House of the Year ■ Most Active House

### TFEX PROP-TRADING CHAMPION

Year 2012	■ Most Growth Champion
Year 2011	■ Most Growth Trader ■ TFEX Best Trader

### THE ASSET BENCHMARK SURVEY

Year 2006	■ Best Corporate Bond House (Thailand Baht)
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## **1.1 Policy of the Company's business**

### **Vision**

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

### **Goal**

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

### **Strategy**

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

## **1.2 Significant Development**

The Company was found with the name of "The Goldhill Securities Company Limited" on 7<sup>th</sup> March 1975 with register no. 212/1975 and had three licenses; securities broker, securities dealer, and investment advisory.

In 1986, Thai Farmers Bank Public Company Limited, Finance One Public Company Limited, and a group of major shareholders of Finance One Public Company Limited acquired Goldhill Securities Company Limited and changed its name to "Securities One Company Limited." on 15<sup>th</sup> February 1988. It became a publicly listed company on the SET on 15<sup>th</sup> December 1989.

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

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

In 2012, China Development Financial Holding Corporation, a company which is listed on the Taiwan Stock Exchange, announced its intention to make a tender offer for KGI Taiwan. Following the completion of the tender offer, KGI Taiwan became a wholly-owned subsidiary of China Development Financial Holding Corporation.

As at 31<sup>st</sup> December 2018, The Company's major shareholder is KGI Asia (Holdings) Pte. Ltd., which holds shares equivalent to 34.97% of the total issued shares of the Company. KGI Taiwan is an indirect major shareholder of KGI Asia (Holdings) Pte. The ultimate parent of the Group is China Development Financial Holding Corporation.

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**Significant Developments in 2018**

January 2018	The Extraordinary General Meeting of Shareholders of the Company No. 1/2018 has approved an increase of the maximum outstanding issue size of all Derivative Warrants ("DWs") issued by the Company, at any time, from "not exceeding Baht 2,000 million" to "not exceeding Baht 5,000 million". The EGM approved an immediate increase of the maximum outstanding issue size of all DWs issued by the Company, at any time, from "not exceeding Baht 2,000 million" to "not exceeding Baht 3,000 million"; and authorized the Board of Directors to consider and approve, in future, up to the limit of Baht 5,000 million, further increases of the maximum outstanding issue size of all DWs issued by the Company, at any time.
February 2018	The Board of Directors' meeting has approved an increase of the maximum outstanding issue size of all DWs issued by the Company, at any time, from "not exceeding Baht 3,000 million" to "not exceeding Baht 4,000 million".
May 2018	The Board of Directors' meeting has approved an increase of the maximum outstanding issue size of all DWs issued by the Company, at any time, from "not exceeding Baht 4,000 million" to "not exceeding Baht 5,000 million".
August 2018	<ul style="list-style-type: none"><li>■ The Board of Director's meeting has approved the appointment of Ms. Suchada Sodthibhaphkul as an Executive Director of the Company for the 5<sup>th</sup> year (November 2018 - October 2019). Ms. Suchada Sodthibhaphkul is responsible for managing the Risk function of the Company, including being responsible for and approving all risk matters and will also be a member of the Risk Management Committee and all its sub-committees as well as the Debt Recovery Committee and the Human Resource Committee.</li><li>■ The Board of Director's meeting has approved the establishment of a new subsidiary company (Life and Non-Life insurance broker) to support the Company's Wealth Management Business.</li><li>■ The Board of Directors' meeting has approved the cancellation of the Board's resolution on 24<sup>th</sup> February 2006 regarding the issuance up to 99,236,870 Employee Stock Options ("ESOP") to the Company's directors and employees.</li></ul>
November 2018	The Board of Director's meeting has approved the amendment to the following Company's Articles of Association, Article 33: regarding the right of shareholders to call extraordinary meetings of shareholders, in order to comply with the section 100 of the Public Limited Companies Act B.E. 2535 amended by Order of the Head of the National Council for Peace and Order. The amendment to the Company's Articles of Association will be proposed to the Annual General Meeting of Shareholders No. 1/2019 for approval.

**1.3 The Company's Shareholding Structure****Policy for group operations**

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

### Shareholding Structure of the Group

The Company's major shareholder is KGI Asia (Holdings) Pte. Ltd., which holds shares representing 34.97% of total issued shares. KGI Asia (Holdings) Pte. Ltd. is an investment holding company incorporated under the laws of Singapore. The ultimate parent of the Group is China Development Financial Holding Corporation, which is a financial holding company incorporated under the laws of Taiwan.

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

<b>Subsidiaries As at 31<sup>st</sup> December 2018</b>	<b>Country of Incorporation</b>	<b>Business Type</b>	<b>% holding</b>	<b>Revenues as a percentage to the consolidated totals (%)</b>
One Asset Management Limited ("ONEAM")	Thailand	Fund Management	99	16.40%
KGI Securities (Thailand) International Holdings Limited ("HOLDCO")	Hong Kong	Investment	100	-
KGI (Thailand) Holdings Limited ("KTHL")	British Virgin Islands	Investment	100	-

### 1.4 Relationship with a business group of major shareholder

China Development Financial Holding Corporation was established in 2001. With its key subsidiaries, CDIB Capital Group, KGI Bank, KGI Securities Co. Ltd. ("KGI Taiwan") and China Life Insurance, China Development Financial Holding Corporation enjoys a leading position in the venture capital and investment banking markets in Taiwan.

KGI Taiwan is a market leader in a broad range of areas, including brokerage, wealth management, proprietary trading, underwriting, fixed income and a variety of derivatives products. Not only is KGI Taiwan the leading brokerage house in Taiwan, it is also ranked number one in the underwriting market. In addition to Taiwan, KGI Taiwan has a presence in Hong Kong, Thailand, Singapore, Indonesia and China.

KGI Taiwan has provided valuable assistance to the Company via transfer of knowledge and technology, and has sent expert staff to train the Company's employees for the launch of new products. The Company is recognized as one of the leaders in innovation in the development of derivatives products in Thailand.

There are 4 representative directors from major shareholder, which is equivalent to 1/3 of all directors and proper with the portion of share holding. The Company also appointed 4 independent directors which is equivalents to one-third of all directors, following the SEC's regulations to ensure the operations of the company meet the standards and move in the right direction and to protect the shareholders' rights and for the best interest of all shareholders.

