

PART 3

FINANCIAL POSITION AND OPERATING RESULT

13. Financial position and operating results

(A) Summary of the Report of the Independent Auditors for 2017 - 2019

For years 2017-2018, the Company appointed Mr. Chavala Tienpasertkij, Certified Public Accountant no. 4301 of Deloitte Touche Tohmatsu Jaiyos Audit Co. Ltd, "Deloitte" as its Auditor. For year 2019, the Company appointed Mrs. Wilasinee Krishnamra, Certified Public Accountant no. 7098 of Deloitte Touche Tohmatsu Jaiyos Audit Co. Ltd, "Deloitte" as its Auditor.

The Auditor reported an unqualified opinion that the Company's consolidated and separate financial statements present fairly, in all material respects 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 31st December 2017 - 2019.

KGI SECURITIES (THAILAND) PUBLIC COMPANY LIMITED AND ITS SUBSIDIARIES

STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31, 2019 and 2018 and 2017

UNIT : BAHT

	CONSOLIDATED FINANCIAL STATEMENTS					
	As at December 31, 2019		As at December 31, 2018		As at December 31, 2017	
ASSETS						
ASSETS						
Cash and cash equivalents	335,551,405	3%	347,149,673	2%	322,234,867	2%
Securities purchased under resale agreements	-	-	1,298,000,000	8%	360,000,000	2%
Receivables from Clearing House and broker - dealers	98,769,017	1%	1,538,196,993	10%	481,468,149	3%
Securities business receivables and						
Derivatives business receivables	5,472,333,803	44%	6,144,954,692	40%	6,590,014,892	39%
Accrued fees and service income						
from asset management business	64,164,170	-	57,866,879	-	52,817,905	-
Derivatives assets	113,333,450	1%	180,682,191	1%	131,503,021	1%
Investments	5,893,569,950	47%	5,493,491,806	35%	8,621,732,023	51%
Property, plant and equipment	76,962,313	1%	79,455,137	1%	107,717,090	1%
Intangible assets	72,850,500	1%	70,687,170	-	73,408,881	-
Goodwill	26,713,599	-	26,713,599	-	26,713,599	-
Properties foreclosed	24,097,613	-	29,901,182	-	30,456,355	-
Deferred tax assets	8,838,659	-	6,972,460	-	5,612,956	-
Other assets	251,354,481	2%	245,404,788	2%	221,391,487	1%
TOTAL ASSETS	12,438,538,960	100%	15,519,476,570	100%	17,025,071,225	100%

KGI SECURITIES (THAILAND) PUBLIC COMPANY LIMITED AND ITS SUBSIDIARIES

STATEMENT OF FINANCIAL POSITION (CONTINUED)

