

# 2006 ANNUAL REPORT





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## CHAIRMAN'S LETTER

### Dear Shareholders,

2006 was a very eventful year both for our company and for Thailand as a whole. Despite difficult market conditions KGI Thailand continued to operate profitably and recorded a net profit for 2006 of Baht 182 million. 2006 was characterized by many significant changes, both expected and unexpected, which were often sudden and dramatic. In this environment KGI's strengths helped to maintain its stability and direction despite often very challenging circumstances.

During 2006 the SET traded between a high of 788 in May and a low of 588 in December. For the year as a whole, the market declined by 4.8% whilst average daily volume was Baht 16.2 billion, a slight decline when compared with the Baht 16.5 billion per day turnover in 2005. KGI's market share was 3.94% and we ranked 7<sup>th</sup> overall, both of these figures represented improvements over 2005 when our market share was 3.72% and our ranking 8<sup>th</sup>.

In April 2006 Thailand officially opened its Futures trading market. The opening of this new market was something which KGI had been looking forward to and working towards for some time. Equity market Futures are a central and important part of modern developed equity markets and the opening of a Futures market in Thailand is a sign of its growing maturity and strength as a modern financial center. The company also ranked no.1 in 2006 in terms of market share in the Thailand Futures Exchange (TFEX) market with a market share of 16.53%. We are proud that KGI won the "Best House of the Year 2006", given to the futures brokerage firm with outstanding performance and best service quality, and also won the "Most Active House 2006", given to the futures brokerage firm with the most active futures derivatives business, at the TFEX Best Awards 2006.

In 2007 the futures market, TFEX, will introduce Options trading, adding a further alternative tool for financial market participants. KGI fully supports the continuing development of Thailand's financial markets and continues to work closely with market stakeholders, including regulators, market operators and clients, to ensure the successful expansion of these markets.

Change is central to financial markets and we expect 2007 to continue to reflect this. Some developments in 2007, such as the development and launch of new products like the SET50 Index Options, Derivative Warrant, and Equity Exchange Traded Fund (ETF), can be anticipated in advance, and KGI will prepare for these. Other changes, by their very nature cannot be predicted in advance. However, realizing this, we have developed a resilient and flexible approach and I believe that KGI is well prepared to deal with whatever may happen in the coming year.

KGI Thailand has always been aware of its responsibilities as a good corporate citizen of Thailand. In 2005 the company donated Baht 20 million for disaster relief after the Tsunami hit southern Thailand. In 2006 KGI Thailand, together with our subsidiary 1AM, as a tribute to H.M. the King, sponsored the performance by the Thailand Philharmonic Orchestra of "The Celebration for Maharajah: The Great King of Music". In 2005, the Company's Board of Directors approved the donation of Baht 1 million per year for 3 years to projects sponsored by Her Royal Highness Princess Maha Chakri Sirindhorn's foundation, which focus mainly on education. In the current year we will continue to support the second phase of this Princess's project.

As the new chairman of KGI Thailand I would like to express my thanks, on behalf of all shareholders and employees, to my predecessor, the former Chairman, Mr. Angelo Koo, for all his hard work and dedication to the company over the years. KGI will of course retain its shareholding in KGI Thailand and will remain the major shareholder of the company. I would also like to thank my fellow board members and all of the employees of KGI Thailand for their hard work during the past year. Last but not least, I wish to thank all shareholders for continuing to invest in the company.



Mr. Chin- Lung Tseng  
Chairman

**AUDIT COMMITTEE REPORT**

To All Shareholders

The Board of Directors of KGI Securities (Thailand) Public Company Limited has appointed the Audit Committee which consists of three Independent Directors: Mr. Pisit Leeahtam (as Chairman), Mr. Don Bhasavanich, and Mr. Pradit Sawattananond, and has appointed Ms. Apaporn Vorapun as secretary of the Audit Committee.

In year 2006, the Audit Committee held five meetings to perform its duties as assigned by the Company's Board of Directors and to submit relevant reports. The Audit Committee, together with the Company's management, the auditor, and the Internal Audit Department, had set up various meetings to discuss and exchange ideas about methods of auditing, internal control systems, yearly audit plan, and the evaluation of auditing results. Furthermore, they have continued to follow up major audit concerns, review financial statements and financial reports, and reviewed the Company's business practice as related to relevant regulations and laws. This was done in order to provide a correct and transparent view of the Company for shareholders and all related parties. The Audit Committee had suggested guidelines and advised the Company's Internal Audit and Compliance Department in order to ensure that the Company had good auditing and internal control systems by setting up operating procedures in accordance with the Securities Exchange Commission's and the Stock Exchange of Thailand's rules and regulations and accepted standards

The Audit Committee had reviewed the Company's quarterly, half year, and yearly financial statements for the year 2006 and commented that the Company's financial statements were accurate and that the disclosure in the financial statements was adequate and complete according to general accounting standards. The Audit Committee also considered, selected, and recommended appointment of the Company's auditor and auditing fee Accordingly, the Audit Committee had proposed that the Company appointed Mr. Ruth Chaowanagawi, Certified Public Accountant No. 3247 and/or Mr. Narong Puntawong, Certified Public Accountant No. 3315 and/or Ms. Ratana Jala, a Certified Public Accountant No. 3734 of Ernst and Young Limited as auditors of the Company for the accounting period 2006. The Board of Directors' meeting No. 1/2006 held on 24 February 2006 and the Annual General Meeting of Shareholders No. 1/2006 held on Thursday 20 April 2006 had approved the aforesaid appointment.

Respectfully,



Mr. Pisit Leeahtam

Chairman of Audit Committee

**KGI Securities (Thailand) Public Company Limited****1. General Information**

Company name	KGI Securities (Thailand) Public Company Limited
Type of business	Securities business
Head office address	323 United Center Building, Floors 9 <sup>th</sup> , 23 <sup>rd</sup> –25 <sup>th</sup> and 45 <sup>th</sup> Silom Road, Silom Sub-district, Bangrak District, Bangkok 10500 Telephone: 66 (0) 2231 1111 or 66 (0) 2631 0222 Fax: 66 (0) 2267 8233 website <a href="http://www.kgieworld.co.th">www.kgieworld.co.th</a>
Company 's PCL registration number	No. 0107536000293
Paid up capital	Baht 1,991,763,130 <sup>/1</sup>
No. of paid-up shares	1,991,763,130 shares
Par Value	Bt 1.00 <sup>/1</sup>

Note : <sup>/1</sup> In 2006, the Company reduced its registered and paid-up capital from Baht 3,983,526,260 to Baht 1,991,763,130 by way of a reduction in its par value from Baht 2 to Baht 1 per share. On 17 July 2006, the capital reduction was approved by the Office of the Securities and Exchange Commission and there was no objection from the company's creditors. The Company therefore registered the reduction in its capital with the Ministry of Commerce on 7 August 2006 and transferred share premiums to offset the remaining share discount.

## 2. Financial Highlights

(in Baht millions except per share data and ratio)  
For year 2004-2006, as of or for year ended December 31

	2006	2005	2004
<b>Operating Results</b>			
Total income	1,097	1,179	1,377
Total expenses	887	991	1,027
Earning before income tax	209	188	349
Net profit	182	159	318
<b>Balance Sheet Results</b>			
Total assets	6,343	6,438	6,357
Total liabilities	1,994	2,208	2,096
Paid-up capital	1,992	3,984	14,938
Shareholders' equity	4,349	4,231	4,261
<b>Per Share Information</b>			
Per value per share ( Baht )	1.00	2.00	7.50
Book value per share ( Baht )	2.18	2.12	2.17
Basic Earning per share ( Baht )	0.09	0.08	0.16
Dividend per share ( Baht )	0.07	0.00	0.10
<b>Profitability Ratios</b>			
Gross profit margin (%)	90.44%	92.16%	93.92%
Net profit margin (%)	16.59%	13.45%	23.13%
Return on equity (%)	4.25%	3.74%	7.77%
Return on investment (%)	3.50%	7.11%	-0.45%
<b>Efficiency Ratios</b>			
Return on assets (%)	2.85%	2.48%	4.60%
Assets turnover (times)	0.17	0.18	0.20
<b>Financial Ratios</b>			
Liquid assets to total liabilities (times)	1.44	0.91	0.94
Earning assets to total liabilities (times)	2.79	2.64	2.46
Liquid assets to total assets (%)	45.42%	31.28%	30.99%
Earning assets to total assets (%)	87.87%	90.69%	81.11%
Debt to equity (times)	0.46	0.52	0.49
Dividend payment (%)	77.78%	0%	62.50%
<b>Other ratios</b>			
Securities investment to total assets (%)	53.55%	34.78%	34.08%
NCR to net liquid assets (%)	39.20%	265.14%	223.93%

### **3. Description of business**

#### **3.1 Executive Summary**

KGI Securities (Thailand) is rooted in business principles of integrity and honesty. They are the guiding principles of KGI Securities' professional workforce, which is committed to effectively managing the assets of all its clients. Therefore, providing the very best in financial management is KGI Securities' vocation and duty. At the same time, as a corporate citizen, the Company has made it a policy to share the fruits of its success with each and every employee, shareholder and client, while continually making substantial contributions to society in order to affirm its positive values.

KGI Securities (Thailand) is one of the leading securities firms in Thailand and provides a full range of services such as equity broking (a member of the Stock Exchange of Thailand with broker seat no. 13), investment and financial advisory, securities underwriting, securities registrar, selling of mutual funds, securities borrowing and lending, OTC derivative business, and futures business which started on 28 April 2006.

The Company is located at United Center Building, Floors 9<sup>th</sup>, 23<sup>rd</sup> – 25<sup>th</sup> and 45<sup>th</sup>, 323 Silom Road, Silom Sub-district, Bangrak District, Bangkok 10500. In 2006 the Company ranked no. 7 in terms of brokerage market share with an overall share of 3.94%. The company also ranked no.1 in 2006 in terms of market share in the Thailand Futures Exchange (TFEX) market with a market share of 16.53%.

As of 15 March 2007, the Company employed around 600 professionals in its 18 business locations throughout the country; 6 branches are located in the Bangkok Metropolitan area and 12 branches are located in provincial areas.

In 2006, the Company's net profit, total assets, total liabilities, and the shareholders' equity were Baht 182 million, Baht 6,343 million, Baht 1,994 million, and Baht 4,349 million respectively. As of 31 December 2006, the Company's net capital adequacy ratio (NCR) was at 39.20%, which is in full compliance with the requirement stipulated by the Securities and Exchange Commission (SEC) of not less than 7%.

The Company continues to strive to improve the efficiency of various business units especially its new business. We are confident that we will continue to be one of Thailand's leading securities companies.

#### **3.2 Business Lines**

##### **(A) Securities Broker**

KGI Securities (Thailand) Public Company Limited, a member of the Stock Exchange of Thailand (SET Broker seat No. 13), has developed an efficient computer system to serve its clients. The Company also provides research for its clients in order to support them in making accurate and effective investment and trading decisions.

In 2006, the Company ranked No. 7 with a 3.94% equities brokerage market share. To trade securities, clients can open a cash account and/or a credit balance account. Clients also have the option of trading via the internet. The commission for cash accounts and credit balance accounts is 0.25% and the commission for internet trading is only 0.15%.

The following table shows breakdown by type of clients and type of accounts for the past 3 years.

Trading Volume	2006 (Baht Million)	%	2005 (Baht Million)	%	2004 (Baht Million)	%
SET *	16,393.67		16,600.71		20,647.39	
The Company *	1,293.00		1,236.51		1,868.32	
The Company's market share (%)	3.94%		3.72%		4.52%	
Breakdown by types of clients						
- The Company's portfolio	197.46	15.28	122.11	9.88	106.74	5.71
- Fund	63.40	4.90	66.27	5.36	79.82	4.27
- Retail client	936.80	72.45	915.20	74.01	1,383.04	74.03
- Foreign client	95.34	7.37	132.93	10.75	298.72	15.99
<b>Total</b>	<b>1,293.00</b>	<b>100.00</b>	<b>1,236.51</b>	<b>100.00</b>	<b>1,868.32</b>	<b>100.00</b>
Breakdown by types of account						
- Cash account	1,190.72	92.09	1,136.94	91.95	1,750.19	93.67
- Credit balance account	102.28	7.91	99.57	8.05	118.13	6.33
<b>Total</b>	<b>1,293.00</b>	<b>100.00</b>	<b>1,236.51</b>	<b>100.00</b>	<b>1,868.32</b>	<b>100.00</b>

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

As of 15 March 2007, the Company had 18 branches locations throughout the country; 6 branches are located in the Bangkok area and 12 branches are located in provincial areas.

Bangkok area	Provincial areas	
1. Pin Klao	<b>North</b>	<b>Central</b>
2. Surawongse	1. Chiang Mai	7. Samut Sakhon
3. Yaowaraj	2. Chiang Rai	8. Suphan Buri
4. Silom	3. Nakhon Sawan	9. Nakhon Pathom
5. Changwattana		10. Phetchaburi
6. Rama II	<b>North East</b>	11. Ayutthaya
	4. Nakhon Ratchasima	
	5. Pakchong	<b>South</b>
	6. Udon Thani	12. Hat Yai

### Internet Trading (E-Business)

KGI Securities (Thailand) Public Company Limited, one of Thailand's leading securities firms, offers internet trading services to its clients. Clients can look at real time information in order to follow price movements and can access other information 24 hours a day, 7 days a week, wherever they are. Our Company also provides in-depth fundamental and technical research reports issued by KGI's research department as decision making tools for clients.

The Company strives to maintain a high quality of service for clients. This includes fast, consistent and accurate information combined with a low level of commission of only 0.15% for Internet trades. In addition, information on our website is provided in 3 different languages: Thai, English and Chinese to serve both local and foreign clients.

As our Company aims to provide a high level of customer satisfaction, we are continuing to develop our online trading service to make it even more convenient, efficient and secure. Our e-business

division works closely with Settrade.com to arrange quarterly internet trading seminars for our clients and for the general public. In these seminars, clients are trained on how to place an order, and how to use real time information as a decision making tool. Our objective in these seminars is to demonstrate the ease and convenience of internet trading to new clients and clients who have never traded online.

If you have any queries or need additional information or would like to open an Internet Trading account with us, please visit our website: [www.kgieworld.co.th](http://www.kgieworld.co.th).

#### **(B) Securities Dealer**

The Company's proprietary trading portfolios faced a difficult operating environment in 2006 due to poor market conditions in both the equity and the fixed income markets. The SET index was very volatile, reaching a high of 788 in May before falling to hit a low of 588 in December.

Although the Proprietary Trading Department and Fixed Income Department paid close attention to their portfolios, the Company still suffered from the volatile markets, and the Company suffered a loss from trading of securities of Baht 78 million.

#### **(C) Investment Advisory**

SEC granted an approval to the Company to operate investment advisory business on 6 January 2004, allowing the Company to provide a full range of services.

#### **(D) Financial advisory and securities underwriting**

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 also provides a securities underwriting service to those companies intending to issue securities including debt, equity, and equity-linked products.

In 2006, the stock market was very volatile, primarily as a result of rising of interest rates, rising oil prices, political uncertainty and FX related regulations. As a result, fewer than expected companies were listed on the stock market. Despite the difficult market environment, our Company acted as a financial advisor and a lead underwriter for 1 IPO, and acted as co-underwriter in 6 other IPOs. Besides IPO and listing services, KGI offered other services to its clients, including; private placements, loan arrangements, M&A related services, debt restructuring, underwriting services, and other advisory work.

Our ability to leverage on KGI's expertise in financial engineering to structure products that suit clients needs is a significant asset. Since we have experience with various financial instruments such as debt, equity, equity-linked securities and a regional financial network, the Company's investment banking team is well positioned to provide a full range of services to clients in both the domestic and foreign capital markets.

#### **(E) Securities Borrowing and Lending (SBL)**

The Ministry of Finance granted the Company approval to conduct securities lending and borrowing business on February 26, 1999. The Company was the first broker to act as a principal and agent assisting all types of clients who want to lend or borrow securities: 1.Institutional Lenders, 2.Institutional Borrowers, 3.Retail Lenders, and 4. Retail Borrowers. This service will help increase liquidity and price stability to the Thai market, which will benefit all parties and help to further develop the Thai equity market.

**(F) Securities Registrar**

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

**(G) Selling Agent of Unit Trust**

The Company's fixed income department has been appointed as a selling agent for asset management firms such as One Asset Management Limited, Krungthai Asset Management Public Company Limited, SCB Asset Management, ING Funds (Thailand) Co., Ltd., TMB Asset Management Co., Ltd., Aberdeen Asset Management Co., Ltd., MFC Asset Management Public Company Limited, Kasikorn Asset Management Co., Ltd., and PrimaVest Asset Management Co., Ltd. All clients are advised on the appropriate fund based on their risk tolerance and investment return requirements.

**(H) Derivatives**

The company is recognized as one of the leaders in innovation in the development of derivative products in Thailand. The Company has spent more than 10 years preparing for issuing and trading of derivatives products. The major shareholder, the KGI Group has also provided valuable assistance by transferring knowledge and technology to the Company. The KGI Group sent derivatives experts to train our staff to be ready for this new market in Thailand. At the same time, the Company sent staff to its related companies in Taiwan and Hong Kong to closely study their sophisticated derivatives markets.

The Company adopts the same program and software as those used in Taiwan and Hong Kong. The software is widely recognized in developed derivatives markets in many countries and should be effective in the Thai market as well. Such system will greatly enhance the risk management capability of the Company in hedging our derivatives positions. The Company is ready to provide services relating to derivatives products to clients. At the moment, the Company focuses mainly on institutional clients who have better understanding about the risks and rewards of such products.

**1. OTC Equity Derivatives**

OTC Equity Derivatives products are tailor-made, and designed according to client's request. The clients may choose to invest in derivatives for two purposes: a). to reduce risk; and b). to enhance return on their investment portfolio.

- a) Most of the clients who wish to reduce risk of their portfolio are long term equity investors. They'd like to protect against loss on their portfolio by, for example, buying (long) put options.

