

## PART 3

### FINANCIAL POSITION AND OPERATING RESULT

#### 13. Financial position and operating results

##### (A) Summary of the Report of the Independent Auditors for 2016 - 2018

For years 2016 - 2018, 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 an 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").

##### (B) Summary of audited financial statements for the Company and its subsidiary companies for the years ended 31<sup>st</sup> December 2016 - 2018.

#### KGI SECURITIES (THAILAND) PUBLIC COMPANY LIMITED AND ITS SUBSIDIARIES

#### STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31, 2018 and 2017 and 2016

UNIT : BAHT

	CONSOLIDATED FINANCIAL STATEMENTS					
	As at		As at		As at	
	December 31,		December 31,		December 31,	
	2018		2017		2016	
ASSETS						
ASSETS						
Cash and cash equivalents	347,149,673	2%	322,234,867	2%	392,296,992	3%
Securities purchased under resale agreements	1,298,000,000	8%	360,000,000	2%	370,000,000	3%
Receivables from Clearing House and broker - dealers	1,538,196,993	10%	481,468,149	3%	2,117,084,930	15%
Securities business receivables and						
Derivatives business receivables	6,144,954,692	40%	6,590,014,892	39%	5,098,933,496	36%
Accrued fees and service income						
from asset management business	57,866,879	-	52,817,905	-	59,238,044	-
Derivatives assets	180,682,191	1%	131,503,021	1%	72,399,616	1%
Investments	5,493,491,806	35%	8,621,732,023	51%	5,580,931,251	39%
Property, plant and equipment	79,455,137	1%	107,717,090	1%	107,465,327	1%
Intangible assets	70,687,170	1%	73,408,881	-	66,935,399	-
Goodwill	26,713,599	-	26,713,599	-	26,713,599	-
Properties foreclosed	29,901,182	-	30,456,355	-	31,556,355	-
Deferred tax assets	6,972,460	-	5,612,956	-	6,295,557	-
Other assets	245,404,788	2%	221,391,487	1%	202,220,138	1%
TOTAL ASSETS	15,519,476,570	100%	17,025,071,225	100%	14,132,070,704	100%

**KGI SECURITIES (THAILAND) PUBLIC COMPANY LIMITED AND ITS SUBSIDIARIES**
**STATEMENT OF FINANCIAL POSITION (CONTINUED)**
**AS AT DECEMBER 31, 2018 and 2017 and 2016**
**UNIT : BAHT**

	CONSOLIDATED FINANCIAL STATEMENTS					
	As at		As at		As at	
	December 31,		December 31,		December 31,	
	2018		2017		2016	
LIABILITIES AND OWNERS' EQUITY						
LIABILITIES						
Borrowings from financial institutions	-	-	3,700,000,000	22%	1,700,000,000	12%
Securities sold under repurchase agreements	1,060,000,000	7%	403,000,000	2%	540,000,000	4%
Payables to Clearing House and broker - dealers	-	-	109,312,910	1%	-	-
Securities business payables and						
Derivatives business payables	4,342,768,367	28%	3,588,190,091	21%	3,918,283,270	28%
Accrued fees and service expenses						
from asset management business	15,739,776	-	12,989,914	-	9,927,067	-
Derivatives liabilities	245,412,822	2%	531,668,585	3%	260,270,087	2%
Accrued expenses	490,116,063	3%	429,136,008	3%	475,876,966	3%
Cuerrent tax liabilities	97,881,785	1%	95,515,808	-	107,886,231	1%
Debts issued and borrowings	2,988,265,827	19%	2,382,765,876	14%	1,478,402,837	10%
Provisions for long-term employee benefits	127,553,400	1%	106,776,849	1%	88,765,202	1%
Provisions for liabilities	39,698,260	-	39,811,557	-	42,372,143	-
Deferred tax liabilities	28,240,820	-	579,114	-	2,445,081	-
Other liabilities	36,897,023	-	28,160,218	-	24,186,454	-
<b>Total liabilities</b>	<b>9,472,574,143</b>	<b>61%</b>	<b>11,427,906,930</b>	<b>67%</b>	<b>8,648,415,338</b>	<b>61%</b>
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	13%	1,991,763,130	12%	1,991,763,130	14%
Share premium	982,166,480	6%	982,166,480	6%	982,166,480	7%
Surplus from unexercised warrants	101,922,580	1%	101,922,580	-	101,922,580	1%
Retained earnings						
Appropriated - statutory reserve	199,176,313	1%	199,176,313	1%	199,176,313	1%
Unappropriated	2,811,538,210	18%	2,365,502,610	14%	2,234,488,542	16%
Other component of owners' equity	(42,922,436)	-	(46,928,521)	-	(28,987,912)	-
<b>Equity attributable to equity holders of the parent</b>	<b>6,043,644,277</b>	<b>39%</b>	<b>5,593,602,592</b>	<b>33%</b>	<b>5,480,529,133</b>	<b>39%</b>
Non-controlling interests	3,258,150	-	3,561,703	-	3,126,233	-
<b>Total owners' equity</b>	<b>6,046,902,427</b>	<b>39%</b>	<b>5,597,164,295</b>	<b>33%</b>	<b>5,483,655,366</b>	<b>39%</b>
<b>TOTAL LIABILITIES AND OWNERS' EQUITY</b>	<b>15,519,476,570</b>	<b>100%</b>	<b>17,025,071,225</b>	<b>100%</b>	<b>14,132,070,704</b>	<b>100%</b>