AS AT DECEMBER 31, 2019 and 2018 and 2017

UNIT : BAHT

	CONSOLIDATED FINANCIAL STATEMENTS					
	As at December 31, 2019		As at December 31, 2018		As at December 31, 2017	
LIABILITIES AND OWNERS' EQUITY						
LIABILITIES						
Borrowings from financial institutions	400,000,000	3%	-	-	3,700,000,000	22%
Securities sold under repurchase agreements	100,426,974	1%	1,060,000,000	7%	403,000,000	2%
Payables to Clearing House and broker - dealers	646,958,834	5%	-	-	109,312,910	1%
Securities business payables and						
Derivatives business payables	3,098,345,835	25%	4,342,768,367	28%	3,588,190,091	21%
Accrued fees and service expenses						
from asset management business	10,859,179	-	15,739,776	-	12,989,914	-
Derivatives liabilities	231,191,566	2%	245,412,822	2%	531,668,585	3%
Accrued expenses	450,649,094	4%	490,116,063	3%	429,136,008	3%
Cuerrent tax liabilities	42,432,236	1%	97,881,785	1%	95,515,808	-
Debts issued and borrowings	964,007,706	8%	2,988,265,827	19%	2,382,765,876	14%
Provisions for long-term employee benefits	167,558,452	1%	127,553,400	1%	106,776,849	1%
Provisions for liabilities	21,464,782	-	39,698,260	-	39,811,557	-
Deferred tax liabilities	24,500,306	-	28,240,820	-	579,114	-
Other liabilities	41,100,915	-	36,897,023	-	28,160,218	-
Total liabilities	6,199,495,879	50%	9,472,574,143	61%	11,427,906,930	67%
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	16%	1,991,763,130	13%	1,991,763,130	12%
Share premium	982,166,480	8%	982,166,480	6%	982,166,480	6%
Surplus from unexercised warrants	101,922,580	-	101,922,580	1%	101,922,580	-
Retained earnings						
Appropriated - statutory reserve	199,176,313	2%	199,176,313	1%	199,176,313	1%
Unappropriated	3,016,210,695	24%	2,811,538,210	18%	2,365,502,610	14%
Other component of owners' equity	(56,075,520)	0%	(42,922,436)	-	(46,928,521)	-
Equity attributable to equity holders of the parent	6,235,163,678	50%	6,043,644,277	39%	5,593,602,592	33%
Non-controlling interests	3,879,403	-	3,258,150	-	3,561,703	-
Total owners' equity	6,239,043,081	50%	6,046,902,427	39%	5,597,164,295	33%
TOTAL LIABILITIES AND OWNERS' EQUITY	12,438,538,960	100%	15,519,476,570	100%	17,025,071,225	100%

KGI SECURITIES (THAILAND) PUBLIC COMPANY LIMITED AND ITS SUBSIDIARIES

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED DECEMBER 31, 2019 and 2018 and 2017

UNIT : BAHT

	CONSOLIDATED FINANCIAL STATEMENTS					
	2019		2018		2017	
REVENUES						
Brokerage fees	698,475,453	21%	909,769,019	26%	917,036,355	30%
Fees and service income	789,128,589	24%	686,985,989	20%	672,198,509	22%
Interest on margin loans	136,735,410	4%	163,707,106	5%	136,710,784	4%
Gains and return on financial instruments	1,705,919,525	51%	1,738,264,477	50%	1,327,898,375	43%
Other incomes	19,997,414	-	9,830,702	-	4,428,223	-
Total revenues	3,350,256,391	100%	3,508,557,293	100%	3,058,272,246	100%
EXPENSES						
Employee benefits expenses	1,088,967,992	33%	1,103,624,829	31%	1,015,492,905	33%
Fees and service expenses	453,731,548	14%	421,386,053	12%	357,452,055	12%
Finance costs	140,635,677	4%	159,333,649	5%	140,565,253	5%
Bad debt and doubtful accounts (reversal)	6,168,399	-	(4,091,720)	-	(20,059,617)	(1%)
Other expenses	447,875,562	13%	466,028,443	13%	457,601,190	15%
Total expenses	2,137,379,178	64%	2,146,281,254	61%	1,951,051,786	64%
Profits before income tax	1,212,877,213	36%	1,362,276,039	39%	1,107,220,460	36%
Income tax expenses	(240,952,694)	(7%)	(277,926,453)	(8%)	(219,146,936)	(7%)
Profits for the years	971,924,519	29%	1,084,349,586	31%	888,073,524	29%

KGI SECURITIES (THAILAND) PUBLIC COMPANY LIMITED AND ITS SUBSIDIARIES
STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2019 and 2018 and 2017