## Shareholding Structure of KGI Securities (Thailand) Public Company Limited



### The Company's subsidiaries information

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

One Asset Management Limited ("ONEAM") was established as limited company on 19<sup>th</sup> March 1992, with registered capital of Baht 100 million (fully paid-up). As at 31<sup>st</sup> December 2018, ONEAM had registered capital of Baht 105 million (fully paid-up) with KGI Securities (Thailand) Public Company Limited holding 99.15%, and ONEAM's directors and employees holding 0.85% of outstanding shares. (see details at [www.one-asset.com](http://www.one-asset.com))

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

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

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

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

Note: As at 7<sup>th</sup> January 2019, the Company has set up a new subsidiary, KGI Insurance Broker Company Limited, a juristic person according to Thai laws. The registered office is located at 173, Asia Centre Building, 8<sup>th</sup> - 11<sup>th</sup> Floor, South Sathorn Road, Thungmahamek Sub-district, Sathorn District, Bangkok. The principal objectives of the subsidiary company are non-life and life insurance broker business. The subsidiary company is under process of applying such insurance broker licenses with The Office of Insurance Commission.

## 2. Business Lines

### Income Structure

The majority of the operations of the Company and its subsidiaries involve the single business segment of securities related business, including mutual fund management, and are carried on in Thailand. (see Note of financial Statements no. 36 : Segment Information)

In 2018, the Company reported consolidated revenues of Baht 3,509 million, compared with Baht 3,058 million in 2017, representing a 15 percent increase. In 2018, the main Company's revenue structure was as follows:

- Gains and returns on financial instruments of 49%,
- Brokerage fees of 26%,
- Fees and service Income of 20%,
- Interest on margin loans of 5%

### Comparative Revenues Structure for the past 3 years

Revenues Structure	Operated by	% Shareholding by the Company	2018 (Baht million)	%	2017 (Baht million)	%	2016 (Baht million)	%
1. Brokerage fees	The Company	-	910	26%	917	30%	1,046	32%
2. Fees and service income/1	The Company	-	121	4%	111	4%	131	4%
Fees and service income/1	ONEAM/2	99%	566	16%	561	18%	538	17%
3. Interest on margin loans	The Company	-	164	5%	137	5%	99	3%
4. Gains and return on financial instruments	The Company	-	1,734	49%	1,323	43%	1,420	44%
Gains and return on financial instruments	ONEAM/2	99%	4	-	5	-	5	-
5. Other incomes	The Company	-	5	-	4	-	6	-
Other incomes	ONEAM/2	99%	5	-	-	-	-	-
<b>Total Revenues</b>			<b>3,509</b>	<b>100%</b>	<b>3,058</b>	<b>100%</b>	<b>3,246</b>	<b>100%</b>

Note /1 See note of financial statements No. 26: Fees and Service Income.

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

### 2.1 Types of Business

#### 2.1.1 Securities Broker Business

The Company is a member of the Stock Exchange of Thailand (SET Broker No. 13), and provides broking services to both local and foreign investors and to both individual and institutional investors. The Company's research department produces highly respected institutional level research and analysis of Thailand's financial markets and economy.

Clients can choose to open 3 types of account; Cash Account, Cash Balance Account, and Credit Balance Account. Clients can also choose from 2 trading channel; Trading via Investment Consultants or Trading via internet. The commission for internet trading is lower than commission for Trading via Investment Consultants.

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

In 2016, the Company developed KGI POWER TRADE web-based version which is available on both Windows and OS X

In 2017, the Company developed "KGI POWER TRADE HD" tablet version, which is available on both Android and IOS (IPad).



In 2018, the Company ranked No.13 in terms of brokerage market share with an overall share of 3.27%.

KGI POWER TRADE highlight features include;

Auto Trade:	Automatically sends order with many kinds of condition
Ladder Order:	Only one click for sending order faster and easier
Order Folder:	Stores expected orders and send at once
Scan & Ranking:	Scan stock for many conditions
1-Min Ticker:	Provided 10 ranking stocks which has the most volume or deals in 1 minute
DW Strategy:	Function for Derivative Warrant with strategy to select the best DW
Options Lotto:	Function for Options trading and calculate the best option with right period
Odd & Big lot:	Easier to see real-time odd lot and big lot pricing
News & Chart:	Investment news and real-time technical chart
Price & Port Alert:	Alert message for price and portfolio

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

### **2.1.2 Futures Business**

The Company has received a license to conduct futures business from the Securities and Exchange Commission (SEC) and also has an approval to act as a futures broker from the Thailand Futures Exchange Plc. (TFEX) and the Thailand Clearing House Co., Ltd. (TCH). (See details of Future business at our website: [www.kgiworld.co.th](http://www.kgiworld.co.th))

In 2018, the Company ranked No.1 in futures trading volume with a market share of 10.28% of the TFEX market. The Company received the "SET award of Honor" in the SET awards 2018, this award is given to KGI for its Excellence as a Derivatives House 2016-2018 and also received "Most Active House" in TFEX Best Awards 2018.

### **2.1.3 Securities Trading Business**

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

As at 31<sup>st</sup> December 2018, the Company's net investments were valued at Baht 5,493 million, a decrease of 36% from the previous year, because the Company had decreased the size of its trading securities investments due to the volatility of the stock market. The Company's investment portfolio includes equities, bonds, derivatives, futures and options. Selection and investment allocation is made according to the established policy. The Risk Management Department closely tracks the departments' exposure in order to control the Company's overall risks.

The Company pays serious attention to conflicts of interest and the misuse of inside information. Securities trading departments have no right to receive information or research that differs from other clients of the Company.

### **2.1.4 Investment Advisory Business**

The SEC granted an approval to the Company to operate investment advisory business on 6<sup>th</sup> January 2004.



### 2.1.5 Financial advisory and securities underwriting Business

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

In 2018, there were 22 new listings on the stock exchanges; 7 were listed in the SET and 11 listed in the MAI, 4 were Property Funds and Infrastructure Funds, with total issue size of Baht 81,573 million and Market Capitalization at IPO Price of Baht 183,141 million.

#### Total Number of all Listed Companies in 2018

Year	Total Number of Listed Companies					Issued Size (Million Baht)	Market Capital at IPO Price (Million Baht)
	SET	MAI	IFF	PFUND/ REIT	Total		
2018	7	11	1	3	22	81,573	183,141

In 2018, KGI successfully performed as a Lead Underwriter of 1 IPO and act as a co-underwriter of 4 IPOs. In addition, the Company was appointed as a Financial Advisor and Lead Underwriter of 12 IPOs, which are in the preparation process for IPO and listing. In addition, the Company successfully performed as a Lead Underwriter as well as co-underwriter of Debentures deals and also provided financial advisory for fund raising through both debt and equity, for both listed and non-listed companies.