A put option grants buyer the right to sell stock at agreed price (strike price) at the specified time. Therefore, if market price of such equity is lower than the strike price, buyer has the right to sell such equity at a higher price than the market price

- b) Clients who want to enhance return on investment may buy call options which requires less investment than buying the stock directly. With this leverage, the return on investment in call options can be much higher than the return on investment in stock.

A call option gives the holder a right to buy the underlying stock at the agreed price (strike price) and time. If the stock price increases and exceeds the strike price, call option holder can buy the stock at the agreed price which is lower than the market price of the stock.

The Company would in return reduce its risk by hedging its exposure.

Apart from the basic option as mentioned earlier, the Company has been launching more complex derivatives, such as Put Spread, Asian Call Spread and Digital Call Options, and will innovate more and more to match clients' risk and return profiles in the future. The Company

will regularly organize training/seminars to ensure that our clients thoroughly understand the products before investing in equity derivatives with us and that our equity derivatives products would help reduce risk and/or enhance return of clients' portfolio.

## 2. Structured Products

In 2006, the Company focused on developing structured products which combines equity derivatives with money market instruments to serve those clients who want to invest in both equity market and money market. In this first stage, the Company offered two types of structured products exclusively to institutional clients who have good understanding and knowledge of derivatives. The two structured products are:

- 2.1 Principal Protected Note: To serve the needs of clients who require principal protection on their investment (can not tolerate loss), and also a high return from investment in equity market;
- 2.2 Equity Linked Note (ELN): To serve the needs of the clients who prefer investment in short term money market with high yield and who can invest in equity market. At present, we provide various types of ELN with maximum term of 270 days, whose return is linked to the price of a SET-listed stock or basket of stocks with good fundamental and high trading volume (Blue chip Stock), including ELN-Vanilla, ELN-Up&Out, ELN-Down&Gain, ELN-Buffer and ELN-4U.

### **(I) Futures Business**

The Company set up a new department, the Futures Department, to act as an agent for clients who wish to trade futures. The Company received a license to conduct futures business from the Securities and Exchange Commission (SEC) and also got approval to act as a futures broker from the Thailand Futures Exchange Plc. (TFEX) and the Thailand Clearing House Co., Ltd. (TCH). Futures trading started on 28 April 2006.

The Company itself also trades futures. Further, it also acted as one of the first three market makers to help increase the liquidity of the Thailand Futures Exchange (TFEX).

In 2006, the Company ranked No. 1 with 16.53% of the SET 50 Index market shares. The Company won the "Best House of the Year 2006", given to the futures brokerage firm with the outstanding performance and best service quality, and won the "Most Active House 2006", given to the futures brokerage firm with the most active futures derivatives business, at the TFEX Best Awards 2006.

### **KGI Securities (Thailand)'s shareholding in subsidiaries**

(Subsidiary companies included in consolidated financial statements)

As of 31 December 2006

<b>Company</b>	<b>Country of Incorporation</b>	<b>Business Type</b>	<b>% holding</b>
One Asset Management Limited	Thailand	Fund Management	96
KGI Securities (Thailand) International Holdings Limited	Hong Kong	Investment	100
KGI (Thailand) Holdings Limited	British Virgin Islands	Investment	100

*(See details of investments in subsidiary companies accounted for under equity method in section 9 of the notes to financial statement)*

#### **One Asset Management Limited (1AM)**

One Asset Management Limited is a fund management company incorporated in Thailand, which is 96% owned by the Company. The funds it manages include mutual funds, provident funds, and private funds.

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

Formerly known as "KGI Securities One International Holdings Limited", a wholly owned offshore subsidiary established in Hong Kong. Its name was changed to "KGI Securities (Thailand) International Holdings Limited" on December 7, 2001.

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

KGI (Thailand) Holdings Limited (KTHL), a wholly owned offshore subsidiary established in British Virgin Islands.

#### **Policy for group operations**

KGI Securities (Thailand) Plc. and its subsidiaries have hired professional managers and appointed directors to be responsible for setting policies for the Company and its subsidiaries.

## Revenue Structure

During year 2006, the majority of the operations of the Company and its subsidiary companies involved the single business segment of securities related business, including securities broker, derivatives broker, mutual fund management, securities dealer, financial advisory business, securities underwriting, securities borrowing and lending, and selling agent of unit trusts.

(See details in Section 33 "Financial Information by Segment" of Notes to Financial Statements)

As of 31 December 2006, the Company has total income of Baht 1,097 million. The income is derived mainly from Baht 666 million of brokerage fee (61%) and Baht 222 million of fees and services income (20%), the income structure for the year 2006 is as follows:

### Income Structure of the year 2006

	Operate By	% Share Holding By Company	Income of 2006 (before contra)	Contra	Total Income of 2006 (after contra)	% of total income
1. Brokerage fee from securities business	Company	-	654.90	-	654.90	59.70%
2. Brokerage fee from derivatives business	Company	-	10.95	-	10.95	1.00%
3. Fees and services income/1	Company	-	17.45	-	17.45	1.59%
Fees and services income/1	1AM/2	96%	205.38	(0.37)	205.01	18.69%
4. Gain (loss) on trading in securities	Company	-	(77.65)	-	(77.65)	(7.08%)
5. Gain (loss) on trading derivatives	Company	-	35.89	-	35.89	3.27%
6. Interest and dividends	Company	-	486.95	(355.95)	131.00	11.94%
Interest and dividends	1AM	96%	9.14	-	9.14	0.83%
Interest and dividends	HOLDCO/3	100%	0.18	-	0.18	0.02%
7. Interest on margin loans	Company	-	72.84	-	72.84	6.64%
8. Share of profit from subsidiary Companies accounted for Under equity method	Company	-	40.25	(40.25)	-	0.00%
9. Other income	Company	-	35.11	-	35.11	3.20%
Other income	1AM	96%	1.83	-	1.83	0.17%
Other income	HOLDCO	100%	0.25	-	0.25	0.02%
<b>TOTAL INCOME</b>			<b>1,493.47</b>	<b>(396.57)</b>	<b>1,096.90</b>	<b>100.00%</b>

Note /1 See note of financial statements No. 24: Fees and Services Income.

/2 1AM: One Asset Management Limited, 96% owned by the Company.

/3 HOLDCO: KGI Securities (Thailand) International Holdings Limited, 100% owned by the Company.

### 3.3 Significant Developments in 2006 - Present (up to 31 March 2007)

2006	April	<p>The Shareholders' Meeting No. 1/2006, approved the following:</p> <ol style="list-style-type: none"> <li>1) The reduction of the Company's registered and paid-up capital from Baht 3,984 million to Baht 1,992 million by way of a reduction of par value from Baht 2.00 to Baht 1.00 per share.</li> <li>2) The Company's share premium of Baht 1,992 million generated by reducing the par value from Baht 2.00 to Baht 1.00 per share, to be off-set against the share discount of Baht (1,010) million. After the capital reduction and offset, the balance sheet will have no share discount left.</li> </ol> <p>The capital reduction was approved by the Office of the Securities and Exchange Commission on 17 July 2006 and there was no objection from the company's creditors. The Company therefore registered the change in its capital with the Ministry of Commerce on 7 August 2006.</p> <p>The above transaction affects only the presentation on the Balance Sheet and does not result in any change to total shareholders' equity.</p>
	April	The Company started to provide a Futures Brokerage Service
	July	TRIS Rating Co., Ltd. announced the company rating of KGI Securities (Thailand) Public Company Limited at "BBB"
	August	The Company launched an online Internet service for futures trading
	September	The Company was one of the first three brokers to be appointed as a market maker of the Thailand Futures Exchange Public Company Limited (TFEX).
	November	The Company won the "Top Star Most Active", broker for being the most active broker in 3-month period from the Thailand Futures Exchange Public Company Limited (TFEX).
2007	February	<ul style="list-style-type: none"> <li>➤ The Company joined a group led by One Asset Management Limited which won the right to launch Thailand's first equity exchange traded fund (ETF). The winning bid was submitted by One Asset Management Limited, KGI Securities (Thailand) Plc., Bualuang Securities Plc., Kim Eng Securities (Thailand) Plc., Thanachart Securities Plc., and Citicorp Securities (Thailand) Ltd.</li> <li>➤ The Company won the "Best House of the Year 2006", given to the futures brokerage firm with the outstanding performance and best service quality, and won the "Most Active House 2006", given to the futures brokerage firm with the most active futures derivatives business, at the TFEX Best Awards 2006.</li> </ul>

## Market Overview and Competition

### Market Overview in 2006

Thailand's stock market was extremely volatile in 2006. By the end of the year, the market had fallen by 4.8% following a 6.8% gain in the previous year. The key reason for the market volatility and relatively poor performance was the deteriorating political situation. Starting with the dissolution of parliament in February 2006 and the snap election in April 2006, the situation became more uncertain as the Thai courts nullified that election, leading to a political vacuum. On Sep 19, the military staged a peaceful coup d'etat and set up a new interim government.

After that, Thai market conditions improved significantly, and the SET Index posted sharp gains from October to November. However, in December, in order to try and curb the strengthening of the Thai baht, the Bank of Thailand imposed controls on short-term capital flows. The impact on the stock market was devastating, and despite the measures being partially withdrawn the following day, the new FX regulations resulted in a decline in the SET for the full year.

On the economic side, Thai GDP grew strongly, increasing by 6.1% in 1Q06. However, the main reason was the low base effect from 1Q05. During 2Q06 and 3Q06, Thai economic growth remained solid at 4.9% and 4.7%. However, the relatively good economic performance was overshadowed by the political issues described above.

In 2006, daily average turnover was Bt16.4bn, slightly lower than Bt16.5bn in 2005. Meanwhile, foreign investors were net buyers of Bt85bn for the year as a whole. Market capitalization of SET stood at Bt5.08trn at the year end, a decline of just 0.69% compared with Bt5.11trn in 2005.

	2002	2003	2004	2005	2006
Total trading value* (Baht million)	2,047,442	4,670,281	5,035,816	4,031,240	3,974,561
Avg. daily trading value* (Baht million)	8,357	18,908	20,388	16,454	16,394
Total market capitalization (Baht million)	1,986,236	4,789,857	4,521,894	5,105,113	5,078,705
SET Index (year-end)	356.5	772.2	668.1	713.7	679.8
Dividend yield (%)	2.72	1.81	2.75	3.37	4.23
P/E ratio (times)	7.0	13.7	9.4	9.4	8.1
P/BV ratio (times)	1.36	2.71	2.0	1.91	1.65
No. of listed companies	389	407	439	468	486

Note : \* Year 2002-2005: Not including MAI, Year 2006 : Include both SET and MAI

During 2006, there were not many new listings due to the uncertainties surrounding Thai politics. Including the Market for Alternative Investment (MAI), 18 companies were listed on the Thai equity markets in 2006.

**IPO stocks in 2006**

<b>Stock</b>	<b>First trading date</b>	<b>IPO size (Baht million)</b>
GSTEEL	25 Jan 06	2,400
CITY	23 Feb 06	265
TRT	10 May 06	173
TOG	16 May 06	190
SECC	18 May 06	300
RRC	5 Jun 06	25,155
AKR	7 Aug 06	491
DSGT	10 Aug 06	241
RICH	31 Aug 06	225
FORTH	8 Sep 06	470
JTS	18 Sep 06	560
BMCL	21 Sep 06	3,610.94
TIES	28 Sep 06	98
BSEC	22 Nov 06	840
UKEM	27 Nov 06	86
BROCK	28 Nov 06	240
ETG	29 Nov 06	85
DEMCO	14 Dec 06	153

Overall equity trading in 2006 faced high volatility whilst turnover was flat compared to the previous year and foreign investors increased their share of market turnover. As a result, competition between securities firms, especially local firms, remained fierce. The increased foreign participation resulted in a slightly higher market share for the top 10 securities firms, and most of which concentrated on foreign clients. The market share of the top 10 brokers edged up from 50.1% in 2005 to 51.6% in 2006.

**Top 10 securities brokers (2006)**

<b>Rank</b>	<b>Company Name</b>	<b>Name</b>	<b>Market Shares (%)</b>
1	Kim Eng Securities (Thailand) Plc.	KIMENG	8.55
2	SCB Securities Plc	SCBS	6.40
3	Asia Plus Securities Plc	ASP	6.19
4	Phatra Securities Plc.	PHATRA	5.83
5	CSFB Securities (Thailand) Ltd.	CSFB	5.16
6	UBS Securities (Thailand) Ltd.	UBS	4.66
7	KGI Securities (Thailand) Plc	KGI	3.94
8	Seamico Securities Plc	ZMICO	3.76
9	BFIT Securities Co.,Ltd	BFIT	3.61
10	Bualuang Securities Plc.	BLS	3.54
	Others		48.36
	<b>Total</b>		<b>100.00</b>

Source: The Stock Exchange of Thailand

**Industry trend in 2007**

It's likely that the Thai stock market in 2007 will face continued high volatility as it did during the end of 2006. Foreign investor sentiment towards the Thai market has deteriorated as a result of regulatory issues, particularly the partial capital control and the amendment of the Foreign Business Act. Investors are also concerned about security in the Thailand capital following a series of year-end bomb explosions.

However, there is a good chance that stock market conditions will improve in 2Q07, as the Thai economy is expected to improve in the second half of this year. A key fundamental for the economy, the oil price, has been trending downtrend. This should ease inflation pressure and act as downside cushion for Thai consumption. Coupled with expected increased public expenditure, Thai GDP growth for 2007 should be in the 4.5-5% range. Lastly, daily average turnover in 2007 should be very close to that in 2006, around Bt16bn.

**Funding for Products and Services****(A) Source of funds**

If the Company requires new funds, the Company's policy is to try to procure the cheapest source of funds available, and to match the duration of any loan to its needs. As far as possible, the Company will not depend upon one source of funds.

**(B) Subordinated Loans from Subsidiary**

The Company has subordinated loans from an overseas subsidiary company. These loans are unsecured, interest free Baht loans maturing in September 2008. During the year of 2006, the Company received dividends from this overseas subsidiary company with total amounting to Baht 325 million, and used this to offset against loans borrowed from the subsidiary. As of 31 December 2006, the outstanding balance of the subordinated loan is approximately Baht 1,720 million.

**(C) Net capital adequacy ratio**

The Office of Securities and Exchange Commission requires that all securities companies should maintain a Net Liquid Capital Rule (NCR) ratio of at least 7% of total liabilities. Currently, the Company's NCR ratio exceeds the SEC's requirement. As of 31 December 2006, the Company's NCR was 39.20%.

**(D) Liquidity management policy**

The Company analyses its cash flow needs on a daily basis and tries to match its funding and investment in money market instruments to its needs as forecasted.

**Future plans**

In Year 2007, for the brokerage business, the Company planned to further increase the number of marketing staff for equity brokerage in order to expand client base in both the Stock Exchange of Thailand and Thailand Futures Exchanges.

The Company will expand other new businesses, as follows:

Futures

The Company plans to expand investor base in TFEX, the Company was one of the supporters of the TFEX Futures Camp: Challenge 2007 Project. The project aims to make it easy for investors to learn about the TFEX (Thailand Futures Exchange) market.

Index Option

Thailand Futures Exchange (TFEX) will launch another new product in 3Q07, SET50 Index Options. The new product will rapidly increase trading volume in Futures Exchange. KGI is already working to modify the trading system to cater for this new product and also to educate clients. We will organize seminars for investors and our staff and make every effort to maintain our position as broker with the top market share in Thailand Futures Exchange.

Derivative warrants

The company has been preparing the necessary IT and workforce infrastructure for more than 5 years and expects to launch Derivative Warrants (DW) in 3Q07. The Company expects to launch 2 series of DW worth 400-500 million baht each. DWs, serving as alternative investment vehicle, will help enhance trading liquidity of Thai capital market.

Equity Exchange Traded Fund

The Company joined a group led by One Asset Management Limited which won the right to launch Thailand's first equity exchange traded fund (ETF). The consortium is planning to launch the fund in 2Q07. The company will act as a Participating Dealer (PD), facilitating the creation and redemption of ETF units in the primary market, and as the Market Maker (MM), providing liquidity in the secondary market. The Company is targeting Asset Under Management (AUM) of around 2 billion baht in the first year and also forecasts 30-50% annual growth of AUM in the 2nd and 3rd years. We believe the targets, although ambitious, are achievable considering the capabilities of consortium, whose members have a combined 20% market share in the SET and 36% market share in TFEX.

The risk management department will strengthen its systems to better protect the Company and to support the new businesses.

## **4. Risks**

### **4.1 Market Risk and Competition risk of the Stock Exchange**

The trading volume of the market and the Company's market share have a direct impact on KGI's revenue. Factors that cause market price and volume volatility include political situation, economic outlook, and investors' sentiment (both domestic and international). In addition, the securities business is highly competitive. If the Company is not able to maintain a high quality of service compared with other brokers, it may lose market share. In this regard, the Company has implemented a policy of increasing marketing officers' ability to provide good recommendations and increase value-added services to clients. In addition, the Company has carried out a policy of diversifying its business by developing new products such as stock borrowing and lending, OTC derivative, structured products and futures business.

### **4.2 Market Risk and Competition risk of Futures Business**

The Thailand Futures Exchange (TFEX) was launched on 28 April 2006 with the SET50 Index Futures as the first product. In order to develop futures business, the Company increased its competitive strength by using the experience and advice of KGI Futures Co., Ltd, a leading player in Taiwan market, and was able to offer high quality service to its clients as soon as the TFEX market opened. Since trading derivatives involves significant risks, the Company has established strict procedures for controlling the risks in futures trading. These include requiring the individual clients to place sufficient collateral before any futures trading.

### **4.3 Credit Balance, Futures and Settlement Risk**

The Company has assigned its Risk Management Committee to review and approve the Company's policy on risk management in credit balance accounts, credit line approval guideline, collateral management and valuation guidelines, IT systems, and the overall policy and strategy in managing the company's risk. Therefore, the Company believes that it can minimize its risk from credit balance, and futures accounts and from settlement risk.

As of 31 December 2006, the Company has receivables due from brokerage services to clients totaling Baht 381million and credit balance loans totaling Baht 917million.