UNIT : BAHT

	CONSOLIDATED FINANCIAL STATEMENTS					
	2019		2018		2017	
Other comprehensive gain (loss):						
Items that will not be reclassified subsequently to profit or loss:						
Actuarial gain on defined benefit plan	842,105	-	-	-	1,210,999	-
Income tax relating to items that will not be reclassified subsequently to profit or loss	(168,421)	-	-	-	(242,200)	-
	<u>673,684</u>	-	<u>-</u>	-	<u>968,799</u>	-
Items that may be reclassified subsequently to profit or loss:						
Gains on remeasuring available-for-sale investments	2,865,002	-	5,608,683	-	4,471,186	-
Exchange differences on translating the financial statements	(16,032,569)	-	(1,668,985)	-	(22,330,926)	(1%)
Income tax relating to items that may be reclassified subsequently to profit or loss	14,483	-	66,387	-	(80,869)	-
	<u>(13,153,084)</u>	-	<u>4,006,085</u>	-	<u>(17,940,609)</u>	(1%)
Total other comprehensive gain (loss) after tax	<u>(12,479,400)</u>	-	<u>4,006,085</u>	-	<u>(16,971,810)</u>	(1%)
Total comprehensive income for the years	<u>959,445,119</u>	29%	<u>1,088,355,671</u>	31%	<u>871,101,714</u>	28%
Profits for the years attributable to:						
Equity holders of the parent	970,795,627	29%	1,083,374,216	31%	886,882,976	29%
Non-controlling interests	<u>1,128,892</u>	-	<u>975,370</u>	-	<u>1,190,548</u>	-
	<u>971,924,519</u>	29%	<u>1,084,349,586</u>	31%	<u>888,073,524</u>	29%
Total comprehensive income for the years attributable to:						
Equity holders of the parent	958,310,501	29%	1,087,380,301	31%	869,911,166	28%
Non-controlling interests	<u>1,134,618</u>	-	<u>975,370</u>	-	<u>1,190,548</u>	-
	<u>959,445,119</u>	29%	<u>1,088,355,671</u>	31%	<u>871,101,714</u>	28%
Earnings per share attributable to equity holders of the parent						
Basic earning per share	0.49		0.54		0.45	

KGI SECURITIES (THAILAND) PUBLIC COMPANY LIMITED AND ITS SUBSIDIARIES

STATEMENT OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2019 and 2018 and 2017

UNIT : BAHT

	CONSOLIDATED FINANCIAL STATEMENTS		
	2019	2018	2017
Cash flows from operating activities			
Profits before income tax expenses	1,212,877,213	1,362,276,039	1,107,220,460
Adjustments to reconcile profits before income tax expenses to net cash provided by (paid for) operating activities:			
Depreciation and amortisation	47,745,381	55,377,473	61,611,899
Bad debts and doubtful accounts	6,971,507	9,088,232	9,170,364
Provisions for liabilities (reversal)	(18,002,250)	(169,468)	(2,810,000)
(Gains) Losses on revaluation of trading securities and derivatives	(153,487,666)	(38,553,053)	61,628,979
Gains on disposal of investments	(4,028,713)	(10,365,453)	(10,680,651)
Premium on investments in debt securities of a subsidiary	152,800	174,705	196,725
Discount on debts issued and other borrowings	(16,251,830)	(44,510,992)	(37,968,269)
Amortisation of deferred interest of financial lease	23,778	65,879	105,885
(Gains) losses on disposals and written-off of equipment	297,425	(315,259)	189,391
Gains on disposals properties foreclosed	(4,667,431)	(830,827)	(1,720,000)
Interest income on deposits and investments	(133,747,673)	(137,462,377)	(119,246,802)
Dividend income	(139,952,431)	(151,873,520)	(153,730,170)
Financial costs	140,635,677	159,333,649	140,565,253
Long-term employee benefits	55,943,015	21,845,051	20,355,796
Reversal of decommissioning expenses	(128,402)	-	-
Income from operating activities before changes in operating assets and liabilities	994,380,400	1,224,080,079	1,074,888,860
(Increase) decrease in operating assets			
Securities purchased under resale agreements	1,298,000,000	(938,000,000)	10,000,000
Receivables from Clearing House and brokers - dealers	1,439,427,976	(1,056,728,844)	1,635,616,781
Securities business receivables and Derivatives business receivables	665,649,382	435,971,968	(1,500,251,760)
Accrued fees and service income from asset management business	(6,297,291)	(5,048,974)	6,420,139
Derivatives assets	389,815	94,355,741	(48,399,351)
Trading securities	(152,264,361)	2,850,051,719	(2,908,755,924)
Other assets	(14,203,842)	(18,199,910)	(16,632,126)
Increase (decrease) in operating liabilities			
Securities sold under repurchase agreements	(959,573,026)	657,000,000	(137,000,000)
Payables to Clearing House and brokers - dealers	646,958,834	(109,312,910)	109,312,910
Securities business payables and Derivatives business payables	(1,241,756,740)	756,826,491	(333,021,084)
Accrued fees and service expenses from asset management business	(4,880,597)	2,749,862	3,062,847
Derivatives liabilities	(74,090,430)	(161,692,747)	250,409,947
Accrued expenses	(31,711,059)	52,378,994	(47,589,089)
Payments on long-term employee benefits during the years	(15,095,858)	(1,068,500)	(1,133,150)
Other liabilities	(3,326,215)	8,842,230	4,653,194
Cash received (paid) from operation	2,541,606,988	3,792,205,199	(1,898,417,806)