**KGI SECURITIES (THAILAND) PUBLIC COMPANY LIMITED AND ITS SUBSIDIARIES**
**STATEMENT OF COMPREHENSIVE INCOME**
**FOR THE YEARS ENDED DECEMBER 31, 2018 and 2017 and 2016**
**UNIT : BAHT**

	CONSOLIDATED FINANCIAL STATEMENTS					
	2018		2017		2016	
REVENUES						
Brokerage fees	909,769,019	26%	917,036,355	30%	1,045,937,174	32%
Fees and service income	686,985,989	20%	672,198,509	22%	669,451,623	21%
Interest on margin loans	163,707,106	5%	136,710,784	4%	99,412,181	3%
Gains and return on financial instruments	1,738,264,477	49%	1,327,898,375	43%	1,424,752,871	44%
Other incomes	9,830,702	-	4,428,223	1%	6,301,384	-
Total revenues	3,508,557,293	100%	3,058,272,246	100%	3,245,855,233	100%
EXPENSES						
Employee benefits expenses	1,103,624,829	31%	1,015,492,905	33%	1,047,520,357	32%
Fees and service expenses	421,386,053	12%	357,452,055	12%	360,395,286	11%
Finance costs	159,333,649	5%	140,565,253	5%	113,163,106	3%
Bad debt and doubtful accounts (Reversal)	(4,091,720)	-	(20,059,617)	(1%)	7,215,754	1%
Other expenses	466,028,443	13%	457,601,190	15%	436,619,475	13%
Total expenses	2,146,281,254	61%	1,951,051,786	64%	1,964,913,978	60%
Profits before income tax	1,362,276,039	39%	1,107,220,460	36%	1,280,941,255	40%
Income tax expenses	(277,926,453)	(8%)	(219,146,936)	(7%)	(257,402,145)	(8%)
Profits for the years	1,084,349,586	31%	888,073,524	29%	1,023,539,110	32%

**KGI SECURITIES (THAILAND) PUBLIC COMPANY LIMITED AND ITS SUBSIDIARIES**  
**STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)**  
**FOR THE YEARS ENDED DECEMBER 31, 2018 and 2017 and 2016**