### **4.4 Interest rate risk**

As of 31 December 2006, the Company had no loans from financial institutions. However, the Company has invested in fixed income instruments and the values of those are sensitive to interest rate movements.

### **4.5 Exchange Rate risk**

As of 31 December 2006, the Company has investments in subsidiary companies in foreign currency under equity method of USD 60 million (equivalent to Baht 2,508 million). However, the Company has obtained Thai Baht loans from one of those subsidiaries totaling approximately Baht 1,720 million. As at 31 December 2006, the Company has not entered into any forward exchange contracts to manage its foreign exchange risk.

### **4.6 Liquidity risk**

The Company has adequate liquidity. As of 31 December 2006 the company had cash and cash equivalents totaling Baht427million, and it had Baht 118million long term deposits at financial institutions. The Company's net capital ratio (NCR) was 39.20%.

### **4.7 Securities investment risk and return risk**

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. On 31 December 2006 the Company's net investment in debt and equity securities was Baht 3,397million (76% in net short term investments, 24% in net long term investments).

#### **4.8 Risk from investment in subsidiaries and associated companies**

This type of risk may arise if the subsidiaries and associated companies incur losses. The company's investments in subsidiaries and associated companies are accounted for under the equity method.

#### **4.9 Risk from expanding branch network**

The opening of new branch involves risks, primarily by increasing the company's fixed and variable costs. However, the Company had a thorough review process before establishing new branches. A feasibility analysis was first conducted, in which the population, economic position and prospects, and the number of competitors operating in such areas were considered. A profit-loss projection was made together with a study on the impact of the establishment of the new branch on the maintenance of the net capital adequacy of the Company. The Company did not open any new branch in 2006.

#### **4.10 Risk from operating underwriting and financial advisory businesses**

In operating an investment banking business, including an underwriting business, there is a risk of losses from unsubscribed securities that must be transferred to the Company's portfolio. Inappropriate size or pricing of issues, unexpected fluctuations of the stock market, interest rates or foreign exchange rates can cause the investors not to subscribe for 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 study clients carefully and conduct due diligence before entering deals.

#### **4.11 Risk from having a major shareholder**

As of 30 March 2006 (the last registration close book date), the KGI Group owned approximately 34.98% of the Company's total shares. KGI Group as a major shareholder may exercise greater influence over the Company's management and business policies. However, if the KGI Group wishes to hold more than 50% of the Company, it still needs to seek approval from relevant government agencies.

#### **4.12 Risk from establishing a Thai Trust Fund and having a Non-Voting Depository Receipts (NVDRs)**

Since the investors in the Thai Trust Fund and 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. However, as of 31 December 2006, there were no shares held by the Thai Trust Fund and investors had bought only 107,154,968 NVDRs shares (equivalent to 5.38% of paid-up capital). (See details of Thai Trust Fund and NVDRs in no. 8 Capital structure)

#### **4.13 Risk related to Derivatives products**

Having taken into consideration various risks involved in derivatives, the Company has approved the Equity Derivatives Department and Fixed Income Department to sell derivative products to clients. However, the Risk Management Committee has to first approve the document called "Product Program" before the Equity Derivatives Department and Fixed Income Department can issue derivatives to clients. The Product Program mainly focuses on (1) characteristics of securities, services, and target clients; (2) risk policies such as acceptable level of loss and other risk policies depending on attributes of securities and services offered to clients; and (3) internal operational procedures including internal control.

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.

## 5. Company's Shareholders and Management

### 5.1 Company's Shareholders

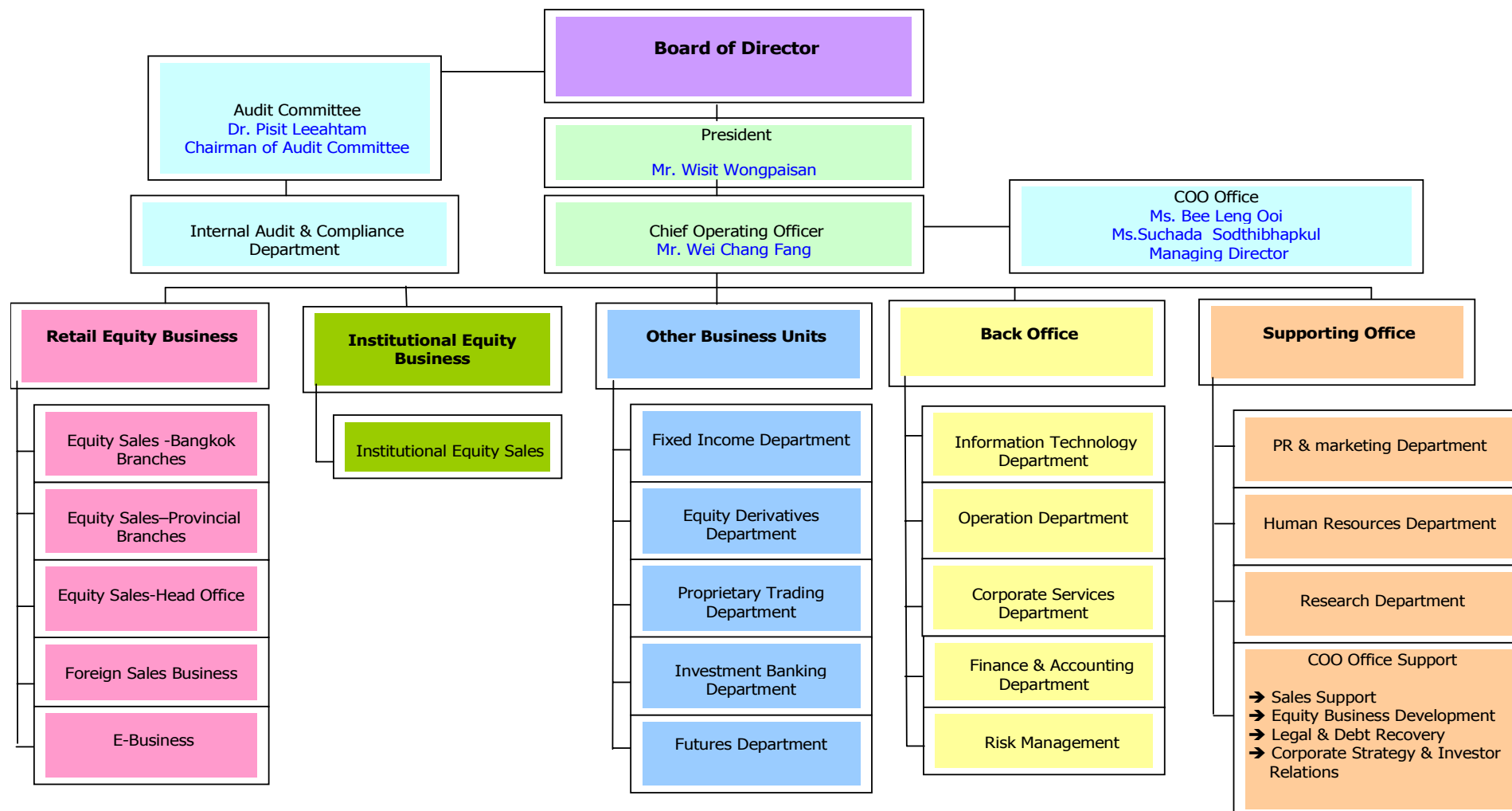
KGI Group is the Company's major shareholder, owning approximately 34.98% of the Company's shares as of 30 March 2006 (the last registration close book date). The top ten shareholders in the share register book are as follows:

Shareholder	Number of shares	%
1. RICHPOINT COMPANY LIMITED *	545,864,400	27.41
2. BANGKOK TIGER CO.,LTD *	121,650,000	6.11
3. Thai NVDR	117,203,036	5.88
4. N.C.B. Trust Limited -UBS AG LONDON BR-IPB Client AC	48,000,000	2.41
5. PACIFIC LINE CO.,LTD *	29,100,000	1.46
6. HSBC (SINGAPORE) NOMINEES PTE LTD	20,215,024	1.01
7. MR.SIRISAK SONSOPON	11,116,800	0.56
8. MR.CHATCHAWAL PIYAPRAPANPONG	10,389,500	0.52
9. BFIT SECURITIES CO.,LTD.	9,460,000	0.47
10. GERLACH&CO.-THIRD AVENUE INTERNATIONAL VALUE FUND	8,900,000	0.45
Total	921,898,760	46.29

Note: \* companies which held shares belonging to KGI Group

## 5.2 Management (15 March 2007)

### 5.2.1 Management Structure



In addition to the above management structure, the Company has 11 committees as follows:

1. Board of Directors
2. Audit Committee
3. Compensation Committee
4. Risk Management Committee and its 5 sub-committees
5. Debt Recovery Committee
6. Purchasing Committee
7. Human Resource Committee
8. Disciplinary Committee
9. Welfare Committee
10. Health and Environment Committee
11. ESOP Committee

### Board of Directors

As of 15 March 2007, the Company's Board of Directors consisted of the following 12 members. In 2006 the Company had 5 Board of Directors' meetings, details of attendance of each director are as follows:

	<b>Name</b>	<b>Title</b>	<b>Attendance Record/ Total Board Meetings</b>
1.	Mr. Chin-Lung Tseng*	Chairman	1 / 5
2.	Dr. Pisit Leeahtam	Vice Chairman (Independent Director)	5 / 5
3.	Mr. Wisit Wongpaisan	Director	5 / 5
4.	Mr. Wei Chang Fang	Director	5 / 5
5.	Dr. Don Bhasavanich	Director (Independent Director)	5 / 5
6.	Mr. Pradit Sawattananond	Director (Independent Director)	5 / 5
7.	Ms. Bee Leng Ooi	Director	5 / 5
8.	Ms. Suchada Sodthibhapkul	Director	5 / 5
9.	Ms. Shen Chu Wang *	Director	1 / 5
10.	Mr. Tuan Wen Wu	Director	5 / 5
11.	Ms. Pi - Lin Huang**	Director	1 / 5
12.	Mr. Yen Chih - Chien	Director	4 / 5

Note : \* Mr. Chin-Lung Tseng and Ms. Shen Chu Wang received approval from the SEC to be the Company's director on 7 July 2006 (There were 2 Board of Directors' Meetings in the period of 7 July – 31 December 2006). Mr. Chin-Lung Tseng was also appointed to be Chairman of the Board of Director on 27 February 2007.

\*\* Ms. Pi - Lin Huang was pregnant last year, thus she could not travel to attend the meetings.

In 2006, Authorized Directors were 1) Mr. Wei Chang Fang 2) Ms. Bee Leng Ooi 3) Ms. Suchada Sodthibhapakul 4) Mr. Tuan Wen Wu 5) Mr. Yen Chih - Chien and the signature of any two Authorized Directors shall be required to bind the Company.

Ms. Nongluk Ningsanond, who has graduated from the Company Secretary Program class 5/2004 conducted by Thai Institute of Directors (IOD), acted as the Company Secretary.

#### **Criteria for selecting independent director**

The Company has the following criteria for selecting independent directors:

1. The Company will select an independent director who has all qualifications and no prohibited characteristics as determined by the SET and the SEC. The Board will approve the appointment of such person or propose to the shareholder meeting.
2. As far as possible, the Company will try to select an independent director who has relevant knowledge and working experience so that he may provide best advice to the Board.

#### **Characteristics of Independent directors. Independent directors are defined as follows:**

- (1) They hold shares equivalent to not more than 5 percent of the paid-up capital of the Company, the parent company, any subsidiary company, associated company or any juristic person which results in a conflict of interest.
- (2) A director who is not an employee, staff member, or advisor who receives a regular salary, or a controlling person of the Company, the parent company, any subsidiary company or associated company or of any juristic person resulting in a conflict of interest.
- (3) A director who has no biological or legal relationship in terms of parent, spouse, sibling, child or spouse of the child with any of the executives, major shareholder, controlling person, or any person already proposed to be appointed as an executive or controlling person of the Company or its subsidiary.
- (4) A director who has no business relationship with the Company, the parent company, subsidiary companies, associated companies or any conflict of interest with the company which would affect the ability of the director to provide independent opinions relating to the operations of the Company.

#### **Responsibility of the Board of Directors**

The Board of Directors has responsibilities as follows:

##### **The Board of Directors' duties**

The Board of Directors must carefully carry out their duties with competence, using their knowledge and experience to run the business for the benefit of shareholders and the Company itself. They must perform their duties in line with the Company's objectives, its Articles of Association, relevant Thai laws and the resolutions of shareholders.

##### **To review and approve appropriate policies**

The Board of Directors must review and approve the appropriate policies and directions of the Company's business as proposed by the Management.

##### **To monitor and supervise the management**

The Board of Directors must monitor and supervise the management and their implementation of the Company's policies effectively. The Board of Directors should advise the management of any significant matters regarding the Company's business, connected party transactions, or other issues, according to its by-laws, and the rules and regulations of the SEC and the SET. The Directors can seek independent professional advice concerning the Company's business, when considered necessary.



**Scope of duties and responsibilities of the Audit Committee**

The Audit Committee has the following scope of duties and responsibilities, and reports to the Board of Directors.

1. Review and ensure accuracy and adequacy of disclosure of the Company's financial statements by cooperating with outside auditors and management.
2. Review and ensure appropriateness and effectiveness of Company's internal control and audit system. The review must be conducted together with outside auditors and internal audit officers.
3. Ensure the Company's compliance with laws governing securities and securities exchange, SET regulations, and relevant laws.
4. Consider, select, and recommend appointment of the Company's auditor and auditing fee. Consideration of auditors includes analysis of reliability, resource sufficiency, and experience of auditors.
5. Consider and ensure accuracy and completeness of disclosure of the Company's information in the event of connected party transactions or transactions that could lead to conflict of interest.
6. Perform duties assigned by Board of Directors and accepted by the Audit Committee such as the review of financial and risk management policies and review of significant transactions that must be disclosed to the public in accordance with relevant laws.
7. Prepare Audit Committee report, which is to be published as part of the Company's annual report.
8. The Audit Committee may seek independent professional advice when necessary, at the Company's expenses.

**Compensation Committee**

The Company's Compensation Committee consists of the following 3 members;

1. Mr. Chin-Lung Tseng                      Chairman
2. Ms. Chew-Lan Yap                        Member
3. Mr. Pradit Sawattananond              Independent Director

**Scope of duties and responsibilities of the Compensation Committee**

Compensation Committee is responsible for considering and approving the compensation of the Company's management.

**Risk Management Committee**

The Risk Management Committee consists of the following 17 members:

1. Mr. Wei Chang Fang                      Chief Operating Officer
2. Ms. Bee Leng Ooi                         Managing Director
3. Ms. Suchada Sodthibhaphkul            Managing Director
4. Ms. Saranya Larksukthom                Executive Vice President, Operation Department
5. Mr. Tanavatt Bhanijkasem                Executive Vice President, Futures Department
6. Mr. Ratchakritpong Ekrangsun         Executive Vice President, Fixed Income Department
7. Ms. Pakavalee Jearsawatvattana        Executive Vice President, Investment Banking Department
8. Ms. Naruemol Artamnuayvipas         Senior Vice President, Equity Derivatives Department

9.	Mr. Mark Antony Hodge	Senior Vice President, Corporate Strategy & Investor Relations Division
10.	Ms. Nongluk Ningsanond	Senior Vice President, PR& Marketing Department
11.	Ms. Kitiwan Thunnom	Senior Vice President, Finance & Accounting Department
12.	Mr. Chai Durongkarattanakul	Senior Vice President, Information Technology Department
13.	Ms. Acharee Turongsomboon	Senior Vice President, Treasury Division
14.	Ms. Jariya Posayajinda	Vice President, Equity Proprietary Trading Department
15.	Ms. Ujjima Kitpoka	Vice President, Institutional Equity Sales Department
16.	Mr. Surachet Amnuaywitayagul	Assistant Vice President, Legal & Debt Recovery Division
17.	Mr. Natachai Boonyaprapatsara	Assistant Vice President, Risk Management Department

### **Scope of duties and responsibilities of the Risk Management Committee**

- 1) Implement risk policies and risk architecture.
- 2) Approve risk budgeting and risk limits to all Business Units.
- 3) Approve new product programs, which specify the product characteristic, the risk control, and the work flow.
- 4) Monitor all risks and exposures within risk framework.
- 5) Monitor credit profiles, credit quality, collateral, and counterparty risk for operation.
- 6) Origination Pricing – assign to Investment Banking sub-committee.
- 7) Grant credit limits to Business Units.
- 8) Establish and maintain internal control discipline.
- 9) Monitor local market risk, liquidity risk and funding.
- 10) Monitor IT security and operations.
- 11) Other matters as deemed necessary by the committee.

However, to avoid violation of Chinese wall or for greater efficiency, the company also established 5 sub-committees under the Risk Management Committee as follows:-

**a) Credit Risk Sub-committee for Brokerage Business:** consisted of the following 5 members:

1.	Mr. Wei Chang Fang	Chief Operating Officer
2.	Ms. Suchada Sodthibhapkul	Managing Director
3.	Ms. Saranya Larksukthom	Executive Vice President, Operation Department
4.	Ms. Kitiwan Thunnom	Senior Vice President, Finance & Accounting Department
5.	Mr. Natachai Boonyaprapatsara	Assistant Vice President, Risk Management Department

### **Scope of duties and responsibilities of Credit Risk Sub-committee for Brokerage Business**

1. To approve credit policy; collateral evaluation and management guidelines and others.
2. To approve account opening policy.
3. To list the qualified securities for credit balance and Stock Borrowing and Lending
4. To deliberate on contents of any agreement made with clients or counterparties.

**b.) Credit Risk Sub-Committee for Fixed Income:** consisted of the following 4 members:

1. Mr. Wei Chang Fang Chief Operating Officer
2. Ms. Bee Leng Ooi Managing Director
3. Ms. Kitiwan Thunnom Senior Vice President, Finance & Accounting Department
4. Mr. Natachai Boonyaprapatsara Assistant Vice President, Risk Management Department

**Scope of duties and responsibilities of Credit Risk Sub Committee for Fixed Income**

Credit Risk Sub Committee for Fixed Income is responsible for approving trading units' credit limits for investments or holding of financial securities with inherent credit risk, and for approving credit limits for counterparties – both in brokerage and Re-Purchase Agreement transactions.