KGI SECURITIES (THAILAND) PUBLIC COMPANY LIMITED AND ITS SUBSIDIARIES

STATEMENT OF CASH FLOWS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2019 and 2018 and 2017

UNIT : BAHT

	CONSOLIDATED FINANCIAL STATEMENTS		
	2019	2018	2017
Cash received from dividend income on trading securities	140,041,103	150,831,972	152,054,478
Cash received from interest income on deposits and investments	140,690,910	131,434,367	116,916,254
Cash paid for interest expenses	(131,279,467)	(102,678,747)	(105,201,123)
Cash paid for income taxes	(302,162,894)	(249,191,886)	(233,023,794)
Net cash provided by (used in) operating activities	2,388,896,640	3,722,600,905	(1,967,671,991)
Cash flows from investing activities			
Cash paid for available-for-sale securities	-	-	(97,126,131)
Proceed from disposals of available-for-sale securities	78,199,625	33,258,683	10,742,640
Cash paid for held-to-maturity securities	(334,300,000)	(8,584,575)	(195,400,000)
Proceed from disposals of held-to-maturity securities	282,500,000	36,600,000	100,619,557
Cash paid for general investment	(1,940,880)	(256,800)	-
Cash paid for investment in a subsidiary	-	-	(103,798)
Dividends received on general investments	1,222,219	1,256,145	1,467,016
Cash paid for purchases of equipment and intangible assets	(39,626,207)	(24,618,735)	(67,915,044)
Proceed from disposals of equipment	124,570	334,381	167,598
Cash paid for financial lease	(900,000)	(900,000)	(900,000)
Proceed from disposals of properties foreclosed	10,471,000	1,386,000	2,820,000
Net cash provided by (used in) investing activities	(4,249,673)	38,475,099	(245,628,162)
Cash flows from financing activities			
Proceed from borrowings from financial institutions	55,550,000,000	54,360,000,000	105,613,000,000
Cash paid for borrowings from financial institutions	(55,150,000,000)	(58,060,000,000)	(103,613,000,000)
Proceed from debts issued and borrowings	6,727,657,596	15,111,882,139	9,350,465,335
Cash paid for debts issued and borrowings	(8,752,684,180)	(14,508,934,367)	(8,443,065,015)
Dividends paid	(766,791,100)	(637,338,616)	(756,837,707)
Dividends paid to non-controlling interests	(513,365)	(1,278,923)	(651,280)
Net cash provided by (used in) financing activities	(2,392,331,049)	(3,735,669,767)	2,149,911,333
Net increase (decrease) in cash and cash equivalents			
before changes in exchange differences on			
translating the financial statements	(7,684,082)	25,406,237	(63,388,820)
Exchange differences on translating the financial statements	(3,914,186)	(491,431)	(6,673,305)
Net increase (decrease) in cash and cash equivalents	(11,598,268)	24,914,806	(70,062,125)
Cash and cash equivalents as at January 1,	347,149,673	322,234,867	392,296,992
Cash and cash equivalents as at December 31,	335,551,405	347,149,673	322,234,867