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

### 2.1.6 Securities Registrar Business

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

### 2.1.7 Fixed Income Business

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

In 2018, the Company was ranked No. 1 in bond trading among securities dealers and ranked No. 5 in corporate bond trading value among all dealers with a market share of 7.28% in 2018 compared with 10.21% in 2017.

### 2.1.8 Private Repo Business

The Company pioneered the Private Repo for corporate and high net-worth clients, providing a new alternative investment. The Company was the first and the only one to provide Repo agreements in Thai version, approved by SEC, to offer clients more convenience.

In 2018, the Company was ranked No. 1 in terms of Repo volume among securities firms. Currently, Private Repo market is continuing to grow and the Company intends to maintain its leading position in this sector.

### **2.1.9 KGI Wealth Management and Selling Agent for mutual funds Business**

The Company received approval from the SEC to be a Selling Agent in investment units of mutual funds on 16<sup>th</sup> January 2002. As at 31<sup>st</sup> December 2018, the Company was appointed as a Sales Agent in investment units of mutual funds by 20 asset management firms. The client coverage includes both institutional and individual investors.

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

### **2.1.10 Securities Borrowing and Lending Business ("SBL")**

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

### **2.1.11 OTC Derivatives Business**

The Company is recognized as one of the leaders in innovation in the development of derivatives products in Thailand. The Company has consistently invested in the pricing and risk management platforms for issuing and trading of derivatives products. The major shareholder, the KGI Taiwan, has also provided the support in term of knowledge transfer, international experience, and technology to the Company. The Company provides products are as follows:

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

OTC Equity Derivatives products are tailor-made, and designed upon clients' requests. OTC Equity Derivatives are commonly used among local and foreign institutional clients, including Private Funds with the purpose of risk management and leveraging. The Company provides various types of OTC Equity Derivatives, including basic and exotic options, and such variety of products will offer high flexibility for clients to create their risk profile to match with their investment objectives.

#### **2. Structured Products**

The Company is focusing on developing structured products that combine equity derivatives with money market instruments to serve clients who want to invest in both the equity market and money market. The Company offers structured products exclusively to institutional clients, private funds, and high net worth investors with a good understanding and knowledge of derivatives. The company launched Structured Notes since 2012.

At present, the Company provides various types of SN with a maximum term of 270 days, whose returns are linked to the price of a single or a basket of SET50 listed stocks, SET 50 index, listed Exchange Traded Fund, and others approved by The Securities and Exchange Commission.

### **2.1.12 Exchange Traded Funds ("ETF")**

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

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

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

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

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

In 2013, the Company coordinated with ONEAM to launch ThaiDEX SET100 ETF or "TH100" to meet client needs. The Company acted as Market Maker (MM) for ThaiDex SET100 ETF.

The Company has focused on expanding its client base and awareness of ETFs through investor education which ranged from basic education up to advance ETF investment strategy in order to be one of their choices of investment to gain a return of the market. In addition, the Company continued improving its internal trading systems to improve market making efficiency.

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

ETF	Code	Underlying Index	SET's Listed Date	The Company's role	AUM (Baht Million) As of 31 <sup>st</sup> Dec 18
1. ThaiDEX SET50 ETF	TDEX	SET50 index	6 Sep 2007	MM, PD	2,864.78
2. W.I.S.E. KTAM CSI 300 China Tracker	CHINA	W.I.S.E. -CSI 300 China Tracker	22 Nov 2010	PD	107.04
3. KTAM Gold ETF Tracker	GLD	SPDR Gold Trust (2840:HK)	8 Aug 2011	PD	450.65
4. ThaiDEX SET High Dividend ETF	1DIV	SET High Dividend 30 Index	16 Aug 2011	MM, PD	108.11
5. ThaiDEX SET100 ETF	TH100	SET100 index	21 Feb 2013	MM, PD	4.55
6. KTAM SET50 ETF Tracker	ESET50	SET50 index	26 Mar 2014	MM, PD	17.49

### 2.1.13 Derivative Warrants Business

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

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

The Company remains a leader in the Derivative Warrants business. In 2018, the Company launched 440 DWs which received a great response from investors. The total registered amount for all 440 DWs was approximately Baht 60,520 million. From 2010 to the end of 2018, the Company has launched a total of 1,787 DWs as detailed below;

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	Total
Total DWs issued by the Company	21	114	105	121	205	236	248	297	440	1,787
-CALL Warrant	21	87	73	96	163	178	194	250	385	1,447
-PUT Warrant	-	27	32	25	42	58	54	47	55	340

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

In 2019, The Company intends to maintain the number of DW issued at about 440 DWs, and plans to launch DWs with new underlying securities as approved by regulators.

While investing in DWs has become well known among investors, the Company consistently educates investors to ensure their understanding of risk and product features. DW education was provided through many channels such as [www.thaiwarrant.com](http://www.thaiwarrant.com) (both Thai & English version), Facebook ([www.facebook.com/ThaiwarrantDW13](https://www.facebook.com/ThaiwarrantDW13)), Line Official Account (Line ID: @DW13), newspapers, interviews and print media. For investors who are interested in DWs, all information is provided through [www.thaiwarrant.com](http://www.thaiwarrant.com). (see Underlying company information of the remaining DWs and history of DW Issued by the Company for the past 2 years in Attachment 5)

#### **2.1.14 Asset Management Business (One Asset Management Limited: ONEAM)**

In 2018, ONEAM's net profits were Baht 115 million (EPS of Baht 10.93) As of 31<sup>st</sup> December 2018, ONEAM's total assets were Baht 485 million, total liabilities were 109 million, shareholders' equity was Baht 376 million.