**c.) Credit Risk Sub-Committee for Equity Derivatives:** consisted of the following 4 members:

1. Mr. Wei Chang Fang Chief Operating Officer
2. Ms. Bee Leng Ooi Managing Director
3. Ms. Kitiwan Thunnom Senior Vice President, Finance & Accounting Department
4. Mr. Natachai Boonyaprapatsara Assistant Vice President, Risk Management Department

**Scope of duties and responsibilities of Credit Risk Sub Committee for Equity Derivatives**

Credit Risk Sub Committee for Equity Derivatives is responsible for approving trading units' credit limits on investments or holding of financial securities with inherent credit risk and for approving exceptional credit limits for counterparties and also approve the policy as well as procedure for securities borrowing and lending transactions.

**d.) Investment Banking Sub-committee:** consisted of the following 4 members:

1. Mr. Wei Chang Fang Chief Operating Officer
2. Ms. Bee Leng Ooi Managing Director
3. Ms. Kitiwan Thunnom Senior Vice President, Finance & Accounting Department
4. Mr. Natachai Boonyaprapatsara Assistant Vice President, Risk Management Department

**Scope of duties and responsibilities of Investment Banking Sub-committee**

Investment Banking Sub-committee is responsible for approving underwriting deals and other investment banking businesses.

**e.) IT Security Sub-Committee consisted of the following 6 members:**

1. Mr. Wei Chang Fang Chief Operating Officer
2. Ms. Bee Leng Ooi Managing Director
3. Mr. Chai Durongkarattanakul Senior Vice President, Information Technology Department
4. Ms. Kitiwan Thunnom Senior Vice President, Finance and Accounting Department
5. Ms. Apaporn Vorapun Vice President, Internal Audit & Compliance Department
6. Mr. Natachai Boonyaprapatsara Assistant Vice President, Risk Management Department

**Scope of duties and responsibilities of IT Security Sub-Committee**

IT Security Sub-Committee is responsible for reviewing and approving policies relating to IT security.

**Debt Recovery Committee**

Debt Recovery Committee consisted of the following 4 members:

1. Mr. Wei Chang Fang Chief Operating Officer
2. Ms. Suchada Sodthibhapkul Managing Director
3. Ms. Saranya Larksukthom Executive Vice President, Operation Department
4. Mr. Surachet Amnuaywitayagul Assistant Vice President, Legal & Debt Recovery Division

**Scope of duties and responsibilities of Debt Recovery Committee**

1. To review periodically the progress of debt recovery.
2. To set guidelines and criteria for restructuring of bad debts.
3. To approve settlements with debtors.
4. To monitor and approve management/sale of real estate portfolio from the debt recovery.

**Purchasing Committee**

The Purchasing Committee consisted of the following 4 members:

1. Ms. Kitiwan Thunnom Senior Vice President, Finance & Accounting Department
2. Mr. Chai Durongkarattanakul Senior Vice President, Information Technology Department
3. Ms. Apaporn Vorapun Vice President, Internal Audit & Compliance Department
4. Ms. Suchada Wongrak Vice President, Corporate Service Department

**Scope of duties and responsibilities of Purchasing Committee**

1. To approve procedure for calling of tenders or quotations.
2. To supervise negotiations with vendors.
3. To select suppliers and vendors.

**Human Resource Committee**

The Human Resource Committee consisted of the following 4 members:

1. Mr. Wei Chang Fang (with 2 votes) Chief Operating Officer
2. Ms. Bee Leng Ooi Managing Director
3. Ms. Suchada Sodthibhapkul Managing Director
4. Ms. Kobkarn Cholchanupatumpa Executive Vice President, Human Resources Department

**Scope of duties and responsibilities of the Human Resource Committee**

1. To review and approve HR related policies; and
2. To review and approve promotions.

**Disciplinary Committee**

Disciplinary Committee consisted of the following 3 members:

1. Ms. Kobkarn Cholchanupatumpa Executive Vice President, Human Resources Department
2. Ms. Apaporn Vorapun Vice President, Internal Audit & Compliance Department
3. The Department Head of the person being charged.

**Scope of duties and responsibilities of the Disciplinary Committee**

Disciplinary Committee is responsible for investigating into alleged misconduct and suggesting the penalty for any individual who violates SEC/SET regulations, and the Company's policies.

**Welfare Committee**

Welfare Committee consisted of the following 7 members:

1. Ms. Saranya Larksukthom Executive Vice President, Operation Department
2. Mr. Tanavatt Bhanijkasem Executive Vice President, Futures Department
3. Ms. Songsri Chawengsataporn Senior Vice President, Equity Sales Department– Head Office
4. Ms. Pimchai Fueng Aromya Vice President, Human Resources Department
5. Ms. Varinon Phiromrat Vice President, Internal Audit & Compliance Department
6. Mr. Bundit Worapaphapin Assistant Vice President, Equity Sales Department- Head Office
7. Ms. Sumana Siribovornkiat Assistant Vice President, Equity Business Development

**Scope of duties and responsibilities of the Welfare Committee:**

1. To join and cooperate with the employer in providing the necessary welfare for the employees.
2. To give advice and recommendations, as well as propose ideas, on ways for the employer to provide for the employees.
3. To check, control, and supervise the provision of the welfare extended to the employees by the employer.
4. To propose ideas and guidelines on providing useful welfare for the employees to the "Labor Welfare Committee."

**Health and Environment Committee**

Health and Environment Committee consisted of the following 9 members:

1. Ms. Saranya Larksukthom Executive Vice President, Operation Department
2. Ms. Suchada Wongrak Vice President, Corporate Service Department
3. Ms. Wipha Katikubanan Vice President, Finance & Accounting Department
4. Mr. Surachet Amnuaywitayagul Assistant Vice President, Legal & Debt Recovery Division
5. Ms. Onusa Maieiam Assistant Manager, COO Office Support
6. Mr. Samphan Kaewprapak Assistant Manager, Corporate Service Department
7. Ms. Sawittree Kas-O-Sod Officer, Human Resource Department
8. Mr. Sitthipong Suksamran Officer, Corporate Service Department
9. Mr. Panya Thamthong Officer, Corporate Service Department

**Scope of duties and responsibilities of Health and Environment Committee**

To prepare for the Company and its employees a safe working environment, and to prevent and reduce the occurrence of accidents and the suffering of injury due to unsafe working conditions.

**ESOP Committee**

ESOP Committee consisted of the following 5 members:

1. Mr. Wei Chang Fang Chief Operating Officer
2. Mr. Pradit Sawattananond Independent Director
3. Ms. Bee Leng Ooi Managing Director

4. Ms. Kobkarn Cholchanupatumpa Executive Vice President, Human Resources Department
5. Ms. Chew-Lan Yap Member

#### **Scope of duties and responsibilities of ESOP Committee**

1. Determine allocation rules and conditions.
2. Review and approve the list of directors and/or employees eligible to receive the warrants.
3. Review and approve the amount of warrants allocated to directors and/or employees.
4. Determine exercise price, exercise period and other related conditions and other details as deemed necessary.

#### **Management**

As of 15 March 2007, Company's management, which followed the criteria of the SEC, consisted of the following 15 members:

<b><u>Name</u></b>	<b><u>Title</u></b>
1. Mr. Wisit Wongpaisan	President
2. Mr. Wei Chang Fang	Chief Operating Officer
3. Ms. Bee Leng Ooi	Managing Director
4. Ms. Suchada Sodthibhapkul	Managing Director
5. Ms. Kobkarn Cholchanupatumpa	Executive Vice President
6. Ms. Saranya Larksukthom	Executive Vice President
7. Mr. Preecha Leelasithorn	Executive Vice President
8. Mr. Nakorn Kolsrichai	Executive Vice President
9. Mr. Somchai Siripaiboolpong	Executive Vice President
10. Mr. Tanavatt Bhanijkasem	Executive Vice President
11. Mr. Ratchakritpong Ekrangsun	Executive Vice President
12. Ms. Pakavalee Jearsawatvattana	Executive Vice President
13. Mr. Pisit Patumban	Executive Vice President
14. Mr. Thanawat Patchimkul	Executive Vice President
15. Ms. Kitiwan Thunnom	Senior Vice President, Finance & Accounting Department

#### **5.2.2 Selection of Directors & Executives**

The appointment of the Directors and Executives shall conform to the Public Company Act of 1992 and the Company's Articles of Association.

As of 15 March 2007, the Company's Directors from the KGI Group, a major shareholder, were as follows: 1) Mr. Chin-Lung Tseng 2) Ms. Shen Chu Wang 3) Mr. Tuan-Wen Wu 4) Ms. Pi-Lin Huang and 5) Mr. Yen Chih - Chien

Election of Directors shall be made by the shareholders' meeting according to the following procedure and rules;

- a) Each shareholder shall have one vote for each share;
- b) Each shareholders shall exercise all votes applicable under (a) in appointing one or more person to be a Director, provided that any of the vote shall not be divisible; and
- c) Person who has the most votes respectively shall be elected to be the Directors equivalent to the number of Directors required; in case there is a tie, the Chairman shall have a casting vote.

### 5.2.3 Remuneration of Directors

#### (a) Directors' remuneration

In 2006, the Company paid remuneration for non-executive directors and Audit Committee of Baht 4.44 million, details are as follow:

Directors' remuneration	Total Directors' remuneration For year 2006	Note
Directors' bonus	Baht 3.16 million	Paid Directors' bonus for year 2005 to 8 non-executive directors.
Audit Committee bonus	Baht 0.50 million	Paid Audit Committee Bonus for year 2005 to 3 Audit Committees.
Board Attendance allowance	Baht 0.30 million	Paid board attendance allowance to 3 independent directors, Baht 20,000 per person per meeting, there is 5 times of board meeting.
Monthly Allowance - Audit Committee Chairman	Baht 0.24 million	Paid monthly allowance to Audit Committee Chairman, Baht 20,000 per month.
- Audit Committee	Baht 0.24 million	Paid monthly allowance to 2 Audit Committees, Baht 10,000 per month.
<b>Total</b>	<b>Baht 4.44 million</b>	

#### Details of Directors' remuneration for each director are as follows:

Name	Directors' remuneration For year 2006 (baht)				
	Directors' Bonus	Audit Committee's Bonus	Board Attendance Allowance	Monthly allowance	Total Remuneration
	2005	2005	2006	2006	
1. Mr. Angelo John Ynn Koo*	610,000	-	-	-	610,000
2. Dr. Pisit Leeahtam	2,250,000	200,000	100,000	240,000	2,790,000
3. Mr. Don Bhasavanich	50,000	150,000	100,000	120,000	420,000
4. Mr. Pradit Sawattananond	50,000	150,000	100,000	120,000	420,000
5. Mr. Paul Wai Kai Wong*	50,000	-	-	-	50,000
6. Mr. Min-Fu Chuang*	50,000	-	-	-	50,000
7. Ms. Pi-Lin Huang	50,000	-	-	-	50,000
8. Mr. Yen Chih-Chien	50,000	-	-	-	50,000
<b>Total</b>	<b>3,160,000</b>	<b>500,000</b>	<b>300,000</b>	<b>480,000</b>	<b>4,440,000</b>

Note: \* Mr. Angelo John Ynn Koo, Mr. Paul Wai Kai Wong, and Mr. Min-Fu Chuang resigned from the Company's directors with effect from 31<sup>st</sup> March 2006.

(The remuneration of Executive Directors who received salaries are disclosed separately under Management's remuneration.)

**(b) Management's remuneration**

In 2006, remuneration for 19 Executives (including those who left during the year) was Baht 86,326,763. This included Baht 54,310,210 in salaries, Baht 30,070,928 in other remuneration and Baht 1,945,625 in provident funds. However, this excluded Senior Vice President of Finance and Accounting Department's compensation.

**5.2.4 Practical guidelines on good corporate governance**

The Company's Board of Directors believes that good corporate governance will benefit the Company, improving the quality of management and encouraging long term growth. A transparent operating policy will ensure fair and equal treatment for shareholders, clients, suppliers, related parties, and employees, will enhance and stabilize the Company's returns.

The Company's policy is to comply with the 15 principles of good corporate governance of the Stock Exchange of Thailand, as follows:

Principle 1: Policy on corporate governance

- The Company will ensure that all shareholders will be treated equally and will arrange the shareholders' meetings in a way that ensures all shareholders will be able to participate.
- The Company will give consideration to stakeholders of the Company including shareholders, clients, suppliers, creditors, management, employees, the state and the communities in which the company operates.
- The Company will set the roles, duties and responsibilities of the Management in a clear, accurate and appropriate way. The Board will set up sub-committees to help it study various issues in detail as necessary.
- The Company will set the schedule of Board of Directors' Meetings in advance and will provide minutes covering all important issues.
- The Company will disclose all important information accurately, transparently and at the appropriate time.
- The Company has set up an internal audit division, and a Risk Management Department to manage and control risks.
- The Company will ensure that the Board of Directors, Management, and employees understand and perform in accordance with the Company's code of conduct and good corporate governance guidelines.

Principle 2 Shareholders rights and equitable treatment

The Company recognizes the importance of shareholder's rights and their entitlement to receive equitable treatment. The Company provides opportunities for studying and understanding information about the Company. The Company will ensure that Shareholders receive all necessary information in a timely manner. The Company will allocate appropriate time and equal opportunities for all shareholders to express their opinions and raise any questions at shareholder meetings, according to the agenda and the issues presented to the meetings.

Principle 3 Various groups of stakeholders

The Company gives importance to stakeholders' rights and interests. The Stakeholders of the Company include shareholders, clients, suppliers, creditors, management, employees, state agencies and related agencies, and the society and community in which the Company operates. The Company believes that a good relationship between the Company and its stakeholders will help the Company to succeed in the long run. The Company's policies regarding treatment of various groups of stakeholders are as follows:

(1) Shareholders

The Company shall treat all shareholders equally and attempt to provide a return on investment which is sufficient and fair.

(2) Clients

The Company ensures that client information is kept confidential. The Company has arranged several seminars to educate our clients. Additionally, the Company provides channels, such as phone and e-mail to receive clients' complaints and comments. The Company will deal with complaints promptly, accurately and fairly.

(3) Employees

In the competitive environment of business, the Company values its human resources and regards them as important human capital. The Company also gives high priority to developing and strengthening the efficiency of our employees. This should improve their performance and the efficiency of the organization. The Company organizes training programs to educate our employees.

(4) Government, state agencies and related agencies

The Company shall comply with government policies, laws, related rules and regulations.

(5) Society and Community

KGI Thailand has always been aware of its responsibilities as a good corporate citizen of Thailand. The Company contributed to and supported projects in 2005-2006 as follows:

- In 2005 the company donated Baht 20 million for disaster relief after the Tsunami hit southern Thailand and the Company's Board of Directors approved the donation of Baht 1 million per year for 3 years to projects sponsored by Her Royal Highness Princess Maha Chakri Sirindhorn's foundation, which focus mainly on education. In the current year we will continue to support the second phase of this Princess's project.
- In September 2006, Company's employees joined in planting trees for the sustainable forest program in honor of the 60<sup>th</sup> anniversary of His Majesty the King's Accession to the Throne. The trees were planted on 10 rai of land in Kuiburi District, Prachuabkhirikhan Province and in October 2006 KGI together with our subsidiary 1AM, as a tribute to H.M. the King, sponsored the performance by the Thailand Philharmonic Orchestra of "The Celebration for Maharajah: The Great King of Music"

(6) Suppliers

The Company will treat all suppliers fairly and transparently. The Company has reviewed purchasing procedures and systems to ensure they are appropriate.

(7) Creditors

The Company shall comply with contract terms and conditions and treat creditors fairly.

(8) Competitors

The Company shall not take unfair advantage of its competitors, and will treat them professionally.

#### Principle 4 Shareholders meeting

In 2006, the Company held an annual general meeting of shareholders on 20<sup>th</sup> April 2006, at 2 p.m., at Montien Hotel, Surawongse Road, Bangkok. The procedures were:

- 1) The Company submitted the notice of the meeting together with supporting information regarding each agenda item to all shareholders 14 days prior to the AGM date;
- 2) The Company informed all shareholders regarding the meeting procedures;
- 3) 6 Directors and 3 Independent Directors were present at the meeting in order to answer questions from shareholders; and
- 4) The Chairman of the Meeting allowed all shareholders to ask questions and express their opinions.

#### Principle 5: Leadership and vision

The Company's Board of Directors helps to set the Company's strategies and goals. They also supervise the Company's operations to ensure that the management operates the business effectively, and according to their plans. Management presents the performance and plans of each business unit at Board Meetings.

#### Principle 6: Conflict of interest

The Company has carefully considered conflict of interest in board of directors meetings or shareholders meetings. Directors or shareholders that have any interest in any agenda of the meeting will disclose such interest and will not vote on such agenda. For transactions that might lead to a conflict of interest and for connected transactions, the Company has a policy that follows SET regulations. Details about these transactions have been disclosed in annual report as well as in Form 56-1.

#### Principle 7: Business ethics

The Company provides a code of ethics or statement of business conduct for employees to ensure that they are aware of, understand, monitor, and comply with all codes of conduct, rules, laws, and regulations of the securities business.