(C) Ratios for years 2017-2019

Consolidated financial statements	2019	2018	2017
Profitability Ratios			
Gross profit margin (%)	82.15%	83.40%	83.69%
Net profit margin (%)	28.98%	30.88%	29.00%
Return on equity (%)	15.81%	18.62%	16.02%
Return on investment (%)	29.96%	24.63%	18.70%
Efficiency Ratios			
Return on assets (%)	6.94%	6.66%	5.69%
Assets turnover (times)	0.24	0.22	0.20
Financial Ratios			
Liquid assets to debt (times)	3.82	1.28	1.26
Earning assets to debt (times)	7.76	2.87	2.35
Liquid assets to total assets (%)	45.02%	33.31%	47.88%
Earning assets to total assets (%)	91.38%	74.99%	89.35%
Total Liabilities to equity (times)	0.99	1.57	2.04
Dividend pay-out ratio (%)	70.02%	70.77%	71.91%
Other Ratios			
Securities investment to total assets (%)	47.38%	35.40%	50.64%
Net Capital Ratio (NCR) (%)	107.52%	71.28%	42.79%
Net Liquid Capital (Million Baht)	4,936	4,949	4,157
Per Share Information			
Par Value per share (Baht)	1.00	1.00	1.00
Book Value per share (Baht)	3.13	3.03	2.81
Basic Earnings per share (Baht)	0.49	0.54	0.45
Dividend per share (Baht)	0.341	0.385	0.320

14. Management Discussion & Analysis

(Consolidated financial statements as at 31st December 2019, “Company” refers to the “Company and its subsidiaries”)

14.1 The Company's performance and financial position

a) Overview

During 2019, despite volatile market conditions, the Company continued to perform well. For the full year 2019 your Company achieved an audited net profit of Baht 971 million, which is equivalent to Earnings Per Share of Baht 0.49.

The Company's revenue structure is well diversified and is therefore less susceptible to the volatile and highly competitive securities brokerage business. In 2019, the Company's revenue mix consisted of gains and return on financial instruments (51%), fee and service income (24%), brokerage fees (21%), and interest on margin loans (4%).

Over the past 3 years, the fees earned from the brokerage business have accounted for 30%, 26% and 21% of total revenues for years 2017-2019 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.

The Company's gains and returns on financial instruments (51%) 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, private repos and other investments.

Regarding the DW business, the Company remains a leader in the DW business. In 2019, the Company launched 539 DWs which received a good response from investors. The total registered amount for all 539 DWs was approximately Baht 73,314 million. From 2011 up to the end of 2019, the Company has launched a total of 2,305 DWs. In 2020, the Company intends to maintain the number of DW issued at around 550 DWs, and plans to launch DWs with new underlying securities as approved by the regulators.

For the fixed income business, the Company ranked No. 1 in bond trading among securities dealers and ranked No. 6 in corporate bond trading value among all dealers, with a market share of 8.96% in 2019.

The Company's proprietary trading activity has a proven track record of generating steady profit from securities trading. The Company invests in both debt and equity securities. At the end of 2019, the Company had total investments of Baht 5,894 million. 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 reviews these limits on a regular basis to ensure that they are 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 19% of total revenues in 2019, are typically less volatile than other sources of revenue in the securities industry.

The Company's net capital ratio (NCR) has been historically strong. It stood at 107.52% at the end of 2019, much higher than the regulatory minimum of 7%.

In 2019, The Company received “Most Active House of 2019”, an award it has won for 6 consecutive years, and also received “Most Active Prop-Trading” from the TFEX Best Awards 2019. In addition, the Company has also received the Best Bond Securities Firm Award and the Most Active Securities Firm award in Corporate Bond Secondary Market from the ThaiBMA Best Bond Awards 2019.

b) Results of operations

Revenues

In 2019, the Company had total revenues, as shown in its consolidated financial statements, of Baht 3,350 million, a decrease of 5 percent compared to the previous year, mainly due to a decrease in Brokerage fees, The significant revenues are as follows:

Brokerage fees

The Company's brokerage fees in 2019 was Baht 698 million, a decrease of 23% from the previous year. The brokerage fee income consisted of brokerage fees from securities business of Baht 531 million, brokerage fees from derivatives business of Baht 167 million. The decrease in brokerage fee income was from both securities business and derivatives business, due to a decrease in SET average daily trading volume and TFEX trading volume of retail investors.