ONEAM has built a strong reputation with both individual and institutional investors. In 2018, ONEAM received Best Mutual Fund of the Year 2018 - Equity Large (1AMSET50) from Money & Banking Awards 2018 for the second year in a row. Also Best Thailand Mid/Long Term Bond Fund - ONE Fixed Income Dividend from Morningstar Thailand Fund Awards 2018. As at 31<sup>st</sup> December 2018, ONEAM had total assets under management of Baht 115 billion

In 2018, ONEAM issued 8 new funds as follows:

	<b>FUND</b>	<b>Registered date</b>	<b>AUM-Baht Million as at 31 Dec 2018</b>
1	ONE-GLOBFIN	14 February 2018	814.68
2	ONE-VIETNAM	13 March 2018	719.20
3	ONE-INDIAOPP	15 March 2018	81.60
4	ONE-EUROEQ	27 March 2018	328.15
5	ONE-OPPORTUNITY 6	5 September 2018 (Dissolved 3 Oct 2018)	174.79
6	ONE-ALLCHINA	7 September 2018	348.98
7	ONE-OPPORTUNITY 6/2	8 October 2018	175.45
8	ONE-UY 6M	31 October 2018	307.88
	<b>Total</b>		<b>2,950.73</b>

## **2.2 Market Overview and Competition**

### **(A) Significant Marketing Activities**

#### The Company's marketing policy in 2018

The Company's marketing policy is to maintain existing clients and acquire new clients by organizing promotional activities and focusing on giving better service to clients. In 2018, the Company held the following marketing activities:

1. The Company regularly arranges training to enhance the knowledge and skills of its employees. This helps the employees better meet the needs of its clients.
2. The Company regularly improves its trading system "KGI POWER TRADE", to make it faster and more efficient and able to support growth of business. It incorporates a fast trading function and supports trading of both securities and derivatives.
3. The Company joined exhibitions including:
  - SET # Invest Now DCA on 24-25 February 2018, at SET;
  - TFEX Trader Day 2018#2 on 9 June 2018, at SET;
  - Settrade Streaming Day 2018 on 29 September 2018, at SET;

- Money Expo Chiangmai 2018 during 9-11 November 2018, at Central Plaza Chiangmai Airport,
  - SET in the City Bangkok 2018, at Siam Paragon Hall during 15-18 November 2018 to introduce the Company's product and services.
4. The Company held seminars to educate clients and investors on topics such as Internet Trading, Securities Fundamental-Technical Analysis and TFEX. The seminars not only educated the clients and investors, they also expanded the Company's client base.

#### Character of Clients, Target Client, Portion of Local and Foreign Clients

The Company targets clients who have capital and want to invest in financial products in equities, fixed income and derivatives. This can be a natural person or juristic person.

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

**Unit : Baht Millions**

Average Daily Trading Volume	2018	%	2017	%	2016	%
Daily Trading Volume- SET*	57,674		50,114		52,526	
Daily Trading Volume- The Company *	5,841		4,788		5,360	
(including the Company's portfolio)						
The Company's market share %	3.27%		3.27%		3.76%	
(excluding the Company's portfolio)						
Ranking	13		13		10	
Breakdown by types of clients						
1) Local corporate clients	548	9	462	10	435	8
2) Local retail clients	2,498	43	2,423	50	3,060	57
3) Foreign clients	264	5	43	1	42	1
Total	3,310	57	2,928	61	3,537	66
4) The Company's portfolio	2,531	43	1,860	39	1,823	34
Total	5,841	100	4,788	100	5,360	100
Breakdown by types of accounts						
1) Cash Account and Cash Balance Account	2,455	74	2,235	76	2,856	81
2) Credit balance account	855	26	693	24	681	19
Total	3,310	100	2,928	100	3,537	100
Breakdown by types of trading order channels						
1) Trading via Investment Consultants	990	30	992	34	1,114	31
2) Trading via internet trading	2,320	70	1,936	66	2,423	69
Total	3,310	100	2,928	100	3,537	100

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

In 2018, the Company's Trading Volume consisted of 9% Local corporate clients, 43% Local retail clients, 5% foreign clients and 43% the Company's portfolio, the Company did not depended on any client for more than 30% of total income.

The Company through its headquarters and 18 branches throughout the country to provide services to clients, clients can send orders via phone through the Company's Investment Consultants or trade by themselves through the internet. In 2018, the portion of trading via Investment Consultants: trading via internet was 30% : 70%.

#### **(B) Market Overview and Competition in 2018**

The Thai stock market declined significantly in 2018, and the market volatility has been high throughout the year. The benchmark SET Index rallied in 1Q2018, staged a correction in 2Q2018, recovered again in 3Q2018 and pulled back sharply in the 4Q2018. Most of the negative factors hitting the stock market were external, particularly i) the dispute between US and China on the international trade and ii) rising investors' concern about slowing global

economic growth. Meanwhile, the domestic news flow on Thai politics and the general election had less influence on the SET Index.

During the first quarter of 2018, the SET Index remained on a positive note, supported by solid global economy and optimism on Thai economic growth. The Thai index recorded its 2018 high (intra-day level) on February 27, 2018 at 1,852.5. Meanwhile, the sentiment of stock market started weakening in March 2018, when the US government initiated the idea to raise import tariffs against the imported goods from China; a move that was described as a 'trade war' during the later part of 2018.

The Thai stock market momentum deteriorated in 2Q2018, after US President Donald Trump threatened to impose 10% import tariffs against China and also punished Chinese technology companies regarding intellectual property issues. This news raised investors' concerns that the dispute between two major nations would affect the global trades and global economy. On June 15, 2018, the US authorities officially announced 10% tariff on Chinese goods worth US\$50 billion.

Market players witnessed a moderate rebound in the Thai stock market in 3Q2018. During this quarter, though the factors on US and China trade dispute continued to worsen as Donald Trump increased the size of tariffs measure against China to US\$ 200 billion VS US \$50 billion in 2Q2018, the domestic political factor turned significantly more positive. Prime Minister Prayuth Chan-ocha announced the political roadmap to hold the general election on March 24, 2019. This factor boosted the sentiment of Thai stock market.

In the final quarter of 2018, macro factors on global and Thai stock markets worsened further, as the trade dispute between US and China has increased to the level that started affecting global economic data and also oil prices. The monthly economic data, especially exports data, of major countries significantly dropped in 4Q2018 and weighed on stock markets around the world. On crude oil market, US WTI oil prices moved down by 38.7% during the 4Q2018, and significantly affected large-cap energy stocks in the Thai stock market.

For the whole of 2018, the SET Index fell by 10.8% to close the year at 1,563.9 pts. The daily average market turnover (both SET and MAI) stood at Baht 57.7 billion, increasing by 15.1% from Baht 50.1 billion in 2017. Foreign investors reported a huge net selling position of Baht 287.5 billion in 2018, compared to a foreign net selling of Baht 25.8 billion during 2017. The market capitalization decreased to Baht 15.9 trillion at the end of 2018, falling by 9.2% from Baht 17.6 trillion at the end of 2017.