The Board of directors' meeting no. 2/2003 dated March 6, 2003 acknowledged the Company's policy on "Insider Information Trading", as follows:

- 1) No director or member of Management may purchase or sell KGI securities in such a way as to take advantage of other persons by using information likely to cause a material change in the price of securities which has not yet been disclosed to the public.
- 2) Director and Management may not purchase or sell KGI securities for one month prior to the dead line to submit financial statements to the SEC, and they may not purchase or sell KGI securities until 1 day after the results have been disclosed to the public.
- 3) After a director or member of Management purchases or sells KGI securities, he/she must report his/her change in securities holding according to Section 59 of the Securities and Exchange Act B.E. 2535

#### Principle 8: Balance of power for non-executive directors

As of 15 March 2007, the Board of Directors consisted of 12 people; 4 were executive directors, 5 were representatives from the major shareholder, and 3 were independent directors, accounting for 25% of the board. Four directors have attended director training programs of the Thai Institute of Directors ("IOD"), as follows:

Name (As of 31 December 2006)	Representative Directors from major shareholder	Independent Directors	Directors who attended IOD Program
1. Mr. Chin-Lung Tseng	✓	-	-
2. Dr. Pisit Leeahtam	-	✓	DCP 18/2002
3. Mr. Wisit Wongpaisan	-	-	-
4. Mr. Wei Chang Fang	-	-	-
5. Dr. Don Bhasavanich	-	✓	DCP 62/2005 ACP 7/2005 FND 8/2004
6. Mr. Pradit Sawattananond	-	✓	DCP 3/2000, ACP 3/2004, QFR 4/2549
7. Ms. Bee Leng Ooi	-	-	-
8. Ms. Suchada Sodthibhakupul	-	-	DCP38/2003
9. Ms. Shen Chu Wang	✓	-	-
10. Mr. Tuan - Wen Wu	✓	-	-
11. Ms. Pi - Lin Huang	✓	-	-
12. Mr. Yen Chih - Chien	✓	-	-

#### Principle 9: Aggregation or segregation of positions

Although the Company's Chairman is a representative of the major shareholder, the Chairman is not the same person as the President. This is to segregate the roles of setting policies and control of operational management. In addition, the Company has 3 independent directors who review the Company's operational controls.

#### Principle 10: Remuneration of directors and the management

The Company has specified directors' and management's remuneration clearly and with transparency. The remuneration of directors will be comparable with similar businesses and will be appealing enough to attract and retain quality directors. Moreover, directors' remuneration must be approved by a shareholders' meeting.

The Company has set up the Compensation Committee in order to consider the compensation of the Company's top management in an unbiased manner. The compensation of the Company's top management and Directors' remuneration are disclosed in Form 56-1.

#### Principle 11: Board of Directors' meeting

The Company's policy is to arrange a board of directors' meeting at least once every 3 months. Notice of the meeting will be sent to the Board of Directors 7 days prior to the meeting. The Company also keeps proper minutes of each meeting in writing. In 2006, 5 board of directors' meetings were held.

#### Principle 12: Committees

The Board has appointed several committees to help the board study various issues in detail. These committees are the Audit Committee, Compensation Committee, Risk Management Committee, Debt Recovery Committee, Purchasing Committee, Human Resource Committee, Disciplinary Committee, Welfare Committee, Health and Environment Committee, and ESOP Committee. Each committee has responsibilities as stated in item 9: Management.

#### Principle 13: Internal audit control system and risk management

Internal Audit and Compliance Department will review all operations of the Company and its employees to monitor compliance with rules, regulations, and standards of securities businesses. The Audit Department will report directly to the Audit Committee. Furthermore, the Company has set up a Risk Management Committee to be responsible for approval and review of risk management policy in terms of credit lines, evaluation of collateral, and others.

#### Principle 14: Directors' Reporting

The Board of Directors has to approve the financial reports, Annual Registration Statement (form 56-1) and annual reports for filing with SEC and for presenting to the Shareholders' meeting. The Board has to ensure that the financial statements shows complete and correct information regarding the financial status and cash flow of the Company and its subsidiaries.

The Board has appointed an Audit Committee, comprising Independent Directors, to ensure that the financial statements comply with the generally accepted accounting standards and disclose all necessary information in an accurate manner. The Directors have also ensured that the Company provides reports on its internal control system to the Auditor and the Audit Committee at least once a year.

#### Principle 15: Disclosure and relations with investors

The Company discloses information transparently, correctly, and completely so that investors and related parties will receive information accurately, transparently and in a timely manner. The Company has set up an Investor Relations Division to be the representative of the Company which can be contacted by institutional investors, analysts and other investors. Tel No.: 02-231-1111 ext.175 and 177.

### **5.2.5 Prevention of the misuse of insider information by Executives**

The Board of Directors has set up a policy to prevent the misuse of inside information by prohibiting directors and managers from purchasing or selling KGI shares for one month prior to the disclosure of financial statements to the public until 1 day after the disclosure. In the case where directors or managers purchase or sell KGI shares, they must report the transaction to the SEC in accordance with Section 59 of Securities and Exchange Act. The punishment for those who do not follow the rules and regulations will be considered by the Disciplinary Committee.

The Company has rules and regulations for staffs relating to securities trading including rules on prohibition of use of inside information. For example, internal audit department has designated Research List, Grey List and Restricted List for staffs in departments which deal with inside information.

### **5.2.6 Internal Control**

The Company's Audit Committee is responsible for reviewing the Company's financial statements including quarterly, semi-annual and annual financial statements. By coordinating with external auditors and the relevant managers, the Audit Committee ensures that the Company discloses information fully and accurately. The Audit Committee also considers the selection and appointment of the external auditor and the auditor's fees.

In addition, the Audit Committee evaluates internal controls and supervises the performance of internal audits to ensure that the Company has appropriate and effective internal control systems in compliance with the securities laws, Stock Exchange regulations and related laws. The Audit Committee achieves this by evaluating the Internal Audit and Compliance Department's Audit Reports, Annual Compliance Report and the Securities and Exchange Commission's Audit Report. The Audit Committee also advises the Company on how to improve its internal control system in order to prevent any possible damages to the Company and to comply with relevant laws and regulations. (See details in Attachment 3: Audit Committee Report)

For subsidiary and associated companies, the Company will dispatch representatives to act as directors in order to supervise their business operations and to maximize returns for the Company and its shareholders.

### **5.3 Dividend Policy**

The Company has a flexible dividend policy. Any dividend payment will be considered by the Board of Directors and, if approved, be proposed to the shareholders, on a case by case basis, and will take into account prevailing business conditions, outlook, investment opportunities, and other relevant factors.

For our subsidiary's dividend policy, the subsidiary's board will recommend the appropriate dividend by looking at the profit of the subsidiary company and available investment opportunities.

(see details of dividend in section 31 of the Notes to Financial Statements)

## **6. Connected Party Transactions**

During the years 2006 and 2005, the Company had significant business transactions with its subsidiaries and associated/related companies (related by way of common shareholders and/or common directors), which have been concluded on commercial terms and bases agreed upon in the ordinary course of business between the Company and those companies. Please see details of related party transactions in Section 30 of Related Party Transactions of the Notes to Financial Statements for the year ended 31 December 2006.

### **Necessity of and reason for transactions**

The Company's connected party transactions, which include dividends and fees, were conducted at a fair market price and according to general business practice in compliance with relevant notifications and regulations. Opinions from outside directors or independent advisor were sought when required by regulations. These transactions were necessary and reasonable and served the benefit of the Company.

### **Process for approval of connected party transactions**

The Company certifies that future connected transactions between itself and subsidiaries and associate/related companies will be conducted at a fair market price and according to general business practice. They will be carried out in compliance with the notifications, regulations, orders or requirements of the SET, which include stipulations regarding disclosures of information, connected transactions and acquisitions or disposal of key assets of listed companies or subsidiaries.

In the event that the transactions of the Company or its subsidiaries and associated/related companies relate to persons who may have special interests or conflicts of interest, the Company will disclose these in the notes to the audited financial statements. When required by regulations, those parties who do not have special interests (i.e., independent directors, the Audit Committee, an independent expert or the Company's auditor) will provide opinions on the fair market price and suitability of such transactions as a basis for further decision-making by the Board of Directors or the shareholders.

## 7. Management Discussion & Analysis

(Consolidated financial statements as of December 31, 2006, "Company" refers to "Company together with its subsidiaries

### **Analysis of Performance**

The Company reported total income of Baht 1,097 million and net profit of Baht 182 million (equivalent to earnings per share of Baht 0.09). Details of the Company's performance are as follows:

#### **1. Revenue structure**

To diversify its income base the Company tried to expand its revenue from various businesses such as financial advisory business, underwriting business, selling agent, securities borrowing and lending business derivatives business and futures business.

In 2006, the Company reported total income of Baht 1,097 million. The main elements of the Company's revenue structure were; 61% from brokerage fees, 20% from fee and service income, 13% from interest and dividend income, and 7% from interest on margin loans.

Income	2006 (Baht)	%	2005 (Baht)	%
Brokerage fee				
- Brokerage fee from securities business	654,902,541	60%	674,675,843	57%
- Brokerage fee from derivatives business	10,950,300	1%	-	-
Fee and service income	222,466,654	20%	252,786,197	21%
Gain (loss) on trading in securities	(77,652,551)	(7%)	(11,912,781)	(1%)
Gain (loss) on trading derivatives	35,887,174	3%	(712,350)	
Interest and dividends	140,324,971	13%	79,272,957	7%
Interest on margin loans	72,839,952	7%	74,110,860	6%
<b>Securities Income</b>	<b>1,059,719,041</b>	<b>97%</b>	<b>1,068,220,726</b>	<b>(90%)</b>
Gain on sales of investment in subsidiary	-		90,000,000*	8%
Other Income	37,181,240	3%	20,533,812	2%
<b>Total Income</b>	<b>1,096,900,281</b>	<b>100%</b>	<b>1,178,754,538</b>	<b>100%</b>

Note: \*The Company recognized a gain on sale of shares in a subsidiary, Ace Capital Company Limited, of Baht 90 million in 2005.

#### **2. Changes in income and expenses**

##### **2.1 Change in securities business income**

The Company's securities business income decreased slightly from Baht 1,068 million in 2005 to Baht 1,060 million in 2006, details as follows:

###### **2.1.1 Brokerage fee**

###### **Brokerage fee from securities business**

The Company ranked No.7 in terms of market share at 3.94% in 2006, slightly higher than the previous year. However, the brokerage fee decreased from Baht 675 million in 2005 to Baht 655 million in 2006 due to a decrease in the SET's average daily trading volume.

###### **Brokerage fee from derivatives business**

TFEX opened in April 2006, KGI ranked no.1 in terms of TFEX market share, with 16.53%. The brokerage fee from derivatives business was Baht 11 million.

### 2.1.2 Fee and service income

The Company's fee and service income decreased from Baht 253 million in 2005 to Baht 222 million in 2006 (equivalent to a 12% decrease). The changes in fee and service income are as follows:

Fee and Service Income	2006		2005	
	Baht	%	Baht	%
Mutual fund management fee	178,215,309	80.11%	191,584,325	75.79%
Private fund management fee	16,242,645	7.30%	16,556,058	6.55%
Management fee, registrar and custodian fees	10,113,079	4.55%	9,120,328	3.61%
Underwriting fee	5,529,780	2.49%	17,443,164	6.90%
Financial advisory fee	2,762,963	1.24%	6,656,500	2.63%
Securities borrowing and lending fee	5,947,339	2.67%	6,311,661	2.50%
Selling agent fee	3,280,214	1.47%	4,441,593	1.76%
Others	375,325	0.17%	672,568	0.27%
<b>Total Fee and Service Income</b>	<b>222,466,654</b>	<b>100.00%</b>	<b>252,786,197</b>	<b>100.00%</b>

### 2.1.3 Loss on trading in securities

The Company had a loss from trading in securities totaling Baht 78 million in 2006. The loss on trading in the equity market was mainly due to the volatility of the SET. In particular, the Thai stock market recorded its biggest ever fall in a single day on 19 December 2006, a drop of almost 15% in the SET index.

The loss on trading securities of Baht 78 million comprised an unrealized loss on revaluation of investments of Baht 50 million, unrealized gain on revaluation of securities borrowed under the securities borrowing and lending business of Baht 21 million, and realized loss on trading of securities of Baht 49 million.

### 2.1.4 Gain on trading in derivatives

The Company had gain from trading in derivatives totaling Baht 36 million in 2006, comprised an unrealized gain on revaluation of derivatives of 23 million and realized gain on derivatives of 13 million.

### 2.1.5 Interest and Dividend Income

The Company had interest and dividend income totaling Baht 140 million in 2006, comprised interest income of Baht 110 million and dividend income of Baht 30 million.

### 2.1.6 Interest on Margin Loans

The Company had interest on margin loans of Baht 73 million in 2006, comprised interest received from credit balance of Baht 62 million and interest received from credit set aside loans of Baht 11 million.

## 2.2 Change in Expenses

The Company's total expenses decreased from Baht 991 million in 2005 to Baht 887 million in 2006. As a result, the ratio of total expenses to total income decreased from 84% in 2005 to 81% in 2006.

	2006	% Of Income	2005	% Of Income
TOTAL INCOME	1,096,900,281	100%	1,178,754,538	100%
<u>Securities Business Expenses</u>				
Expenses on borrowings	34,006,601	3%	19,074,512	2%
Fee and service expenses	67,266,636	6%	71,678,669	6%
Bad debt and doubtful accounts (reversal)	(10,192,727)	(1%)	103,268,326	9%
Total Securities Business expenses	91,080,510	8%	194,021,507	17%
<u>Operating expenses</u>				
Personnel expenses	501,259,084	46%	482,590,763	41%
Premises and equipment expenses	140,943,697	13%	129,503,835	11%
Taxes and duties	7,839,363	1%	5,945,575	1%
Directors' remuneration	8,328,440	1%	12,795,387	1%
Other expenses	138,022,558	13%	165,804,027	14%
Total operating expenses	796,393,142	73%	796,639,587	68%
<b>TOTAL EXPENSES</b>	<b>887,473,652</b>	<b>81%</b>	<b>990,661,094</b>	<b>84%</b>

### 2.2.1 Securities Business Expenses

The Company had securities business expenses of Baht 91 million, comprising expenses on borrowings of Baht 34 million, fee and service expense of Baht 67 million, and reversal of bad debt and doubtful accounts of Baht 10 million. Details are as follows:

#### A) Expenses on borrowings

Expenses on borrowings of Baht 34 million, comprising interest paid on securities sold under repurchased agreement of Baht 26 million, interest paid from credit balance accounts of Baht 4 million, and other expenses of Baht 4 million.

#### B) Fee and Service Expenses

Out of fee and service expenses in year 2006 totaling Baht 67 million, Baht 35 million was from brokerage expenses of the securities and derivatives business which varied with the company's brokerage volume, Baht 6 million resulted from amortization of underwriting license fees, Baht 14 million was expenses for stock lending and borrowing transactions and Baht 12 million came from other fees and expenses.

#### C) Bad debt and doubtful accounts (reversal)

In 2006, the Company recorded doubtful accounts of Baht 17 million but the Company was repaid Baht 27 million, thus the Company reported the reversal of bad debt and doubtful accounts of Baht 10 million.

### 2.2.2 Operating Expenses

The Company had operating expenses of Baht 796 million in 2006, mainly comprised personnel expenses of Baht 501 million and premises and equipment expenses of Baht 141 million.

## 3. Performance

In year 2006, the Company reported net profit of Baht 182 million and earnings per share of Baht 0.09, a gross profit margin of 90.44%, net profit margin of 16.59%, and return on equity of 4.25%.

### Analysis of Financial Status

As of 31 December 2006, the Company had total assets of Baht 6,343 million, total liabilities of Baht 1,994 million and total shareholders' equity of Baht 4,349 million. Analysis of financial status is as follows:

## 1. Assets

### a) Investments in debt and equity securities

As of 31 December 2006, the Company had net investments in debt and equity securities of Baht 3,397 million, comprised of net investments comprised short term investments of Baht 2,582 million and long term investment of Baht 815 million. (see details in note of financial statements No 8: Investments in debt and equity securities)

### b) Net securities and derivatives business receivables and accrued interest receivables

As of 31 December 2006, the Company had net securities and derivatives business receivables totaling Baht 1,931 million, details as follows:

Credit balance loans	916,889,897
Receivables under securities borrowing and lending business :-	
- Guarantee deposit receivables	414,494,645
- Securities borrowing receivables	156,407,950
Other receivables :-	
- Installment receivables	330,085,782
- Overdue customers' accounts	347,131
Total securities business receivables	<u>2,198,992,735</u>
Add : Accrued interest receivables	19,244,057
Less : Allowance for doubtful accounts	<u>(286,889,092)</u>
<b>Total securities and derivatives business receivable - net</b>	<b><u><u>1,931,347,700</u></u></b>

The Company had classified its securities business receivables in accordance with the relevant guidelines issued by the SEC governing accounting for the doubtful debts of securities companies. As of 31 December 2006, Baht 67 million were classified as substandard debt and Baht 276 million were classified as doubtful debt.

The Company had set aside full provision for the doubtful debts of Baht 276 million and further provision of Baht 11 million, which was more than that required by the SEC.

## 2. Liquidity

As of 31 December 2006, the value of the Company's liquid assets was Baht 2,881 million (equivalent to 45.42% of total assets). These liquid assets consisted of Baht 427 million in cash and cash equivalents, Baht 1,599 million in government securities and Baht 855 million of listed securities. The Company's NCR was 39.20% (the SEC requires that the NCR must not be lower than 7%).

## 3. Appropriateness of capital structure

As of 31 December 2006, the Company had a low debt to equity ratio, which decreased from 0.52 times in 2005 to 0.46 times in 2006.

### Business goal for the next 3 to 5 years

The Company's goal is to provide a full range of services for its clients. The Company aims to develop its investment banking business, stock borrowing and lending business, derivatives business, futures business, and other new business.

## 8. Financial Statements

### 8.1 Summary of the Report of the Independent Auditor for 2005-2006.

The Company appointed Ms. Ratana Jala, Certified Public Accountant no. 3734 of Ernst & Young Office Limited, as auditor for the year 2005 - 2006. The auditor expressed opinions on the consolidated financial statements for the year 2005 - 2006 as follows:

- Year 2005 : The Auditor expressed an unqualified opinion but drew attention to Note 19 to the financial statements which stated that as on the balance sheet date, the Company had a share discount of approximately Baht 1,010 million. The Meeting of the Board of Directors No. 1/2006, dated 24 February 2006, had approved a share capital reduction plan and the transfer of share premium generated from the reduction of share capital to offset the share discount. The share capital reduction plan had to be approved by a meeting of the shareholders of the Company before it could be implemented. Before this process was completed if any dividend was paid by the Company, the balance of retained earnings remaining after such dividend payment must not have been less than the balance of the share discount.