CONSOLIDATED FINANCIAL STATEMENTS For the years ended December 31,

Unit: Thousand Baht

Revenues	2019	2018	% Change
Brokerage fees from securities business	531,513	676,677	(21%)
Brokerage fees from derivatives business	166,962	233,092	(28%)
Total revenues	698,475	909,769	(23%)

Fees and Service income

The Company's fee and service income in 2019 was Baht 789 million, an increase of 15% from the previous year, mainly from an increase in the Company's underwriting fees and an increase in the mutual fund management fees, private fund management fees and provident fund management fees earned by the Company's asset management subsidiary, ONE Asset Management Limited.

Interest on margin loans

The Company's interest on margin loans in 2019 was Baht 137 million, a decrease of 16% from the previous year. The decrease was due mainly to a decrease in the size of the Company's credit balance accounts during the year. As at 31st December 2019, the Company's margin loan balance was Baht 1,745 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 2019 was Baht 1,706 million, similar to the previous year which were Baht 1,738 million, due to the Company's wide range of investments continued to perform well in 2019.

The Company's gains and returns on financial instruments were derived from a variety of products, 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 2019 were Baht 2,137 million, and represented 64% 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 2019 were Baht 1,089 million, similar to the previous year which were Baht 1,104 million.

During the year 2019, the Company recognized past service cost as an expense in statement of comprehensive income due to the recognition of additional legal severance pay rates for employees

who have worked for an uninterrupted period of twenty years or more. Such employees are entitled to receive compensation of not less than 400 days at the employees' latest wage rate according to The Labor Protection Act (No. 7) B.E. 2562.

Fees and service expenses

The Company's fees and service expenses in 2019 were Baht 454 million, an increase of 8% from the previous year, mainly from an increase in the retaining fee paid by ONE Asset Management Limited (the Company's subsidiary) which are related to the increase in AUM of the Company's subsidiary, and an increase in the Company's securities borrowing and lending fees.

Finance costs

The Company's finance costs in 2019 were Baht 141 million, a decrease of 12% from the previous year, mainly due to a decrease in interest paid on bills of exchange and borrowings from financial institutions.

Other expenses

The Company's other expenses in 2019 were Baht 448 million, a decrease of 4% from the previous year, mainly due to a decrease in premises and equipment expenses, traveling expenses and office supplies.

Profitability Ratios

The Company's profitability ratios include gross profit margin, net profit margin, return on equity and return on investment were 82%, 29%, 16% and 30% respectively.

Consolidated financial statements	Y2019	Y2018	Y2017
Gross profit margin (%)	82.15%	83.40%	83.69%
Net profit margin (%)	28.98%	30.88%	29.00%
Return on equity (%)	15.81%	18.62%	16.02%
Return on investment (%)	29.96%	24.63%	18.70%

c) Asset Structure and Management

Operating Asset Structure

As at 31st December 2019, the Company had total assets of Baht 12,439 million, compared with Baht 15,519 million in 2018, representing a decrease of 20% from the previous year, mainly due to a decrease in securities purchased under resale agreements and receivables from clearing House and broker-dealers.

The total assets of Baht 12,439 million, mainly came from earning assets of Baht 11,366 million which were the securities and derivatives business receivables of Baht 5,472 million and investments of Baht 5,894 million. The Company had an asset turnover ratio of 0.24 and return on Assets (ROA) was 6.94%.

The quality of Securities and derivatives business receivables

The Company's securities and derivatives business receivables were of a good quality. As at 31st December 2019, the Company's securities and derivatives business receivables were Baht 5,472 million, representing a decrease of 11% from the previous year, which mainly consisted of cash accounts of Baht 3,050 million and credit balance accounts of Baht 1,745 million.

The Company has provided allowances for doubtful accounts on securities and derivatives business receivables based on a review of the debtor's ability to make repayment, taking into consideration recovery risk and the value of 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 1,745 million, the amount was equivalent to approximately 28% of the value of the Company's equity attributable to equity holders of the parent. In 2019, the

Company's credit lines complied with the Company's policies and were not concentrated in any industry or any client group.