### ***Stock Exchange of Thailand***

	<b>2018</b>	<b>2017</b>	<b>2016</b>
Total trading value (Baht million)*	14,130,078	12,227,748	12,816,259
Average daily trading value (Baht million)*	57,674	50,114	52,526
Total market capitalization (Baht million)	15,978,252	17,587,433	15,079,272
SET Index (year-end)	1,563.88	1,753.71	1,542.94
Dividend Yield (%)	3.2	2.7	3.0
P/E ratio (times)	14.8	19.1	18.6
P/BV ratio (times)	1.8	2.1	2.0
No. of listed companies	545	538	522

\*including MAI



Regarding the new listings into the stock market, there were 18 new companies listed in Thailand's stock markets (both SET and MAI) in 2018, compared to 39 new listings in 2017. As the Thai stock market conditions were not favorable in 2018 and market volatility was extremely high, some companies reportedly postponed the listing plan, resulting in fewer than expected numbers of IPOs.

#### **IPO Stocks in 2018 (both SET and MAI): 18 new companies in total**

<b>Stock</b>	<b>First trading date</b>	<b>IPO size (Baht million)</b>
ABM	27 Feb 2018	135.00
CMAN	21 Mar 2018	921.60
CHAYO	22 Mar 2018	403.20
DOD	20 Jun 2018	1,023.00
TEAMG	12 Jul 2018	435.60
MVP	7 Aug 2018	133.00
TPLAS	5 Sep 2018	103.60
KWM	1 Oct 2018	156.00
OSP	17 Oct 2018	12,668.75
BGC	18 Oct 2018	1,983.33
SONIC	19 Oct 2018	292.50
TIGER	24 Oct 2018	446.32
PR9	30 Oct 2018	1,976.12
NER	7 Nov 2018	1,548.00
CMC	19 Nov 2018	750.00
SISB	29 Nov 2018	1,352.00
STI	19 Dec 2018	428.40
TQM	20 Dec 2018	1,725.00

Source: SET and MAI

#### **Competition among Thai Brokers**

In 2018, competition among Thai brokerage businesses remained intense, similar to the past few years. Although the daily average market turnover noticeably increased from 2017 and stayed high above Baht 55.0 billion last year, the liberalization of commission rates and, more recently, the introduction of computerized trading systems and new financial innovations, resulted in high degree of industry competition, from both domestic side and international brokers. Meanwhile, for 2018, the sum of the market share of the top 10 brokers was 50.34%, while the rest 49.66% of the pie were shared by non-top 10 brokers.

#### **Top 10 securities brokers of 2018**

<b>Rank</b>	<b>Company Name</b>	<b>Name</b>	<b>Market Shares (%)</b>
1	DBS VICKERS SECURITIES (THAILAND) LIMITED	DBSV	6.67
2	MAYBANK KIM ENG SECURITIES (THAILAND) PUBLIC COMPANY LIMITED	MBKET	6.14
3	ASIA WEALTH SECURITIES LIMITED	AWS	5.66
4	CLSA SECURITIES (THAILAND) LIMITED	CLSA	5.25
5	CGS-CIMB SECURITIES COMPANY LIMITED	CGS-CIMB	5.21
6	BUALUANG SECURITIES PUBLIC COMPANY LIMITED	BLS	4.64
7	PHATRA SECURITIES PUBLIC COMPANY LIMITED	PHATRA	4.55
8	CREDIT SUISSE SECURITIES (THAILAND) LIMITED	CS	4.31
9	FINANSIA SYRUS SECURITIES PUBLIC COMPANY LIMITED	FSS	4.00
10	YUANTA SECURITIES (THAILAND) LIMITED	YUANTA	3.91
TOP 10 BROKERS			<b>50.34</b>
OTHERS			<b>49.66</b>
<b>Total</b>			<b>100.00</b>

\*including MAI



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## **Industry Trend in 2019**

We estimate that the high volatility of the stock market, both globally and in Thailand, will continue into 2019, because global economic slowdown looks inevitable and major central banks continue to lesser the degree of extra stimulus being implemented in the recent years. However, following a sharp correction in the stock market in 4Q 2018, there is a good chance for a SET Index recovery in 2019 assuming that key issues like i) US and China trade dispute and ii) UK's exit from the European Union find market-friendly solutions. Meanwhile, we also expect the competition in the industry to remain high, shaped by continued liberalization of commission rates, and the coming of computerized trading system and also other new financial innovations that offer more investment choices to the investors.

## **2.3 Capital Management Policy**

### **(A) Fund Management policy**

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

If the Company requires 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 or long term funding and investment needs.

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

### **(B) Investment Policy**

The Board of Directors has approved an Investment Policy of Proprietary Trading, to comply with the SEC notification regarding the conditions and Procedures of the investment for Proprietary Trading. The key points of the policy are as follows:

1. The Risk Management Committee will approve the risk limit for the Company's proprietary trading teams at least once a year. The risk limit defines an acceptable level of loss (Stop Loss Limit) and the maximum acceptable value of investments (Position Limit) and will be reviewed regularly to ensure that the limits are suitable to market conditions.
2. The Company's proprietary trading teams are responsible for securities selection and investment allocation. An investment in new products requires the Risk Management Committee's approval.
3. The Company's proprietary trading team members must have appropriate licenses and qualifications to comply with SEC notifications.
4. The Risk Management Committee uses a variety of tools to implement comprehensive measurement and analysis of market risk. For example, Value-at-Risk is used to measure the potential loss on an investment given a certain time horizon and level of probability, and stress testing is implemented to evaluate the robustness of a Company under different stress scenarios. If Net Capital Ratio decreases significantly, the Risk Management Department will report to the Risk Management Committee immediately.
5. The Company has assigned the Legal & Compliance Department and the Audit Department to supervise and ensure that the Company's proprietary trading complies with the Company's policy.
6. Risk Management Department will report a Market Risk Summary Report to the Chief Operating Officer, and either the Head of Proprietary Trading Department, or the Head of Fixed Income Department as the case may be on a daily basis.

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**(C) Credit Balance Policy**

A Credit Balance account is used by investors who want to borrow money to buy securities; or to borrow securities for short selling. Prior to the buying of securities or short selling, the investor needs to create purchasing power by depositing cash or pledging securities as collateral. The Company will mark to market the valuation of the collateral and the purchasing power of the investor will vary following the changing value of securities.