UNIT : BAHT

	CONSOLIDATED FINANCIAL STATEMENTS					
	2018		2017		2016	
<b>Other comprehensive gain (loss):</b>						
Items that will not be reclassified subsequently to profit or loss:						
Actuarial gain (loss) on defined benefit plan	-	-	1,210,999	-	-	-
Income tax relating to items that will not be reclassified subsequently to profit or loss	-	-	(242,200)	-	-	-
	-	-	968,799	-	-	-
Items that may be reclassified subsequently to profit or loss:						
Gains (Loss) on remeasuring available-for-sale investments	5,608,683	-	4,471,186	-	(12,706,802)	(1%)
Exchange differences on translating the financial statements	(1,668,985)	-	(22,330,926)	(1%)	(2,097,199)	-
Income tax relating to items that may be reclassified subsequently to profit or loss	66,387	-	(80,869)	-	-	-
	4,006,085	-	(17,940,609)	(1%)	(14,804,001)	(1%)
Total other comprehensive gain (loss) after tax	4,006,085	-	(16,971,810)	(1%)	(14,804,001)	(1%)
<b>Total comprehensive income for the years</b>	<b>1,088,355,671</b>	<b>31%</b>	<b>871,101,714</b>	<b>28%</b>	<b>1,008,735,109</b>	<b>31%</b>
<b>Profits for the years attributable to:</b>						
Equity holders of the parent	1,083,374,216	31%	886,882,976	29%	1,022,368,072	32%
Non-controlling interests	975,370	-	1,190,548	-	1,171,038	-
	1,084,349,586	31%	888,073,524	29%	1,023,539,110	32%
<b>Total comprehensive income for the years attributable to:</b>						
Equity holders of the parent	1,087,380,301	31%	869,911,166	28%	1,007,564,071	31%
Non-controlling interests	975,370	-	1,190,548	-	1,171,038	-
	1,088,355,671	31%	871,101,714	28%	1,008,735,109	31%
<b>Earnings per share attributable to equity holders of the parent</b>						
Basic earning per share (Baht / Share)	0.54		0.45		0.51	

**KGI SECURITIES (THAILAND) PUBLIC COMPANY LIMITED AND ITS SUBSIDIARIES**
**STATEMENT OF CASH FLOWS**
**FOR THE YEARS ENDED DECEMBER 31, 2018 and 2017 and 2016**
**UNIT : BAHT**

	CONSOLIDATED FINANCIAL STATEMENTS		
	2018	2017	2016
<b>Cash flows from operating activities</b>			
Profits before income tax expenses	1,362,276,039	1,107,220,460	1,280,941,255
Adjustments to reconcile profits before income tax expenses to net cash provided by (paid for) operating activities:			
Depreciation and amortisation	55,377,473	61,611,899	58,014,747
Bad debts and doubtful accounts	9,088,232	9,170,364	10,455,834
Provisions for liabilities (reversal)	(169,468)	(2,810,000)	2,902,500
(Gains) Losses on revaluation of trading securities and derivatives	(38,553,053)	61,628,979	(62,231,213)
Gains on disposal of investments	(10,365,453)	(10,680,651)	-
Premium on investments in debt securities of a subsidiary	174,705	196,725	5,166
Discount on debts issued and other borrowings	(44,510,992)	(37,968,269)	(20,889,025)
Amortisation of deferred interest of financial lease	65,879	105,885	-
(Gains) losses on disposals and written-off of equipment	(315,259)	189,391	274,005
Gains on disposals properties foreclosed	(830,827)	(1,720,000)	(5,381,000)
Interest income on deposits and investments	(137,462,377)	(119,246,802)	(130,773,972)
Dividend income	(151,873,520)	(153,730,170)	(129,922,489)
Financial costs	159,333,649	140,565,253	113,163,106
Provisions for long-term employee benefits	21,845,051	20,355,796	17,377,911
<b>Income from operating activities before changes in operating assets and liabilities</b>	<b>1,224,080,079</b>	<b>1,074,888,860</b>	<b>1,133,936,825</b>
(Increase) decrease in operating assets			
Securities purchased under resale agreements	(938,000,000)	10,000,000	(230,000,000)
Receivables from Clearing House and brokers - dealers	(1,056,728,844)	1,635,616,781	(1,243,166,282)
Securities business receivables and Derivatives business receivables	435,971,968	(1,500,251,760)	(64,911,322)
Accrued fees and service income from asset management business	(5,048,974)	6,420,139	(9,959,448)
Derivatives assets	94,355,741	(48,399,351)	(46,947,147)
Trading securities	2,850,051,719	(2,908,755,924)	(2,941,405,541)
Other assets	(18,199,910)	(16,632,126)	(26,059,669)
Increase (decrease) in operating liabilities			
Securities sold under repurchase agreements	657,000,000	(137,000,000)	530,000,000
Payables to Clearing House and brokers - dealers	(109,312,910)	109,312,910	(117,450,667)
Securities business payables and Derivatives business payables	756,826,491	(333,021,084)	513,770,424
Accrued fees and service expenses from asset management business	2,749,862	3,062,847	2,474,630
Derivatives liabilities	(161,692,747)	250,409,947	167,050,056
Accrued expenses	52,378,994	(47,589,089)	131,388,046
Payments on long-term employee benefits during the years	(1,068,500)	(1,133,150)	-
Other liabilities	8,842,230	4,653,194	3,569,225
<b>Cash received (paid) from operation</b>	<b>3,792,205,199</b>	<b>(1,898,417,806)</b>	<b>(2,197,710,870)</b>