As at 31st December 2019, 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 31st December 2019, the Company's net investments were valued at Baht 5,894 million, an increase of 7% from the previous year.

The Company's investments of Baht 5,894 million consisted of trading securities of Baht 5,366 million, available-for-sale securities of Baht 162 million, held-to-maturity securities of Baht 343 million and general investments of Baht 23 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 business units 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.

d) Liquidity and capital adequacy

Sources and uses of funds

Cash flow activities consisted of 3 types, which are; operating activities, investing activities and financing activities. As at 31st December 2019, the Company's cash and cash equivalents were Baht 336 million. The summary of cash flows for 2019 are as follows:

Summary of Cash Flow 2019	Baht Million
Cash flows from operating activities	
Profits before income tax expenses	1,213
Adjustments to reconcile profits before income tax expenses to net cash provided by (paid for) operating activities:	(219)
Income from operating activities before changes in operating assets and liabilities	994
(Increase) decrease in operating assets	3,231
Increase (decrease) in operating liabilities	(1,683)
Cash received from operation	2,542
Cash received from dividend income on trading securities	140
Cash received from interest income on deposits and investments	140
Cash paid for interest expenses	(131)
Cash paid for income taxes	(302)
Net cash provided by (used in) operating activities	2,389
Net cash provided by (used in) investing activities	(4)
Net cash provided by (used in) financing activities	(2,392)
Exchange differences on translating the financial statements	(4)
Net increase (decrease) in cash and cash equivalents	(11)
Cash and cash equivalents as at January 1,	347
Cash and cash equivalents as at December 31,	336

The Capital Structure

The Company has an appropriate capital structure. As at 31st December 2019, the Company's liabilities were Baht 6,199 million, and equity attributable to equity holders of the parent was Baht 6,235 million. The ratio of total liabilities to equity was 0.99 times.

The majority of total liabilities of Baht 6,199 million came from securities business payables and derivatives business payables of Baht 3,098 million and debts issued and borrowings of Baht 964 million. A majority of the equity attributable to equity holders of the parent of Baht 6,235 million came from capital and retained earnings.

Capital Expenditure

In 2019, the Company had expenditure projects of more than Baht 2 million, with a total budget of approximately Baht 19 million. The projects included investments in improving information technology systems, improving computer equipment. The Company made payments of Baht 4 million towards the projects in 2019, which came from the Company's working capital.

Adequacy of Liquidity

The Company has sufficient liquid capital. As at 31st December 2019, the Company had cash and cash equivalents of Baht 336 million. The Net Capital Ratio ("NCR") was 107.52%. 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 the past 3 years were as follows:

Capital Fund	31st Dec 2019	31st Dec 2018	31st Dec 2017
Net Liquid Capital (Million Baht)	4,936	4,949	4,157
Net Capital Ratio ("NCR") (%)	107.52%	71.28%	42.79%

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

As at 31st December 2019, the Company had borrowings from financial institutions of Baht 400 million and debts issued and borrowings of Baht 964 million (see details in note no. 17 and 19 of the financial statements). 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

The credit upsidess are limited. Downward pressure on the ratings could develop if the Company's profitability and its market position in the brokerage segment, including both equity and derivatives business, weaken significantly for a sustained period of time, or if the Company consistently incurs massive losses on trading as a result of a poor risk management framework. In addition, any change in the credit profile of the KGI Group or change in TRIS Rating's view on the status of the Company to the KGI Group may affect the rating and/or outlook.

e) Commitments and contingent liabilities

See information about the commitments and contingent liabilities that may be incurred in the notes to the financial statements no. 36.

14.2 Factors which may affect the Company's operating results in future

Factors that may affect the company's operations are both external and internal as follows:

External factors include economic conditions, politics, changes in market conditions, competition, changes in government policies, regulations and laws, changes in interest rates and foreign exchange rates.

Internal factors include financial liquidity, loss of key employees, failure of operational controls, risk management or information technology systems.

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 operational 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.