The Company specified that clients who want to open a Credit Balance Account ("Margin Account") shall disclose to its Investment Consultant adequate personal information representing their proper debt payment ability. After the Company has approved the opening of any Margin Account, such client shall sign the related Loan Agreement for Securities Trading to acknowledge the terms and conditions and risks in relation to the Margin Account. The Company's Credit Balance Policy is as follows:

1. The Company will not lend for securities trading to any person which the Company knows or believes that such person is a nominee.
2. Before providing any services to the client, the Company shall collect and evaluate the client's information for the following purpose;
  - 2.1 Know Your Client & Client Due Diligence: KYC / CDD
  - 2.2 Evaluate the suitable and acceptable risk level for its loan for securities trading through a Suitability Test
3. The Company has set out the Marginable Securities list. In this regard, the Company has considered the qualification of any securities such as liquidity, good fundamental, price volatility and relevant risk, etc. In addition, the Company will review the Marginable Securities list every month or when any significant market change in the marginable lists occurs and give notification to the Client as the Company deems appropriate on the Company's website.
4. The Company has imposed the Initial Margin Rate for all marginable securities and a requirement for the Client to deposit cash or assets as their collateral before trading. In addition, the Company has set the Call Margin Rate and Force Sale Rate which is not lower than the rates prescribed by the SET and complies with the Company's internal regulations. The Company will require the Clients to add more collateral or force sale their securities when the collateral is less than the required amount.
5. The Company has set interest rates which shall be i) charged on the loan for securities trading or ii) paid on the cash which the client has deposited as collateral in the Margin Account, in accordance with the regulations prescribed by the Office of SEC and/or the Company.
6. All cash, including benefits/returns deposited with the Company, shall not be subject to the protection of the Financial Institutions Development Fund.

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### **3. Risk Factors**

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

##### **3.1.1 Risk Associated with Government policy, Rules and Regulations and Related Laws**

Changes in government policies, rules and regulations and related laws, such as changes in interest rates, changes in regulations and guidelines, changes in commission rates, and other changes may affect the Company's operations.

The Company manages this risk by closely monitoring changes in the policies of regulators. The Company will attend meetings to share its opinions with the regulators.

The Legal & Compliance Department will notify employees of such changes, and advise them how to adjust their operational procedures in accordance with such changes.

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

In 2018, the Company did not depend on income from any one client for more than 30% of total income. The Company is concerned about the risk of dependence on major clients, so it continuously plans to expand its client base both in retail and institutional and local and foreign. One way is by developing the internet trading system to increase the number of internet trading clients.

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

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

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

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

Currently, the Company has leased the premises used for its business operations including its head office and 18 branches for certain periods in many leasing contracts (except Supanburi Branch where the land and building belong to the Company). Therefore, the risk of contract renewal exists as well as the chance that rental fees will be adjusted by the lesser. However, most of the leasing contracts grant the Company the right to renew the leasing contract as long as the company complies with terms and conditions in the contract. The company has performed its duties under the leasing contracts as a good lessee and often gets renewal from the lessor. Considering rental fee adjustment which may affect the cost of business operations, it is accepted by the company due to the consistency with market rate. Therefore, the Company believes that provisions contained in the current premises leasing contracts will not give rise to a significant risk to the Company.

##### **3.1.5 Market Risk**

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

A variety of tools are used to implement comprehensive measurement and analysis of market risk. For example, Value-at-Risk is used to measure the potential loss on investment given a certain time horizon and level of probability, and stress testing is implemented to evaluate the robustness of the Company in any given stress scenarios. These analytical tools provide a picture of the Company's potential future losses. Moreover, the Company assesses and manages

the potential losses resulting from market losses by setting stop loss limits and position limits that are appropriate to current market conditions.

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

The securities broker business is highly competitive, especially as SET changed its policy on brokerage commissions to a cascade calculation. The commission will vary based on trading volume. Also, the brokerage commission fee is fully negotiable between brokers and members since January 2012. If the Company is unable to maintain a high quality of service compared to other brokers, it may lose market share. Therefore, the Company has a strategic 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 is also developing its research and expanding into new businesses to give more convenience to clients and offer investment alternatives.

### **3.1.7 Credit/Default Risk**

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

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

The maximum exposure to credit risk is limited to the carrying amount of securities and derivatives business receivables, loans, and other receivables as stated in the statements of financial position.

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

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

The Company has assigned its Risk Management Committee to set strict guidelines and policies regarding asset allocation, portfolio limits and risk control in order to manage risk of losses due to market volatility and controlling risk limit on a daily basis. The Risk Management Committee will review these on a regular basis to be consistent with market conditions.

### **3.1.9 Risk from Investment in Subsidiaries**

This type of risk may arise if the subsidiaries incur losses which have an effect on the Company's performance. The Company appoints persons to be directors for setting the management policies of its subsidiaries.

### **3.1.10 Risk from Investment Banking Business**

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

### **3.1.11 Risk Associated with Derivatives Products**

Having taken into consideration various risks involved in derivatives, the Company has approved the Equity Derivatives Department to sell derivative products to clients. However, the Risk Management Committee has to approve the "Product Program" first before the Equity Derivatives Department can issue derivatives to clients. The Product Program includes the following analysis:

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

The Company was the first securities company in Thailand to launch Derivative Warrants. The Company has a strict policy to control and monitor associated risk closely. The Risk Management Department monitors the Company's exposure on a daily basis to ensure compliance with the approved risk policies. The Company is therefore confident that it has put in place a system for limiting risks associated with derivatives to an acceptable minimal level.

### **3.1.12 Risk Associated with Information Technology**

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

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

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

### **3.1.13 Risk Associated with Fraud**

Fraud is a risk that can occur from employee, clients and the counter party. The Company maintains close multiple operational and financial monitoring and controls to ensure that transactions, both on behalf of clients and for the Company, are performed correctly. However, the Company may be at risk of fraud. This includes failure of the Company's monitoring systems to detect fraud. The Board has approved the Policies and Guidelines to prevent and combat corruption by the Company and the Procedures regarding the Anti-Corruption policy. The Board also set clear procedures on whistle blowing for related parties or stakeholders and ensure the Company has protective measures to keep the whistleblowers' names confidential.

### **3.1.14 Risk Associated with Business Disruption**

Major business disruption events beyond the control of the Company may affect its level of business operations. Examples of such events include natural disasters such as the political unrest in 2010 or the major flooding in 2011.