- Year 2006: The auditor's report for the 2006 does not contain any qualified opinion.

### 8.2 Audit Fee

For 2006, the Company and its subsidiaries paid audit fees and non-audit fee to auditor (Ernst & Young Office Limited) and any persons or companies related to auditor as follows:

#### A) Audit fees

The Company and its subsidiaries paid audit fees to auditor (Ernst & Young Office Limited) and any persons or companies related to auditor as follows:

Company and its subsidiary	Auditor	Audit Fee (Baht)	Other expenses (Baht)	Audit Fee (HK Dollar)	Other expenses (HK Dollar)
KGI Securities (Thailand) Plc.	Ernst & Young Office Limited	1,235,000	23,760	-	-
One Asset Management Limited	Ernst & Young Office Limited	320,000	600	-	-
KGI Securities (Thailand) International Holdings Limited	Ernst & Young Hong Kong	-	-	30,000	-
KGI (Thailand) Holdings Limited	Ernst & Young Hong Kong	-	-	54,000	-
Total Audit Fees		1,555,000	24,360	84,000	-
		1,579,360		84,000	

#### B) Non-audit fees

The Company and its subsidiaries paid non-audit fees to auditor (Ernst & Young Office Limited) and any persons or companies related to auditor as follows:

Company and its subsidiary	Non-audit service	The auditor's firm, persons and companies related to the auditor	Non-audit fees	
			Year 2006 (Baht)	Year 2006 (HK Dollar)
KGI Securities (Thailand) Plc.	Tax Service	Ernst & Young Corporate Services Limited	120,000	-
KGI Securities (Thailand) International Holdings Limited	Tax Service	Ernst & Young Tax Services Limited	-	8,000
Total Non-Audit Fees			120,000	8,000

There is no further expense for services not yet completed which will become payable in the near future.

**8.3 Financial Statements for the year 2005 - 2006**

(see financial statements in page 57)

**Summary of Directors and executives (As of 31 December 2006)**

Name	Age (Years)	Highest education	No. of shares held in company	Relationship among Executives		Relevant work experiences
Mr.Chin-Lung Tseng Chairman*	53	Bachelor's degree, International Trade, Tamkang University	-	-	July 2006 - Present	Director KGI Securities (Thailand) Plc.
					Apr 2006 - Present	Chairman KGI Securities Co., Ltd (Taiwan) Taiwan
					Mar 2005 - Present	Director KGI Asia Limited Hong Kong
					Dec 2004 - Present	Director Taiwan Integrated Shareholder Service Company
					Mar 2004 - Present	Director Taiwan Securities Association
					May 1999 - Present	Director KGI Securities Co., Ltd (Taiwan) Taiwan
Dr. Pisit Leeahtam Chairman of Audit Committee and Independent Director	56	Ph.D. Economics Erasmus University, Holland  Director Certification Program #18/2002 from Thai Institute of Directors Association (IOD)	-	-	Mar 2004 - Present	Vice Chairman KGI Securities (Thailand) Plc.
					May 2001- Present	Independent Director & Audit Committee Chairman KGI Securities (Thailand) Plc.
					Dec 2005 - Present	Country Chairman Thailand Jardine Matheson (Thailand) Ltd.
					Apr 2001 - Sept 2003	President & Chief Operating Officer TT&T Public Company Limited
					Nov 1997 - Feb 2001	Deputy Minister of Finance Ministry of Finance
Mr. Wisit Wongpaisan President	55	MBA, University of East Asia, Macau	-	-	Aug 2001 - Present	President KGI Securities (Thailand) Plc.
					Oct 2000 - Jul 2001	Chief Operating Officer KGI Securities (Thailand) Plc.
					Jun 1993 - Jul 2000	Executive Vice President Bank of Asia Plc.

Note \* The Board approved Mr. Chin-Lung Tseng as the Chairman of the Company's board of directors with effect from 27 February 2007

Name	Age (Years)	Highest education	No. of shares held in company	Relationship among Executives		Relevant work experiences
Mr. Wei Chang Fang Chief Operating Officer & Authorized Director	44	MBA, Finance Drexel University, USA	-	-	Sep 2005 - Present	Chief Operating Officer KGI Securities (Thailand) Plc.
					Mar 2003 - Present	Director KGI Capital Asia Limited
					Jan 2004 - Aug 2005	Chief Operating Officer KGI Asia Limited
					Jan 2004 - Aug 2005	Managing Director KGI Hong Kong Limited
					Mar 2003 - Aug 2005	Managing Director KGI Capital Asia Limited
					Jul 2000 - Jun 2002	President -MVP (H.K.) Industries Ltd. -Shinn Hua (China) Machinery Co.,Ltd.
					Apr 1994 - Jun 2000	Managing Director Capital Securities (Hong Kong) Ltd. (Holding Company), has subsidiaries as follows: - CSC Securities (HK) Ltd. - CSC Futures (HK) Ltd. - CSC Asia Ltd. - CSC Brokerage (HK) Ltd. - CSC Finance Ltd.
Dr. Don Bhasavanich Audit Committee and Independent Director	55	MBA, University of Pittsburgh, USA  PhD, Electr Engr, University of Liverpool, UK  Directors Certification Program #62/2005, Audit Committees Program # 7/2005, and Finance for Non- Finance Director # 8/2004 from Thai Institute of Directors Association (IOD)	-	-	Apr 2001 - Present	Independent Director & Audit Committee KGI Securities (Thailand) Plc
					Oct 2006 - Present	Managing Director Thai Copper Industries Plc
					May 2004 - Sep 2006	President NSM Plc
					Oct 2002 - May 2004	CEO Unithai Group of Companies Plc
					Feb 1999 - Oct 2002	Managing Director DHL (Thailand) Plc

Name	Age (Years)	Highest education	No. of shares held in company	Relationship among Executives		Relevant work experiences
Mr. Pradit Sawattananond Audit Committee and Independent Director	59	MBA, Central State University, USA.  Director Certification Program #3/2000, Audit Committee Program#3/2004, and Improving the Quality of Financial Reporting Program # 4/2006 from Thai Institute of Directors Association (IOD)  Chief Financial Officer Certification Program Class 1/2004 from The Institute of Certified Accountants and Auditors of Thailand	-	-	Jan 2000 - Present	Independent Director & Audit Committee KGI Securities (Thailand) Plc.
					Mar 2004 - Present	Chairman of the Audit Committee and Independent Director Asia Sermkij Leasing Plc.
					Jan 2004 - Present	Independent Director and Audit Committee Member Thai Film Industries Plc.
					Dec 2003 - Dec 2006	Director Thailand Securities Depository Co.,Ltd.
					May 2005 - Feb 2006	Advisor to the Committee on Economics Department, The House of Representatives
					Aug 2001 - Feb 2006	Specialist of Committee on Finance, Banking and Financial Institution The House of Representatives
Ms. Bee Leng Ooi Managing Director & Authorized Director	47	MBA University of Chicago, USA	20,000	-	Apr 2001 - Present	Managing Director KGI Securities (Thailand) Plc.
					Dec 2000 - Present	Director KGI Securities (Thailand) Plc.
					2000	Director, Business Planning KGI Asia Ltd
					1999 - 2000	Managing Director GK GOH Securities Philippines
Ms. Suchada Sodthibhapkul Managing Director & Authorized Director	52	MBA Chulalongkorn University, Thailand  Director Certification Program #38/2003 from Thai Institute of Directors Association (IOD)	-	-	Apr 2001 - Present	Managing Director KGI Securities (Thailand) Plc.
					1997 - Mar 2001	Executive Director KGI Securities (Thailand) Plc.
					1990 - 1997	Executive Director First Asia Securities Plc.

Name	Age (Years)	Highest education	No. of shares held in Company	Relationship among Executives		Relevant work experiences
Ms. Shen Chu Wang Director	55	Bachelor's degree, Department of Business Administration, Fu Jen Catholic University	-	-	Jul 2006 - Present	Director KGI Securities (Thailand) Plc.
					Apr 2006 - Present	Chief Executive Officer KGI Securities Co., Ltd (Taiwan) Taiwan
					Jun 2003 - Apr 2006	Chairman KGI Securities Co., Ltd (Taiwan) Taiwan
					Jan 2003 - Jun 2003	Director KGI Securities Co., Ltd (Taiwan) Taiwan
					Aug 2002 - Jan 2003	Chief Consultant KGI Securities Co., Ltd (Taiwan) Taiwan
Mr. Tuan Wen Wu Authorized Director	44	MBA, Drexel University, USA	-	-	Mar 2004 - Present	Director KGI Securities (Thailand) Plc.
					Oct 2003 - Present	Managing KGI Asia Ltd. (Hong Kong)
					Apr 1999 - Oct 2003	Executive Director Morgan Stanley Dean Witter Asia Limited
Ms. Pi-Lin Huang Director	37	Bachelor, Accounting National Taiwan University	-	-	Jul 2005 - Present	Director KGI Securities (Thailand) Plc.
					Jan 2005 - Present	Senior Vice President, Finance KGI Securities Co., Ltd. (Taiwan)
					Mar 2005 - Present	Director KGI Asia Limited Hong Kong
						Director KGI Efficient Frontier Ltd. Hong Kong
						Director KGI Securities (Korea) Co., Ltd. Korea
					Mar 2004 - Jan 2005	Manager and Head of Accounting and Credit Control Department Yageo Corp, Taiwan
					1999 - Jan 2004	Manager Deloitte Consulting (Arthur Andersen Business Consulting), Taiwan

Name	Age (Years)	Highest education	No. of shares held in the Company	Relationship among Executives	Relevant work experiences	
Mr. Yen Chih - Chien Authorized Director	41	MBA, MIT, Sloan School of Management  LLM, The University of Michigan Law School	-	-	Jul 2005 - Present	Director KGI Securities (Thailand) Plc.
					Jun 2005 - Present	Standing Director KGI Securities (Korea) Co., Ltd. Korea
					Jan 2005 - Present	Director KGI Efficient Frontier Limited Hong Kong
					May 2004 - Present	Senior Vice President KGI Securities Co., Ltd (Taiwan) Taiwan
					May 1994 - Mar 2004	Senior Lawyer Lee and Li, Attorneys-at-Law, Taiwan
					Jan 2001 - Jan 2002	Senior Vice President Lee and Li Business Consultant (Shanghai) Co.,Ltd China

Name	Age (Years)	Highest education	No. of shares held in the Company	Relationship among Executives		Relevant work experiences
Ms. Kobkarn Cholchanupatumpa Executive Vice President	54	Master of Public Administration, NIDA, Thailand	-	-	Apr 2001 - Present	Executive Vice President KGI Securities (Thailand) Plc.
					Aug 1998 - Mar 2001	Vice President Vickers Ballas Securities (Thailand) Co., Ltd.
Ms.Saranya Larksukthom Executive Vice President	44	MBA, Strayer College, U.S.A.	-		Mar 2001 - Present	Executive Vice President KGI Securities (Thailand) Plc.
					1999 - Feb 2001	Senior Vice President KGI Securities (Thailand) Plc.
					1996 - 1998	Assistant Vice President Nava Vickers Ballas Co., Ltd.
Mr. Preecha Leelasithorn Executive Vice President	43	MBA, Chulalongkorn University, Thailand	-	-	2001 - Present	Executive Vice President KGI Securities (Thailand) Plc.
					1999 - 2000	Senior Executive Vice President, Equity Sales Department. United Securities Plc.
					1998 - 1999	Executive Director, Equity Sales Department, Securities One Plc.
Mr. Nakorn Kolsrichai Executive Vice President	43	MS, Economics Northeastern University, U.S.A.	-	-	2001 - Present	Executive Vice President KGI Securities (Thailand) Plc.
					1999 - 2000	Executive Vice President United Securities Plc.
					1998 - 1999	Senior Sales Executive ING Barings Securities (Thailand)
Mr. Somchai Siripaiboolpong Executive Vice President	53	BA, Chulalongkorn University, Thailand	-	-	2000 - Present	Executive Vice President KGI Securities (Thailand) Plc.
					1994 - 1999	SCCF Finance & Securities
					1991 - 1994	JF Thanakom Securities
Mr.Tanavatt Bhanijkasem Executive Vice President	42	MBA, Thammasat University	-	-	1994 - Present	Executive Vice president, KGI Securities (Thailand) Plc.
					2006 - Present	Vice Chairman Futures Industry Club
					2006	Member of Risk Subcommittee Thailand Clearing House Co., Ltd.

Name	Age (Years)	Highest education	No. of shares held in the Company	Relationship among Executives		Relevant work experiences
Mr.Ratchakritpong Ekkrangsun Executive Vice President	41	MBA, Western International University, USA	-	-	Sept 2004 - Present	Executive Vice President, KGI Securities (Thailand) Plc.
					2007 - Present	BEX Sub-Committee of Fixed Income Market Development, The Stock Exchange of Thailand
					2007 - Present	MWA Business Improvement Sub- Committee, Metropolitan Waterworks Authority
					2002 - 2004	Senior Fund Manager, Advisor Social Security Fund
Ms.Pakavalee Jearsawatvattana Executive Vice President	43	MBA, ( Finance ) , National Institute of Development Administration (NIDA)	-	-	Mar 2006 - Present	Executive Vice president, Investment Banking Department KGI Securities (Thailand) Plc.
					Jul 2002 - Mar 2006	Vice President , Investment Banking Department, Finansia Securities Limited
					1999 - 2001	Vice President, Corporate Finance Department, DBS Thai Dhanu Securities Limited
Mr.Pisit Patumban Executive Vice President	42	MA. Psychology and Counseling, Kasetsart University	-	-	Jun 2006 - Present	Executive Vice president, Securities Business Development KGI Securities (Thailand) Plc
					2001 - 2006	Senior Vice president ,Equity Business Division, Asia Plus Securities Plc.
					1996 - 2000	Vice president , HR Department Asia Plus Securities Plc.
Mr.Thanawat Patchimkul Executive Vice President	41	MBA Thammasat University	-	-	Dec 2006 - Present	Executive Vice president, Research Department KGI Securities (Thailand) Plc.
					Jan 1999 - Nov 2006	Associate Director , Research Department, DBS Vickers Securities (Thailand) Ltd.

Name	Age (Years)	Highest education	No. of shares held in the Company	Relationship among Executives	Relevant work experiences
Ms. Kitiwan Thunnom Senior Vice President Finance and Accounting Department	41	Master of Financial Accounting, Chulalongkorn University, Thailand.	-	Mar 2001 - Present	Senior Vice President Finance & Accounting Department KGI Securities (Thailand) Plc.
				1993 - Feb 2001	Vice President KGI Securities (Thailand) Plc.
				1989 - 1992	Assistant Manager Ernst & Young Office Limited

**Title and position of Management and Authorized Directors**
**(As of 15 March 2007)**

Management	Position	Subsidiary companies		
		1 AM	HOLDCO	KTHL
Mr. Chin-Lung Tseng	A	-	-	-
Dr. Pisit Leeahtam	B, D, F	-	-	-
Mr. Wisit Wongpaisan	C, H	-	-	-
Mr. Wei Chang Fang	E, H	-	C	C
Dr. Don Bhasavanich	D, G	-	-	-
Mr. Pradit Sawattananond	D, G	-	-	-
Ms. Bee Leng Ooi	E, I	-	-	-
Mrs. Suchada Sodthibhapakul	E, I	-	-	-
Mrs. Shen Chu Wang	C	-	-	-
Mr. Tuan Wen Wu	E	-	-	-
Ms. Pi-Lin Huang	C	-	-	-
Mr. Yen Chih - Chien	E	-	-	-
Mrs. Kobkarn Cholchanupatumpa	K	-	-	-
Ms. Saranya Larksukthom	K	-	-	-
Mr. Preecha Leelasithorn	K	-	-	-
Mr. Nakorn Kolsrichai	K	-	-	-
Mr. Somchai Siripaiboolpong	K	-	-	-
Mr. Tanavatt Bhanijkasem	K	-	-	-
Mr. Ratchakritpong Ekrangsun	K	-	-	-
Ms. Pakavalee Jearsawatvattana	K	-	-	-
Mr. Pisit Patumban	K	-	-	-
Mr. Thanawat Patchimkul	K	-	-	-
Ms. Kitiwan Thunnom	L	-	-	-

**Director and management title**

A : Chairman

B : Vice Chairman

C : Director

D : Independent Director

E : Authorized Director

**Audit Committee title**

F : Chairman of Audit Committee

G : Audit Committee

**Management title**

H : President / Chief Operating Officer

I : Managing Director

J : Senior Executive Vice President

K : Executive Vice President

L : Senior Vice President, Finance &amp; Accounting Department

**Subsidiaries**

1AM : One Asset Management Limited

HOLDCO: KGI Securities (Thailand) International Holdings Limited

KTHL: KGI (Thailand) Holdings Limited

**Details of subsidiary companies' Directors (As of 31 December 2006)**

Director	1 AM	HOLDCO	KTHL
Mr. Wei Chang Fang		A	A
Ms. Tehsin Chiu		A	A
Mr. Wong Sai Hung	A		
Dr. Somjin Sornpaisarn	B		
Mr. Suripol Khemjinda	B		
Ms. Tivarat Taychamekiatchai	B		
Ms. Sheng Chia-Chen	A		
Mrs. Li Ching Ching	A		
Mr. Shaw-Tzeng Ding	A		
Mr. Chen Pin-Cheng	A		

**Subsidiary companies**

1AM : One Asset Management Limited

HOLDCO: KGI Securities (Thailand) International Holdings Limited

KTHL: KGI (Thailand) Holdings Limited

**Director title**

A: Director

B: Executive Director

**Information of our subsidiaries****One Asset Management Limited**

% holding	96%
Type of business	Fund Management
Location	989 Siam Tower Fl. 24 (Siam Discovery) Rama I Road, Pathumwan District, Bangkok 10330, Thailand.
	Tel: 66 (0) 2659-8888 Fax: 66 (0) 2659-8869
Number & type of shares	10,500,000 common shares (Paid-up) Par value of Bt10

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

% holding	100%
Type of business	Investment
Location	27/F, ICBC Tower, Citibank Plaza, 3 Garden Road, Central, Hong Kong
	Tel.: (852) 2878-6888 Fax.: (852) 2878-6800
Number & type of shares	39,444,670 common shares (Paid-up) Par value of US\$1.00

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

% holding	100%
Type of business	Investment
Location	P.O. Box 3340, Road Town, Tortola, British Virgin Islands
Number & type of shares	20,000,000 common shares (Paid-up) Par value of US\$1.00

**Reference****Registrar**

Thailand Securities Depository Co., Ltd.  
62 The Stock Exchange of Thailand Building,  
beside Queen Sirikit Nation Convention Center, 4, 6-7 Floor  
Rachadapisek Road, Klong Toey, Bangkok 10110  
Thailand  
Tel: 66 (0) 2229-2800  
Fax: 66 (0) 2359-1259  
Call center: 66 (0) 2229-2888  
Website: [www.tsd.co.th](http://www.tsd.co.th) E-mail: [contact.tsd@set.or.th](mailto:contact.tsd@set.or.th)

**Auditor**

(As of 31 December 2006)

Mr. Ruth Chaowanagawi  
Certified Public Accountant (Thailand) # 3247

Mr. Narong Puntawong  
Certified Public Accountant (Thailand) # 3315

Ms. Ratana Jala  
Certified Public Accountant (Thailand) # 3734

Ernst & Young Office Limited  
193/136-7 Lake Rachada Fl. 33 New Rachadapisek Road,  
Bangkok, Thailand.