**KGI SECURITIES (THAILAND) PUBLIC COMPANY LIMITED AND ITS SUBSIDIARIES**  
**STATEMENT OF CASH FLOWS (CONTINUED)**  
**FOR THE YEARS ENDED DECEMBER 31, 2018 and 2017 and 2016**

UNIT : BAHT

	CONSOLIDATED FINANCIAL STATEMENTS		
	2018	2017	2016
Cash received from dividend income on trading securities	150,831,972	152,054,478	123,970,854
Cash received from interest income on deposits and investments	131,434,367	116,916,254	159,184,284
Cash paid for interest expenses	(102,678,747)	(105,201,123)	(93,008,917)
Cash paid for income taxes	(249,191,886)	(233,023,794)	(187,281,330)
<b>Net cash provided by(used in) operating activities</b>	<b>3,722,600,905</b>	<b>(1,967,671,991)</b>	<b>(2,194,845,979)</b>
<b>Cash flows from investing activities</b>			
Cash paid for available-for-sale securities	-	(97,126,131)	-
Proceed from disposals of available-for-sale securities	33,258,683	10,742,640	-
Cash paid for held-to-maturity securities	(8,584,575)	(195,400,000)	(50,303,733)
Proceed from disposals of held-to-maturity securities	36,600,000	100,619,557	77,656,000
Cash paid for general investment	(256,800)	-	-
Cash paid for investment in a subsidiary	-	(103,798)	(102,999)
Dividends received on general investments	1,256,145	1,467,016	3,205,237
Cash paid for purchases of equipment and intangible assets	(24,618,735)	(67,915,044)	(55,456,628)
Proceed from disposals of equipment	334,381	167,598	284,402
Cash paid for financial lease	(900,000)	(900,000)	-
Proceed from disposals of properties foreclosed	1,386,000	2,820,000	8,900,000
<b>Net cash provided by (used in) investing activities</b>	<b>38,475,099</b>	<b>(245,628,162)</b>	<b>(15,817,721)</b>
<b>Cash flows from financing activities</b>			
Proceed from borrowings from financial institutions	54,360,000,000	105,613,000,000	65,420,000,000
Cash paid for borrowings from financial institutions	(58,060,000,000)	(103,613,000,000)	(63,720,000,000)
Proceed from debts issued and borrowings	15,111,882,139	9,350,465,335	7,232,079,963
Cash paid for debts issued and borrowings	(14,508,934,367)	(8,443,065,015)	(6,207,114,100)
Dividends paid	(637,338,616)	(756,837,707)	(567,628,316)
Dividends paid to non-controlling interests	(1,278,923)	(651,280)	(651,280)
<b>Net cash provided by (used in) financing activities</b>	<b>(3,735,669,767)</b>	<b>2,149,911,333</b>	<b>2,156,686,267</b>
<b>Net increase (decrease) in cash and cash equivalents</b>			
<b>before changes in exchange differences on</b>			
<b>translating the financial statements</b>	<b>25,406,237</b>	<b>(63,388,820)</b>	<b>(53,977,433)</b>
Exchange differences on translating the financial statements	(491,431)	(6,673,305)	(723,721)
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>24,914,806</b>	<b>(70,062,125)</b>	<b>(54,701,154)</b>
Cash and cash equivalents as at January 1,	322,234,867	392,296,992	446,998,146
<b>Cash and cash equivalents as at December 31,</b>	<b>347,149,673</b>	<b>322,234,867</b>	<b>392,296,992</b>