To prevent the risk of natural disasters and other emergencies, The Company has set up the Business Continuity Management Policy (BCM) and prepared the Business Continuity Plan (BCP) which requires testing at least once a year.

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## **3.2 Financial Risk**

### **3.2.1 Liquidity Risk**

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

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

The Company has a policy to maintain a Net Liquid Capital and a Net Capital Ratio (NCR) that are higher than the requirements under the SEC regulations, which specified that the Net Liquid Capital must be at least Baht 25 million and the Net Capital Ratio must be at least 7% of liabilities and guarantees. As at 31<sup>st</sup> December 2018, the Company has a Net Liquid Capital of Baht 4,949 million and a Net Capital Ratio of 71.28% of liabilities and guarantees.

### **3.2.2 Foreign Exchange Risk**

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

As at 31<sup>st</sup> December 2018, the Company had investments in subsidiaries denominated in foreign currency which were valued under the cost method at USD 59.4 million (equivalent to Baht 2,383 million). However, the Company also has obtained Thai Baht loans from those subsidiaries totaling Baht 1,936.5 million.

### **3.2.3 Interest Rate Risk**

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

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

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

### **3.3.1 Risk from Having Major Shareholder**

A major shareholder may exercise greater influence over the Company's management and business policies. However, there are 4 independent directors from a total of 12 directors or equal to 33%. They are responsible for good corporate governance to ensure that the quality of management is effective, transparent and fair for all shareholders.

### **3.3.2 Risk from Having a Non-Voting Depository Receipts (NVDRs)**

Since NVDRs holders have no voting rights, this effectively leads to a decrease in the number of voting shares. As a result, major shareholders may have an increased level of control over the Company. As at 20<sup>th</sup> April 2018, investors had bought 166,327,487 NVDRs shares (equivalent to 8.35% of paid-up capital).

### **3.3.3 Risk Associated with Low Free Float Stock or Low Trading Liquidity**

As at 13<sup>th</sup> March 2018, 65% of KGI stock was held by minority shareholders, which makes trading liquidity high and this means less risk that investors would be unable to trade at a desired price.



#### 4. Asset used for business

##### 4.1 Assets of the Company and its subsidiaries

###### (A) Property, plant and equipment used in the Company's business

Description (As at December 31 <sup>st</sup> 2018)	Net book value (Thousand Baht)	Ownership	Collateral/obligation
Land (Supanburi branch)	1,820	Company's asset	None
Building (Supanburi branch)	-	Company's asset	None
Equipment	48,498	Company's asset	None
Furniture and fixtures	2,877	Company's asset	None
Vehicles	-	Company's asset	None
Installation in progress	11,694	Company's asset	None
<b>Total</b>	<b>64,889</b>		

###### (B) Property, plant and equipment used in the Company's subsidiary business

Description (As at December 31 <sup>st</sup> 2018)	Net book value (Thousand Baht)	Ownership	Collateral/obligation
Building improvements	3,373	Subsidiary's asset	None
Equipment	5,060	Subsidiary's asset	None
Furniture and fixtures	912	Subsidiary's asset	None
Vehicles	2,422	Subsidiary's asset	None
Installation in progress	2,799	Subsidiary's asset	None
<b>Total</b>	<b>14,566</b>		

##### 4.2 Rental property

###### (A) The Company's rental property

Rental Property	Lessor	Remaining period of lease as at 31 <sup>st</sup> December 2018
1. Head office	City Realty Co.,Ltd.	2 years 1 month
2. Hat Yai branch	Lee Gardens Hotel Co., Ltd.	1 year
3. Nakhon Ratchasima branch	K.R.Shopping Center Co.,Ltd.	2 years 11 months
4. Samut Sakhon branch	A.T. Asset Co., Ltd.	6 months
5. Nakhon Sawan branch	Individual	1 year 8 months
6. Pinklao branch	CPN Retail Growth Leasehold Real Estate Investment Trust	10 months
7. Nakhon Pathom branch	Individual	1 year 6 months
8. Chiang Rai branch	Individual	6 months
9. Phetchaburi branch	Individual	2 years
10. Udon Thani branch	Individual	1 year 3 months
11. Changwattana branch	Na-Nakorn Estate Co.,Ltd.	6 months
12. Thaniya branch	Thaniya Real Estate Co.,Ltd	2 years 5 months
13. Silom Complex branch	Silom Building and Service Co., Ltd.	3 years 5 months
14. Pracha Chuen branch	Individual	2 years 8 months
15. Udon Thani Cyber branch	Fairy Bridge Holdings Co., Ltd.	4 months
16. Chiang Mai	EAK999 Co.,Ltd.	1 year 2 months
17. Khon Kaen	Individual	3 months

###### (B) The rental property of the Company's subsidiary

Rental Property	Lessor	Remaining period of lease as at 31 <sup>st</sup> December 2018
Head office of One Asset Management Limited	Siam Piwat Co.,Ltd.	11 months



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#### **4.3 Intangible Assets and Goodwill**

As at 31<sup>st</sup> December 2018, the Company's intangible assets were Baht 71 million and the Company's goodwill was Baht 27 million.

Intangible assets are carried at cost less any accumulated amortisation and allowance for impairment (if any). Intangible assets with finite lives are amortised on a systematic basis over the economic useful life and tested for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method of such intangible assets are reviewed at least at each financial year end. The amortisation expense is charged to profit or loss from operation.

Goodwill is initially recorded at cost, which equals to the excess of the cost of the business combination over the fair value of the net assets acquired. If the fair value of the net assets acquired, exceeds the cost of business combination, such excess is immediately recognised as revenue in profit or loss from operation.

For subsequent measurement, goodwill is carried at cost less allowance for impairment. Goodwill is tested for impairment annually or when circumstances indicate that the carrying value may be impaired.

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#### **5. Legal Cases**

As at 31<sup>st</sup> December 2018, the Company and its subsidiaries had no litigation which might have a potential negative impact in excess of 5% of the shareholders' equity per its consolidated financial statements as at the latest accounting period; which may significantly affect the Company or its subsidiaries which impact cannot yet quantified; and which arises other than from the Company's normal business.