Tel: 66 (0) 2264-0777  
Fax: 66 (0) 2264-0789

**Branches**
**Bangkok Metropolitan Area**
**Pin Klao Branch**

7/129 Central Pinklao Building,  
7<sup>th</sup> Floor, Room no. 704,  
Boromrajchonnane Road,  
Arunammarin Sub-District,  
Bangkok Noi District,  
Bangkok 10700

Tel: 66 (0) 2884-9090-8  
Fax: 66 (0) 2884-9099

**Surawongse Branch**

33/25-28 Wall Street Tower Building,  
2<sup>nd</sup> Floor, Surawongse Road,  
Suriyawong Sub-District,  
Bangrak District, Bangkok 10500

Tel: 66 (0) 2632-9988  
Fax: 66(0) 2632-9990

**Yaowaraj Branch**

215 The Grand China Trade Tower  
and Hotel, 6<sup>th</sup> Floor, Yaowaraj Road,  
Sumphantawong Sub-District,  
Sumphantawong District,  
Bangkok 10100

Tel: 66 (0) 2226-5070-84  
Fax: 66(0) 2622-8825

**Changwattana Branch**

99/349 Na-nakorn building,  
1<sup>st</sup> Floor, Moo.2, Changwattana Road,  
Tongsonghong Sub-District,  
Laksee District, Bangkok 10210

Tel: 66 (0) 2576-1889  
Fax: 66(0) 2576-1562

**Silom Branch**

191 Silomcomplex Building,  
19<sup>th</sup> Floor, Room C, Silom Road,  
Silom Sub-District, Bangrak District,  
Bangkok 10500

Tel: 66 (0) 2231-3040  
Fax: 66(0) 2231-3055  
Fax: 66(0) 2632-1080

**Rama II Branch**

128 Central Rama II Building,  
2<sup>nd</sup> Floor, Room No. 259, Moo 6,  
Rama II Road,  
Samae Dum Sub-District,  
Bangkhuntian District, Bangkok 10150

Tel: 66 (0) 2872-4140  
Fax: 66(0) 2872-4066

**Provincial Area**
**Chiang Mai Branch**

12 Huaykaew Departmentstore  
Building no.12, 1<sup>st</sup> Floor,  
Room no. 101, 102, 103,  
Huaykaew Road,  
Changpurk Sub-District,  
Muang District, Chiang Mai 50300

Tel: (053) 226100  
Fax: (053) 226701

**Chiang Rai Branch**

490/1 Uttrarakit Road,  
Weang Sub-District,  
Muang District,  
Chiang Rai 57000

Tel: (053) 740701-7  
Fax: (053) 600973  
Fax: (053) 740704

**Nakhon Sawan Branch**

15/28-29 Sawanvithi Road,  
Pak Sub-District Nam Pho,  
Muang District,  
Nakhon Sawan 60000

Tel: (056) 314211-9  
Fax: (056) 314211-9

**Nakhon Ratchasima Branch**

1242/2 The Mall Shopping Center,  
Nakorn-Ratchasima branch,  
3<sup>rd</sup> Floor, Mittapap Road,  
Naimuang Sub-District,  
Muang District,  
Nakhon Ratchasima 30000

Tel: (044) 251041-9  
Fax: (044) 251041-9

**Pak Chong Branch**

695,697 Mittapap Road, Pakchong  
Sub-District, Pakching District,  
Nakhon Ratchasima 30000

Tel: (044) 316-777  
Fax: ( 044) 316778

**Udon Thani Branch**

26-27 Naraesuan Road,  
Makkeng Sub-District,  
Muang District,  
Udon Thani 41000

Tel: (042) 244008, (042) 243536,  
(042) 247925  
Fax: (042) 243960

**Samut Sakhon Branch**

923/55 A.T. Tower Building,  
Ekachai Road,  
Maha Chai Sub-District,  
Muang District,  
Samut Sakhon 74000

Tel: (034) 426940-7  
Fax: (034) 426940-5

**Suphan Buri Branch**

28/6-7 Muanhan Road,  
Thapeeleang Sub-District,  
Muang District,  
Suphan Buri 72000

Tel: (035) 522530-3  
Fax: (035) 522530-3

**Nakhon Pathom Branch**

28/32 Yingpao Road,  
Sanamjan Sub-District,  
Muang District,  
Nakhon Pathom 73000

Tel: (034) 272300-9  
Fax: (034) 217181

**Phetchaburi Branch**

60/4 , Moo 8, Kirirattaya Road,  
Thongchai Sub-District,  
Muang District,  
Petchaburi 76000

Tel: (032) 418371-5, (032) 401761-5  
Fax: ( 032) 418375

**Ayutthaya Branch**

125 Moo 7, Paholyothin Road,  
Chiengrak-noi Sub-District,  
Bang Pa-In District,  
Ayutthaya 13180

Tel: (035) 237-111  
Fax: ( 035) 237119

**Hat Yai Branch**

29 Lee Garden Plaza, 6<sup>th</sup> Floor,  
Room no. 602, Prachathipat Road,  
Had Yai Sub-District, Hat Yai District,  
Songkhla 90110

Tel: (074) 352520-39  
Fax: (074) 237164

KGI SECURITIES (THAILAND) PUBLIC COMPANY LIMITED  
AND ITS SUBSIDIARY COMPANIES  
REPORT AND CONSOLIDATED FINANCIAL STATEMENTS  
31 DECEMBER 2006 AND 2005

**Report of Independent Auditor**

To The Board of Directors and Shareholders of  
KGI Securities (Thailand) Public Company Limited

I have audited the consolidated balance sheets of KGI Securities (Thailand) Public Company Limited and its subsidiary companies as at 31 December 2006 and 2005, the related consolidated statements of income, changes in shareholders' equity and cash flows for the years then ended and the separate financial statements of KGI Securities (Thailand) Public Company Limited for the same periods. These financial statements are the responsibility of the Company's management as to their correctness and the completeness of the presentation. My responsibility is to report on these financial statements based on my audits.

I conducted my audits in accordance with generally accepted auditing standards. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audits provide a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of KGI Securities (Thailand) Public Company Limited and its subsidiary companies and of KGI Securities (Thailand) Public Company Limited as at 31 December 2006 and 2005 and the results of their operations and cash flows for the years then ended in accordance with generally accepted accounting principles.



Ratana Jala

Certified Public Accountant (Thailand) No. 3734

Ernst & Young Office Limited

Bangkok : 27 February 2007

## KGI SECURITIES (THAILAND) PUBLIC COMPANY LIMITED AND ITS SUBSIDIARY COMPANIES

## BALANCE SHEETS

AS AT 31 DECEMBER 2006 AND 2005

(Unit : Baht)

	Note	CONSOLIDATED		THE COMPANY ONLY	
		2006	2005	2006	2005
ASSETS					
CASH AND CASH EQUIVALENTS	6	427,197,850	740,613,597	344,843,552	569,121,182
LONG - TERM DEPOSITS AT FINANCIAL INSTITUTIONS	7	118,374,053	3,094,053	-	-
INVESTMENTS IN DEBT AND EQUITY SECURITIES	8				
Short - term investments, net		2,581,523,512	1,357,539,174	2,581,523,512	1,317,644,439
Long - term investments, net		815,102,903	882,073,763	21,272,558	21,372,558
Net investments in debt and equity securities		3,396,626,415	2,239,612,937	2,602,796,070	1,339,016,997
INVESTMENTS IN SUBSIDIARY COMPANIES, accounted for under equity method	9	-	-	2,736,677,680	3,115,597,969
RECEIVABLES FROM CLEARING HOUSE	10	138,153,690	-	138,153,690	-
SECURITIES AND DERIVATIVES BUSINESS					
RECEIVABLES - net	11	1,931,347,700	3,160,390,216	1,931,347,700	3,160,390,216
OTHER DERIVATIVES ASSETS		6,634,546	-	6,634,546	-
PREMISES AND EQUIPMENT - net	14	105,220,028	115,098,808	95,587,791	107,052,283
INTANGIBLE ASSETS - net	15	45,141,322	52,201,567	9,376,654	9,058,242
PROPERTY FORECLOSED - net	16	65,039,155	65,039,155	65,039,155	65,039,155
OTHER ASSETS		109,309,928	62,444,026	80,113,951	60,045,620
TOTAL ASSETS		6,343,044,687	6,438,494,359	8,010,570,789	8,425,321,664

The accompanying notes are an integral part of the financial statements.

## KGI SECURITIES (THAILAND) PUBLIC COMPANY LIMITED AND ITS SUBSIDIARY COMPANIES

## BALANCE SHEETS (Continued)

AS AT 31 DECEMBER 2006 AND 2005

(Unit : Baht)

	Note	CONSOLIDATED		THE COMPANY ONLY	
		2006	2005	2006	2005
LIABILITIES AND SHAREHOLDERS' EQUITY					
BORROWINGS		14,960,472	-	14,960,472	-
SECURITIES SOLD UNDER REPURCHASED AGREEMENT	17	728,068,198	-	728,068,198	-
PAYABLES TO CLEARING HOUSE		129,789,146	125,746,284	129,789,146	125,746,284
SECURITIES AND DERIVATIVES BUSINESS PAYABLES	18	963,002,290	1,921,959,082	963,002,290	1,921,959,082
SUBORDINATED LOANS FROM SUBSIDIARY COMPANY	19	-	-	1,719,613,500	2,045,304,600
ACCRUED EXPENSES		94,465,734	115,034,343	72,809,621	74,934,487
CORPORATE INCOME TAX PAYABLE		8,595,628	9,231,264	-	-
OTHER DERIVATIVES LIABILITIES		2,970,929	-	2,970,929	-
OTHER LIABILITIES		52,607,639	35,816,865	38,693,482	34,729,232
TOTAL LIABILITIES		1,994,460,036	2,207,787,838	3,669,907,638	4,202,673,685
SHAREHOLDERS' EQUITY					
Share capital	20				
Registered					
1,991,763,130 ordinary shares of Baht 1.00 each					
(2005 : 1,991,763,130 ordinary shares of Baht 2.00 each)		1,991,763,130	3,983,526,260	1,991,763,130	3,983,526,260
Issued and fully paid-up					
1,991,763,130 ordinary shares of Baht 1.00 each					
(2005 : 1,991,763,130 ordinary shares of Baht 2.00 each)		1,991,763,130	3,983,526,260	1,991,763,130	3,983,526,260
Share premium (discount)	21	982,166,480	-1,009,596,650	982,166,480	-1,009,596,650
Surplus from unexercised warrants		101,922,580	101,922,580	101,922,580	101,922,580
Translation adjustment		87,589,164	151,503,514	87,589,164	151,503,514
Retained earnings					
Appropriated - statutory reserve	23	80,300,000	70,800,000	80,300,000	70,800,000
Unappropriated		1,096,921,797	924,492,275	1,096,921,797	924,492,275
EQUITY ATTRIBUTABLE TO COMPANY'S SHAREHOLDERS		4,340,663,151	4,222,647,979	4,340,663,151	4,222,647,979
MINORITY INTEREST - Equity attributable to minority					
shareholders of subsidiary		7,921,500	8,058,542	-	-
TOTAL SHAREHOLDERS' EQUITY		4,348,584,651	4,230,706,521	4,340,663,151	4,222,647,979
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		6,343,044,687	6,438,494,359	8,010,570,789	8,425,321,664

The accompanying notes are an integral part of the financial statements.

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DIRECTORS

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## KGI SECURITIES (THAILAND) PUBLIC COMPANY LIMITED AND ITS SUBSIDIARY COMPANIES

## INCOME STATEMENTS

FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005

(Unit : Baht)

	Note	CONSOLIDATED		THE COMPANY ONLY	
		2006	2005	2006	2005
<b>INCOME</b>					
Brokerage fee					
Brokerage fee from securities business		654,902,541	674,675,843	654,902,541	674,675,843
Brokerage fee from derivatives business		10,950,300	-	10,950,300	-
Fee and service income	24	222,466,654	252,786,197	17,451,716	33,639,857
Loss on trading in securities	8.4	-77,652,551	-11,912,781	-77,652,551	-11,166,532
Gain (loss) on trading derivatives	8.5	35,887,174	-712,350	35,887,174	-712,350
Gain on sale of investment in subsidiary	9.2	-	90,000,000	-	90,000,000
Interest and dividends		140,324,971	79,272,957	131,001,861	74,455,936
Interest on margin loans		72,839,952	74,110,860	72,839,952	74,110,860
Share of income from investment accounted for under equity method		-	-	40,253,165	39,832,527
Other income		37,181,240	20,533,812	35,108,027	20,375,148
<b>TOTAL INCOME</b>		<b>1,096,900,281</b>	<b>1,178,754,538</b>	<b>920,742,185</b>	<b>995,211,289</b>
<b>EXPENSES</b>					
Expenses on borrowings		34,006,601	19,074,512	34,006,601	19,074,512
Fee and service expenses		67,266,636	71,678,669	56,026,223	60,954,889
Bad debt and doubtful accounts (reversal)		-10,192,727	103,268,326	-10,192,727	103,268,326
Operating expenses					
Personnel expenses	25	501,259,084	482,590,763	419,933,881	400,391,263
Premises and equipment expenses		140,943,697	129,503,835	125,386,216	114,274,668
Taxes and duties		7,839,363	5,945,575	7,839,363	5,945,575
Directors' remuneration	27, 30	8,328,440	12,795,387	2,215,000	6,260,000
Other expenses		138,022,558	165,804,027	103,598,106	126,490,231
Total operating expenses		796,393,142	796,639,587	658,972,566	653,361,737
<b>TOTAL EXPENSES</b>		<b>887,473,652</b>	<b>990,661,094</b>	<b>738,812,663</b>	<b>836,659,464</b>
<b>INCOME BEFORE CORPORATE INCOME TAX</b>		<b>209,426,629</b>	<b>188,093,444</b>	<b>181,929,522</b>	<b>158,551,825</b>
<b>CORPORATE INCOME TAX</b>	28	<b>-25,144,474</b>	<b>-26,949,264</b>	<b>-</b>	<b>-</b>
<b>INCOME AFTER CORPORATE INCOME TAX</b>		<b>184,282,155</b>	<b>161,144,180</b>	<b>181,929,522</b>	<b>158,551,825</b>
<b>NET INCOME ATTRIBUTABLE TO MINORITY INTEREST</b>		<b>-2,352,633</b>	<b>-2,592,355</b>	<b>-</b>	<b>-</b>
<b>NET INCOME FOR THE YEAR</b>		<b>181,929,522</b>	<b>158,551,825</b>	<b>181,929,522</b>	<b>158,551,825</b>
<b>EARNINGS PER SHARE</b>					
Net income	29	0.09	0.08	0.09	0.08

The accompanying notes are an integral part of the financial statements.

KGI SECURITIES (THAILAND) PUBLIC COMPANY LIMITED AND ITS SUBSIDIARY COMPANIES  
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY  
FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005

(Unit : Baht)

	CONSOLIDATED							
	Share capital	Share premium (discount)	Surplus from unexercised warrants	Translation adjustment	Retained earnings		Minority interest	Total
					Appropriated - statutory reserve	Unappropriated		
Balance as at 1 January 2005	14,938,223,475	-11,964,293,865	101,922,580	142,844,388	62,800,000	972,989,426	6,558,731	4,261,044,735
Share capital reduction (Note 20)	-10,954,697,215	10,954,697,215	-	-	-	-	-	-
Dividend paid (Note 31)	-	-	-	-	-	-199,048,976	-	-199,048,976
Translation adjustment	-	-	-	8,659,126	-	-	-	8,659,126
Minority interest - equity attributable to minority shareholders of subsidiary	-	-	-	-	-	-	-1,092,544	-1,092,544
Net income for the year	-	-	-	-	-	158,551,825	2,592,355	161,144,180
Transfer to statutory reserve	-	-	-	-	8,000,000	-8,000,000	-	-
Balance as at 31 December 2005	3,983,526,260	-1,009,596,650	101,922,580	151,503,514	70,800,000	924,492,275	8,058,542	4,230,706,521
Share capital reduction (Note 20)	-1,991,763,130	1,991,763,130	-	-	-	-	-	-
Translation adjustment	-	-	-	-63,914,350	-	-	-	-63,914,350
Minority interest - equity attributable to minority shareholders of subsidiary	-	-	-	-	-	-	-2,489,675	-2,489,675
Net income for the year	-	-	-	-	-	181,929,522	2,352,633	184,282,155
Transfer to statutory reserve	-	-	-	-	9,500,000	-9,500,000	-	-
Balance as at 31 December 2006	1,991,763,130	982,166,480	101,922,580	87,589,164	80,300,000	1,096,921,797	7,921,500	4,348,584,651

The accompanying notes are an integral part of the financial statements.