**(C) Ratios for years 2016-2018**

<b>Consolidated financial statements</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>
<b>Profitability Ratios</b>			
Gross profit margin (%)	83.40%	83.69%	85.38%
Net profit margin (%)	30.88%	29.00%	31.50%
Return on equity (%)	18.62%	16.02%	19.43%
Return on investment (%)	24.63%	18.70%	35.04%
<b>Efficiency Ratios</b>			
Return on assets (%)	6.66%	5.69%	8.60%
Assets turnover (times)	0.22	0.20	0.27
<b>Financial Ratios</b>			
Liquid assets to debt (times)	1.28	1.26	1.46
Earning assets to debt (times)	2.87	2.35	2.87
Liquid assets to total assets (%)	33.31%	47.88%	38.48%
Earning assets to total assets (%)	74.99%	89.35%	75.57%
Total Liabilities to equity (times)	1.57	2.04	1.58
Dividend pay-out ratio (%)	70.77%	71.91%	77.71%
(Dividend per share/Basic earning per share of separate financial statements)			
<b>Other Ratios</b>			
Securities investment to total assets (%)	35.40%	50.64%	39.49%
Net Capital Ratio (NCR) (%)	71.28%	42.79%	59.31%
Net Liquid Capital (Million Baht)	4,949	4,157	4,066
<b>Per Share Information</b>			
Par Value per share (Baht)	1.00	1.00	1.00
Book Value per share (Baht)	3.03	2.81	2.75
Basic Earnings per share (Baht)	0.54	0.45	0.51
Dividend per share (Baht)	0.385	0.320	0.380

## 14. Management Discussion & Analysis

(Consolidated financial statements as at 31<sup>st</sup> December 2018, "Company" refers to the "Company and its subsidiaries")

### 14.1 Overview

In 2018, the Company achieved consolidated profits (attributable to equity holders of the parent) of Baht 1,083 million and earnings per share of Baht 0.54, an increase of 22% when compared to consolidated profits (attributable to equity holders of the parent) of Baht 887 million and earnings per share of Baht 0.45 in 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 business accounted for 32%, 30% and 26% of total revenues for years 2016-2018 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 31<sup>st</sup> December 2018 was Baht 1,913 million or around 32% 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 the concentration risk of credit exposure, and does not allow too much lending in any one stock or industry sector.

In 2018, the Company's gains and returns on financial instruments, which represented around 49% of annual revenues, were derived from a variety of activities, including derivative warrants (DWs), over-the-counter (OTC) derivatives, investments in debt and equity securities for the company's own account, bond dealing and private repos and other investments.

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 2018, the Company launched 440 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 2018, the Company had total investments of Baht 5,493 million, down from Baht 8,622 million at the end of 2017. 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 16.40% of total revenues in 2018, 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 71.28% at the end of 2018, much higher than the regulatory minimum of 7%.

In 2018, the Company won the "SET Award of Honor" for Excellence in Derivatives from 2016 to 2018", "TFEX Best Awards for Most Active House in 2018". We also won the "Best Bond Securities Firm" and "Most Active Securities Firm in Corporate Bond Secondary Market" in the THAI BMA Awards.

## 14.2 Results of operations

### Revenues

In 2018, the Company had total revenues, as shown in its consolidated financial statements, of Baht 3,509 million, an increase of 15 percent compared to the previous year, mainly due to an increase in Gains and returns on financial instruments. The significant revenues are as follows:

**CONSOLIDATED FINANCIAL STATEMENTS**  
**For the years ended**  
**December 31,**

*Unit: Thousand Baht*

<b>Revenues</b>	<b>2018</b>	<b>2017</b>	<b>% Change</b>
Brokerage fees	909,769	917,036	(1%)
Fees and service income	686,986	672,199	2%
Interest on margin loans	163,707	136,711	20%
Gains and returns on financial instruments	1,738,264	1,327,898	31%
Other incomes	9,831	4,428	122%
<b>Total revenues</b>	<b>3,508,557</b>	<b>3,058,272</b>	<b>15%</b>

#### Brokerage fees

The Company's brokerage fees in 2018 was Baht 910 million, a decrease of 1% from the previous year. The brokerage fee income consisted of brokerage fees from securities business of Baht 677 million, brokerage fees from derivatives business of Baht 233 million. The decrease in brokerage fee income was from securities business due to a decrease in SET average daily trading volume of retail investors.