## 6. General information and other relevant information

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

Company's Name	KGI Securities (Thailand) Public Company Limited
Business Type	Securities Business
First Trade Date in SET	15 December 1989
Securities code	KGI
Head office address	No.173 Asia Centre Building, 8 <sup>th</sup> - 11 <sup>th</sup> Floor, South Sathorn Road, Thungmahamek Sub-District, Sathorn District, Bangkok 10120 Thailand
Company's PCL registration number	No. 0107536000293
Telephone number	66(0) 2658 8888
Fax number	66(0) 2658 8000
Website	<a href="http://www.kgiworld.co.th">www.kgiworld.co.th</a> / <a href="http://www.thaiwarrant.com">www.thaiwarrant.com</a>
Registered capital	Baht 1,991,763,130
Paid up capital	Baht 1,991,763,130
No. of paid-up shares	1,991,763,130 ordinary shares
Par Value	Baht 1.00 per share
Accounting period	1 January – 31 December
นักลงทุนสัมพันธ์	Institutional Investors Tel: 0 2658 8885 Email: <a href="mailto:markh@kgi.co.th">markh@kgi.co.th</a>  Retail Investors Tel: 0 2658 8880-1 Email: <a href="mailto:nonglukn@kgi.co.th">nonglukn@kgi.co.th</a>

### (B) Information of references

Registrar	Thailand Securities Depository Co., Ltd. The Stock Exchange of Thailand Building, 1 <sup>st</sup> Floor, 93 Ratchadaphisek Road, Dindaeng, Bangkok 10400, Thailand Telephone number 0 2009-9000 Fax number 0 2009-9991 Website: <a href="http://www.set.or.th/tsd">http://www.set.or.th/tsd</a> Email: <a href="mailto:SETContactCenter@set.or.th">SETContactCenter@set.or.th</a>
Auditor	Deloitte Touche Tohmatsu Jaiyos Audit Co., Ltd No. 11/1 , AIA Sathorn Tower , 23 <sup>rd</sup> - 27 <sup>th</sup> , South Sathorn Road, Yannawa Sub-district, Sathorn District, Bangkok 10120, Thailand Telephone number 0 2034 0000 Fax number 0 2034 0100 Website: <a href="http://www.deloitte.com">http://www.deloitte.com</a>

**(C) Information of companies that the Company holds more than 10% shareholding**

Company Name	Business Type	Registered Capital	Paid-up Capital	Amount and Type of paid-up shares	Par value	% of holding by the Company	Address
One Asset Management Limited ("ONEAM") (inincorporated in Thailand)	Fund Management	Baht 105.00 Million	Baht 105.00 Million	10,500,000 ordinary shares	10.00 Baht per share	99 %	No. 989, the 9 <sup>th</sup> and 24 <sup>th</sup> floors of Siampiwat Tower Building, Rama I Road, Patumwan Sub-district, Patumwan District, Bangkok 10330, Thailand Tel. 0 2659 8888 Fax 0 2659 8860 Website <a href="http://www.one-asset.com">www.one-asset.com</a>
KGI Securities (Thailand) International Holdings Limited ("HOLDCO") (inincorporated in Hong Kong)	Investment	USD 39.44 Million	USD 39.44 Million	39,444,670 ordinary Shares	USD 1.00 Per share	100 %	41/F Central Plaza, 18 Harbour Road, Wanchai, Hong Kong Tel (852) 2878 6888 Fax (852) 2878 6800
KGI (Thailand) Holdings Limited ("KTHL") (inincorporated in British Vergin Islands)	Investment	USD 20.00 Million	USD 20.00 Million	20,000,000 ordinary shares	USD 1.00 Per share	100 %	P.O. Box 3340, Road Town, Tortola, British Virgin Islands Tel (852) 2878 6888 Fax (852) 2878 6800

## (D) Other relevant information

### Company Rating

In 2018, TRIS Rating affirms the Company rating of KGI Securities (Thailand) PLC ("the Company") at "A-". At the same time, TRIS Rating assigns the rating of "A-" to the proposed issue of up to Baht 2,000 million in its senior unsecured debentures. (See credit rating report by TRIS at [www.kgiworld.co.th](http://www.kgiworld.co.th))

### Rating Symbols and Definitions

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

A: The rating indicates a company or a debt instrument with a low credit risk. The company has strong capacity to pay interest and repay principal on time, but is more susceptible to adverse changes in business, economic or other external conditions than debt in higher-rated categories.

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

### Information of the Company credit rating

Rating Agency	Year	Rating	Outlook
TRIS	2018	A-	Stable
TRIS	2017	A-	Stable
TRIS	2016	A-	Stable
TRIS	2015	BBB+	Stable
TRIS	2014	BBB+	Stable
TRIS	2013	BBB+	Stable
TRIS	2012	BBB+	Stable
TRIS	2011	BBB+	Stable
TRIS	2010	BBB+	Stable
TRIS	2009	BBB+	Stable
TRIS	2008	BBB+	Stable
TRIS	2007	BBB	Stable
TRIS	2006	BBB	Stable
TRIS	2005	BBB	Stable
TRIS	2004	BBB	-
TRIS	2003	BBB-	-

### Risk management of derivative warrants issued

- Objective of Issuing DWs.  
To provide new investment products for investors and to diversify the Company's income base.
- Hedging Strategy and Risk management

#### 2.1 Hedging Strategy

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

- Hedging Strategy based on Underlying Stock Price

For Call Warrants, the Company's risk of loss rises if the underlying stock price increases. The Company may incur a loss from issuing Call Warrants. To hedge this risk the Company will buy the underlying stock in proportion calculated from the Net Delta Value. Therefore, any losses from issuing DWs will be offset by profits from the increase in the value of the underlying stock held by the Company.

For Put Warrants, the Company's risk increases if the underlying stock price decreases. The Company may lose from issuing Put Warrants. The Company will hedge its risk by short selling the underlying stock in proportion calculated from its Net Delta Value. Therefore, the loss from issuing Put DWs will be offset by the profit from the short selling of the underlying stock.

b) Hedging Strategy for Volatility of Underlying Stock

For Call and Put Warrant, the Company has higher risk if the volatility of the underlying stock increases. The Company may lose from issuing Call or Put Warrants. The Company will hedge through other products such as OTC Derivatives, Structured Notes, Derivatives on related underlying stocks or Options traded on TFEX. Those products may link to other underlying stocks or an index that has positive correlation with the underlying stock of the DW.

## 2.2 The Company's Risk Management System

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

## 3. The role of top management in the risk management system

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

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

### A Net Liquid Capital and A Net Capital Ratio ("NCR")

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

## 5. DWs issued by the Company during the last 2 years and underlying company information (see Attachment 5).

## 6. Conflict of interest of issuing DWs.

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

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

- None -

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

- None -