#### Fees and Service income

The Company's fee and service income in 2018 was Baht 687 million, an increase of 2% from the previous year, mainly from an increase in front-end fee income and private fund management fees for funds managed by ONE Asset Management Limited (the Company's subsidiary), and an increase in the Company's sales agent fees from sale of investment units.

#### Interest on margin loans

The Company's interest on margin loans in 2018 was Baht 164 million, an increase of 20% from the previous year due mainly to an increase in the size of the Company's credit balance accounts during the year. As at 31<sup>st</sup> December 2018, the Company's margin loan balance was Baht 1,913 million. The Company controls the risk of such loans by establishing credit limits for clients and analyzing their financial position on an ongoing basis.

#### Gains and returns on financial instruments

The Company's gains and returns on financial instruments in 2018 was Baht 1,738 million, an increase of 31% from the previous year, due to an improved performance of the Company's wide range of investments.

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, investments in

debt and equity securities for the Company's own account, bond dealing, and private repos and other investments.

### **Expenses**

The Company's expenses in 2018 were Baht 2,146 million, and represented 61% of total income. The majority of the Company's expenses came from employee benefits expenses, fees and service expenses, finance costs, and other expenses, as follows:

#### **Employee benefits expenses**

The Company's Employee benefits expenses in 2018 were Baht 1,104 million, an increase of 9% from the previous year, mainly from an increase in personnel expenses which are related to the increase in the Company's revenue.

#### **Fees and service expenses**

The Company's fees and service expenses in 2018 were Baht 421 million, an increase of 18% from the previous year, mainly from an increase in the Company's fees paid in respect of securities trading and futures trading, and an increase in the retaining fee paid by ONE Asset Management Limited (the Company's subsidiary) which are related to the increase in the revenue of the Company and its subsidiary.

#### **Finance costs**

The Company's finance costs in 2018 were Baht 159 million, an increase of 13% from the previous year, mainly due to an increase in interest paid on bonds, structure notes and bills of exchange issued by the Company and an increase in interest expenses from securities sold under repurchase agreements.

#### **Other expenses**

The Company's other expenses in 2018 were Baht 466 million, an increase of 2% from the previous year. The main other expenses were for premises and equipment, communication and information service, publication and marketing expenses, etc.

### **Profitability Ratios**

The Company's profitability ratios generally increased in 2018 when compared with the previous year. Gross profit margin, net profit margin, return on equity and return on investment were 83%, 31%, 19% and 25% respectively.

<b>Consolidated financial statements</b>	<b>Y2018</b>	<b>Y2017</b>
Gross profit margin (%)	83.40%	83.69%
Net profit margin (%)	30.88%	29.00%
Return on equity (%)	18.62%	16.02%
Return on investment (%)	24.63%	18.70%

## **14.3 Asset Structure and Management**

### **Operating Asset Structure**

As at 31<sup>st</sup> December 2018, the Company had total assets of Baht 15,519 million, compared with Baht 17,025 million in 2017, representing a decrease of 9% from the previous year, mainly due to a decrease in the size of the Company's investment portfolios.

The majority of total assets of Baht 15,519 million, mainly came from earning assets of Baht 11,638 million which were the securities and derivatives business receivables of Baht 6,145 million and investments of Baht 5,493 million. The Company had an asset turnover ratio of 0.22 and return on Assets (ROA) was 6.66%.

### **The quality of Securities and derivatives business receivables**

The Company's securities and derivatives business receivables were of a good quality. As at 31<sup>st</sup> December 2018, the Company's securities and derivatives business receivables were Baht 6,145

million, representing a decrease of 7% from the previous year, which mainly consisted of cash accounts of Baht 3,688 million, credit balance accounts of Baht 1,913 million and receivables under securities borrowing and lending business of Baht 579 million.

The Company has provided allowances for doubtful accounts on securities and derivatives business receivables based on a review of debtor's ability to make repayment, taking into consideration recovery risk and the value of the collateral. Such debt classifications and provisions are made in accordance with the guidelines laid down in the Notification No. Kor. Thor. 5/2544 dated February 15, 2001 of the Office of the Securities and Exchange Commission, and consideration of other relevant factors.

For credit balance accounts of Baht 1,913 million, the amount was equivalent to approximately 32% of the value of the Company's equity attributable to equity holders of the parent. In 2018, the Company's credit lines complied with the Company's policies and were not concentrated in any industry or any client group.

As at 31<sup>st</sup> December 2018, the Company had other receivables with book values totaling Baht 304 million, on which recognition of income has ceased. The Company has already made full provision for these doubtful accounts amounting to Baht 304 million.

### **Investments**

The Company engaged in various investment activities during the year. 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 market conditions.

The Company's investments of Baht 5,493 million consisted of trading securities of Baht 4,936 million, available-for-sale securities of Baht 246 million, held-to-maturity securities of Baht 291 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.

## **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 31<sup>st</sup> December 2018, the Company's cash and cash equivalents were Baht 347 million. The summary of cash flows for 2018 are as follows:

<b>Summary of Cash Flow 2018</b>	<b>Baht Million</b>
<b>Cash flows from operating activities</b>	
Profits before income tax expenses	1,362
Adjustments to reconcile profits before income tax expenses to net cash provided by (paid for) operating activities:	(138)
<b>Income from operating activities before changes in operating assets and liabilities</b>	1,224
(Increase) decrease in operating assets	1,362
Increase (decrease) in operating liabilities	1,206
<b>Cash received from operation</b>	3,792
Cash received from dividend income on trading securities	151
Cash received from interest income on deposits and investments	131
Cash paid for interest expenses	(102)
Cash paid for income taxes	(249)
<b>Net cash provided by (used in) operating activities</b>	3,723
<b>Net cash provided by (used in) investing activities</b>	38
<b>Net cash provided by (used in) financing activities</b>	(3,736)
Exchange differences on translating the financial statements	-
<b>Net increase (decrease) in cash and cash equivalents</b>	25
Cash and cash equivalents as at January 1,	322
<b>Cash and cash equivalents as at December 31,</b>	<b>347</b>

## The Capital Structure

The Company has an appropriate capital structure. As at 31<sup>st</sup> December 2018, the Company's liabilities were Baht 9,473 million, and equity attributable to equity holders of the parent was Baht 6,044 million. The ratio of total liabilities to equity was 1.57 times.

The majority of total liabilities of Baht 9,473 million, mainly came from securities business payables and derivatives business payables of Baht 4,343 million and debts issued and borrowings of Baht 2,988 million. A majority of the equity attributable to equity holders of the parent of Baht 6,044 million came from capital and retained earnings.

## Capital Expenditure

In 2018, the Company had 3 capital expenditure projects of more than Baht 2 million, with a total budget of approximately Baht 16 million. The projects were investments in improving information technology systems, improving computer equipment and improving accounting system. The Company made payments of Baht 4 million towards the projects in 2018, which from the Company's working capital

## Adequacy of Liquidity

The Company has sufficient capital. As at 31<sup>st</sup> December 2018, the Company had cash and cash equivalents of Baht 347 million. Net Liquid Capital was Baht 4,949 million and Net Capital Ratio ("NCR") was 71.28%. 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:

<b>Capital Fund</b>	<b>31<sup>st</sup> Dec 2018</b>	<b>31<sup>st</sup> Dec 2017</b>	<b>31<sup>st</sup> Dec 2016</b>
Net Liquid Capital (Million Baht)	4,949	4,157	4,066
Net Capital Ratio ("NCR") (%)	71.28%	42.79%	59.31%

### **Ability to repay loans and comply with loan conditions and obligations**

As at 31<sup>st</sup> December 2018, the Company had issued debt and borrowings of Baht 2,988 million (see details in note of financial statement no. 19). The Company is confident that it will be able to repay the loans as necessary. The Company has a policy to treat creditors with fairness, responsibility and transparency by strictly complying with the terms of contracts with creditors. The Company does not use dishonest means nor does it conceal relevant information or facts from creditors.

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

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

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 2018, 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. 37.

#### **14.6 Factors which may affect the Company's operating results in future**

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. These 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. Thus, 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.

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