KGI SECURITIES (THAILAND) PUBLIC COMPANY LIMITED AND ITS SUBSIDIARY COMPANIES

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005

(Unit : Baht)

THE COMPANY ONLY

	Share capital	Share premium (discount)	Surplus from unexercised warrants	Translation adjustment	Retained earnings		Total
					Appropriated - statutory reserve	Unappropriated	
Balance as at 1 January 2005	14,938,223,475	-11,964,293,865	101,922,580	142,844,388	62,800,000	972,989,426	4,254,486,004
Share capital reduction (Note 20)	-10,954,697,215	10,954,697,215	-	-	-	-	-
Dividend paid (Note 31)	-	-	-	-	-	-199,048,976	-199,048,976
Translation adjustment	-	-	-	8,659,126	-	-	8,659,126
Net income for the year	-	-	-	-	-	158,551,825	158,551,825
Transfer to statutory reserve	-	-	-	-	8,000,000	-8,000,000	-
Balance as at 31 December 2005	3,983,526,260	-1,009,596,650	101,922,580	151,503,514	70,800,000	924,492,275	4,222,647,979
Share capital reduction (Note 20)	-1,991,763,130	1,991,763,130	-	-	-	-	-
Translation adjustment	-	-	-	-63,914,350	-	-	-63,914,350
Net income for the year	-	-	-	-	-	181,929,522	181,929,522
Transfer to statutory reserve	-	-	-	-	9,500,000	-9,500,000	-
Balance as at 31 December 2006	1,991,763,130	982,166,480	101,922,580	87,589,164	80,300,000	1,096,921,797	4,340,663,151

The accompanying notes are an integral part of the financial statements.

## KGI SECURITIES (THAILAND) PUBLIC COMPANY LIMITED AND ITS SUBSIDIARY COMPANIES

## STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005

(Unit : Baht)

	CONSOLIDATED		THE COMPANY ONLY	
	2006	2005	2006	2005
<b>Cash flows from operating activities</b>				
Net income	181,929,522	158,551,825	181,929,522	158,551,825
Adjustments to reconcile net income to net cash provided by (paid from) operating activities :-				
Net income attributable to minority interest	2,352,633	2,592,355	-	-
Share of income from investments accounted for under equity method	-	-	-40,253,165	-39,832,527
Bad debt and doubtful accounts (reversal)	-10,192,727	103,268,326	-10,192,727	103,268,326
Depreciation and amortisation	63,000,499	68,372,162	48,759,030	54,077,329
Unrealised loss on revaluation of investments	5,760,145	54,585,605	5,760,145	53,839,356
Gain on sales of investment in subsidiary	-	-90,000,000	-	-90,000,000
Unrealised gain from transfer of investment	-	-5,829,255	-	-5,829,255
Discount on investment in debt securities of a subsidiary company	-	-579,608	-	-
Fixed asset written-off	996	284,222	996	284,222
Gain on sales of premises and equipment	-2,434,853	-396,672	-608,092	-238,007
Amortised deferred interest	51,254	-	75,647	-
Income from operating activities before changes in operating assets and liabilities	240,467,469	290,848,960	185,471,356	234,121,269
Decrease (increase) in operating assets				
Long - term deposits at financial institutions	-115,280,000	29,005,947	-	-
Short-term investments	-1,261,523,881	-39,628,909	-1,301,418,616	-289,389
Receivable from Clearing House	-138,153,690	188,271,575	-138,153,690	188,271,575
Securities and derivatives business receivable	1,239,235,243	-394,277,497	1,239,235,243	-394,277,497
Other derivatives assets	-188,800	-	-188,800	-
Intangible assets	-5,336,000	-	-5,336,000	-
Other assets	-46,765,902	-215,306	-19,878,246	1,771,491
Increase (decrease) in operating liabilities				
Securities sold under repurchased agreement	728,068,198	-98,088,645	728,068,198	-98,088,645
Payables to Clearing House	4,042,862	46,752,895	4,042,862	46,752,895
Securities and derivatives business payable	-937,972,797	474,875,856	-937,972,797	474,875,856
Accrued expenses	-20,568,609	-64,593,105	-2,124,866	-74,173,095
Corporate income tax payable	-635,636	1,386,339	-	-
Other derivatives liabilities	7,320,586	-	7,320,586	-
Other liabilities	13,472,708	-20,155,318	3,964,250	3,008,967
Net cash from (used in) operating activities	-293,818,249	414,182,792	-236,970,520	381,973,427

The accompanying notes are an integral part of the financial statements.

## KGI SECURITIES (THAILAND) PUBLIC COMPANY LIMITED AND ITS SUBSIDIARY COMPANIES

## STATEMENTS OF CASH FLOWS (Continued)

FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005

(Unit : Baht)

	CONSOLIDATED		THE COMPANY ONLY	
	2006	2005	2006	2005
<b>Cash flows from investing activities</b>				
Cash received from sale of investment in subsidiary	-	90,000,000	-	90,000,000
Cash paid for purchase of long-term investments	-	-1,418,822	-	-1,418,822
Cash paid for purchase of investment in subsidiary company	-780,849	-236,080	-780,849	-236,080
Dividend received from subsidiary company	-	-	30,258,768	30,058,620
Cash paid for purchase of equipment and computer software	-34,940,763	-37,646,760	-32,318,452	-34,991,446
Proceeds from sales of premises and equipment	2,480,521	541,876	648,598	383,063
Net cash from (used in) investing activities	-33,241,091	51,240,214	-2,191,935	83,795,335
<b>Cash flows from financing activities</b>				
Cash received from borrowing from financial institutions	14,884,825	-	14,884,825	-
Repayment of borrowings from financial institutions	-	-300,000,000	-	-300,000,000
Cash paid for subordinated loans from subsidiary companies	-	-	-	-22,800,000
Capital increase of subsidiary	-	1,000,000	-	-
Dividend paid to minority interest	-1,241,232	-1,441,380	-	-
Dividend paid	-	-199,048,976	-	-199,048,976
Net cash from (used in) financing activities	13,643,593	-499,490,356	14,884,825	-521,848,976
Net decrease in cash and cash equivalents	-313,415,747	-34,067,350	-224,277,630	-56,080,214
Cash and cash equivalents as at beginning of year	740,613,597	774,680,947	569,121,182	625,201,396
Cash and cash equivalents as at end of year	427,197,850	740,613,597	344,843,552	569,121,182
<b>Supplemental cash flows information :-</b>				
Cash paid during the period for :-				
Interest expenses	34,216,487	16,611,212	34,006,601	16,611,212
Corporate income tax	28,215,977	28,365,009	2,435,865	2,802,084
Non-cash transaction :-				
Offset dividends received from subsidiary company with subordinated loans from that subsidiary company	-	-	325,691,100	-
Acquisition of vehicles under financial leases	6,382,259	-	-	-

The accompanying notes are an integral part of the financial statements.

KGI SECURITIES (THAILAND) PUBLIC COMPANY LIMITED  
AND ITS SUBSIDIARY COMPANIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005

**1. GENERAL INFORMATION**

KGI Securities (Thailand) Public Company Limited (“the Company”) was incorporated as a public limited company under the Public Limited Companies Act. The Company operates its business in Thailand with 5 securities licenses, securities brokerage, securities dealing, financial advisory, securities underwriting and securities borrowing and lending services. In addition, the Office of the Securities and Exchange Commission (SEC) has granted the Company approval to operate Securities Registrar business, derivative agent, financial advisory business, Over-the-Counter (OTC) derivative business and to act as a sales agent for unit trusts in designed areas as specified by SEC.

The Company's registered office is located on the 9th, 23rd-25th and 45th Floor, United Center Building, 323 Silom Road, Kwang Silom, Khet Bangrak, Bangkok and it has 19 branches in Bangkok and upcountry.

**2. BASIS OF PREPARATION**

The financial statements have been prepared in accordance with accounting standards enunciated under the Accounting Profession Act B.E. 2547 and the presentation of the financial statements has been made in compliance with requirement of the notification of the office of the Securities and Exchange Commission relating to the format of the financial statements of securities companies No. Sor. Thor. Nor. 26/2549 dated 29 June 2006.

The financial statements have been prepared on a historical cost basis except where otherwise disclosed in the accounting policies.

**3. BASIS OF CONSOLIDATION**

3.1 The consolidated financial statements include the financial statements of the Company and the following subsidiary companies:

Company's name	Business	Percentage of shareholding		Country of incorporation	Assets as a percentage to the consolidated total assets as at 31 December		Revenues as a percentage to the consolidated total revenues for the year ended 31 December	
		2006	2005		2006	2005	2006	2005
		Percent	Percent		Percent	Percent	Percent	Percent
One Asset Management Limited	Mutual fund management	96	95	Thailand	3.76	3.80	19.69	19.00
KGI Securities (Thailand) International Holdings Limited (HOLDCO)	Holding company	100	100	Hong Kong	0.43	0.54	-	-
KGI (Thailand) Holdings Limited (KTHL)	Holding company	100	100	British Virgin Islands	12.13	12.95	-	-

- 3.2 The consolidated financial statements as at 31 December 2005 did not include the financial statements of the 100-percent owned KGI S-One Corporation Public Company Limited both because of its immateriality to the accounts and because this company registered its dissolution with the Ministry of Commerce on 23 April 2002. Its liquidation was completed on 8 September 2006.
- 3.3 The consolidated financial statements as at 31 December 2005 did not include the financial statements of the 100-percent owned KGI E-World Company Limited both because of its immateriality to the accounts and because this company registered its dissolution with the Ministry of Commerce on 29 December 2005. Its liquidation was completed on 12 July 2006.
- 3.4 The financial statements of the subsidiary companies incorporated overseas are translated to Thai Baht using the closing exchange rate ruling on the balance sheet date for assets and liabilities, with the exception of those covered by forward exchange contracts which are translated into Thai Baht at the contract rates, and using the average exchange rate with respect to revenues and expenses. The resultant differences have been shown in shareholders' equity, under the caption of "Translation adjustment".
- 3.5 The Company records the excess of the cost of investment in subsidiary company over their attributable net worth as of the acquisition date as "Intangible asset-Goodwill" in the consolidated balance sheet. This is being amortised as expenses on a straight-line basis over a period of ten years.

3.6 Material balances and transactions between the Company and its subsidiaries, investments in subsidiaries in the Company's accounts, and the subsidiaries' share capital have been eliminated from the consolidated financial statements.

#### **4. CHANGE IN ACCOUNTING POLICY/ADOPTION OF NEW ACCOUNTING STANDARDS**

In October 2006, the Federation of Accounting Professions issued Notification No. 26/2006 regarding Accounting Standard No. 44 "Consolidated Financial Statements and Accounting for Investments in Subsidiaries" (Amendment No. 1), under which investments in subsidiaries, jointly controlled entities and associates are to be presented in the separate financial statements under the cost method rather than the equity method. Entities which are not ready to adopt the cost method in 2006 can continue to use the equity method through the end of 2006 and adopt the cost method as from 1 January 2007.

In this regard, the Company has elected to adopt the change in 2007. Adoption of the change in 2007 will necessitate the restatement of the Company's 2006 separate financial statements to be presented for comparative purposes along with the financial statements for 2007. The restatement will have the effect of increasing net income in the separate income statement for 2006 by approximately Baht 314.8 million (Baht 0.16 per share) and decreasing net worth in the balance sheet at 31 December 2006 by approximately Baht 115.3 million.

#### **5. SIGNIFICANT ACCOUNTING POLICIES**

Significant accounting policies adopted by the Company and its subsidiaries are summarized below.

##### **5.1 Revenue recognition**

(a) Brokerage fee

Brokerage fees from securities business and brokerage fee from derivatives business are recognised as income on the transaction dates.

(b) Fees and service income

Fees and service income are recognised when services have been rendered taking into account the stage of completion.

- (c) Gains (losses) on trading in securities and derivatives

Gains (losses) on trading in securities and derivatives are recognised as income/expenses on the transaction dates.

- (d) Interest and dividends

Interest is recognised as income on an accrual basis. Dividends are recognised as income when the right to receive the dividends is established.

- (e) Interest on credit balance loans

Interest is recognised over the term of the loans based on the amount of principal outstanding. No accrual has been made for certain loans which, under Notification No. Kor. Thor. 5/2544 dated 15 February 2001 of the Office of the Securities and Exchange Commission, are not qualified for recognition of interest on an accrual basis and consideration of other relevant factors.

Discounts or interest already included in the face value of notes receivable or loans are deferred and taken up as income evenly throughout the terms of the notes or loans.

## **5.2 Interest on borrowings**

Interest on borrowings is charged to earnings on an accrual basis.

## **5.3 Cash and cash equivalents**

Cash and cash equivalents include cash on hand, all bank accounts and depository note maturing within 3 months including call notes receivable and term notes receivable issued by financial institutions with an ordinary maturity of 3 months or less and not subject to withdrawal restrictions.

#### **5.4 Recognition and elimination of customer deposits**

Money which customers have placed with the Company for cash accounts and credit balance accounts for securities trading, including amounts which customers have placed as security for derivatives trading is recorded as assets and liabilities of the Company for internal control purposes. As at the balance sheet date, the Company excludes these amounts from both assets and liabilities and presents only assets which belong to the Company.

#### **5.5 Securities borrowing and lending**

The Ministry of Finance granted the Company approval to conduct securities borrowing and lending business on 26 February 1999, whereby the Company can act as a principal or as an agent of the lender or borrower. The Company records its obligations to return borrowed securities which it has sold short or lent as “Securities borrowing payables” in the balance sheet. At the end of the year the balance of Securities borrowing payables, which securities has sold short is adjusted based on the latest offer price quoted on the Stock Exchange of Thailand. Gains or losses arising from such adjustment are included in determining income. Securities lent to customers are recorded as “Securities borrowing receivables” in the balance sheet. Cash paid or received as collateral for securities borrowing and lending is recorded as “Guarantee deposit receivables” or “Guarantee deposit payables”. Fees for borrowing and lending are recognised on an accrual basis over the term of the lending.

#### **5.6 Investments**

- a) Investments in securities held for trading are presented at fair value. Gains or losses arising from changes in the carrying amounts of securities are included in determining incomes.
- b) Investments in available-for-sale securities are determined at fair value. Changes in the carrying amounts of securities are recorded as separate items in the shareholders’ equity until the securities are sold, the changes are then included in determining incomes.
- c) Investments in debt securities both due within one year or expected to be held-to-maturity are stated at amortised cost.
- d) Investments in non-marketable equity securities, which the Company classifies as other investments, are valued at cost net of allowance for impairment (if any).

- e) Investments in subsidiary and associated companies are accounted for under the equity method.

The fair value of marketable securities is based on the latest bid price of the last working day of the year as quoted on the Stock Exchange of Thailand. The fair value of debt instruments is determined based on required rate of return or the yield rates quoted by the Thai Bond Market Association. The fair value of unit trusts is determined from their net asset value.

Losses on impairment of investments (if any) are included in determining incomes. Allowance for loss on the impairment of other investments is based on net realisable value with reference to the net book value of ordinary share and other relevant factors.

The weighted average method is used for computation of the cost of investments.

#### **5.7 Receivable from Clearing House**

Receivable from Clearing House comprises the net balance receivable from Thailand Securities Depository in respect of securities trades settled through the Clearing House of Thailand Securities Depository and the net receivable from Thailand Clearing House including amounts pledged with Thailand Clearing House as security for derivatives trading.

#### **5.8 Securities and derivatives business receivables, and allowance for doubtful accounts**

Securities and derivatives business receivables comprise the net securities and derivatives business receivables, after deducting allowance for doubtful accounts, and include related accrued interest receivables.

In addition, securities business receivables include the net receivable balances of cash accounts, credit balance accounts, securities borrowings receivable and guarantee deposit receivables (which comprise cash placed as security with securities lenders or securities depositories) and other receivables such as overdue cash customer accounts and securities receivables which are the subject of legal proceedings, are undergoing restructuring or are settling in installments.

The Company has provided an allowance for doubtful debts 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 Notification No. Kor. Thor. 5/2544 dated 15 February 2001 of the Office of the Securities and Exchange Commission, and consideration of other relevant factors.

## **5.9 Premises and equipment and depreciation**

Land is stated at cost. Building and equipment are stated at cost less accumulated depreciation. Depreciation is calculated by reference to their cost on a straight-line basis over the following estimated useful lives :-

Building and building improvement	20	years
Furniture, fixtures and equipment	5	years
Vehicles	5	years

No depreciation is provided for land and installation in progress.

Depreciation is included in determining income.

## **5.10 Financial lease**

Leases of vehicles which transfer substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lower of the fair value of the leased assets and the present value of the minimum lease payments. The outstanding rental obligations, net of finance charges, are included in other long-term payables, while the interest element is charged to the income statements over the lease period. The assets acquired under finance leases is depreciated over the useful life of the asset.

## **5.11 Intangible assets and amortisation**

Intangible assets are stated at cost less accumulated amortisation. Amortisation of intangible assets is calculated by referring to their cost on a straight-line basis over the following estimated useful lives :-

Deferred underwriting license fee	10	years
Deferred derivative agent license fee	5	years
Computer software	5	years

Amortisation is included in determining income.

#### **5.12 Property foreclosed**

Property foreclosed represents land received in payment of debt from securities business receivables, and is stated at the lower of cost or net realisable value. Loss on impairment is included in determining incomes.

#### **5.13 Securities sold under repurchase agreements**

The Company enters into sales of securities under agreements to repurchase securities at certain dates in the future at a fixed price. Securities sold under repurchase agreements presented as liabilities in the balance sheet are stated at amounts received from the sale of those securities and the underlying securities are treated as collaterals.

The difference between the purchase and sale considerations is recognised on an accrual basis over the period of the transaction and is included in expenses on borrowings.

#### **5.14 Payable to Clearing House**

Payable to Clearing House comprises the net balance payable to Thailand Securities Depository in relation to securities trading settlements made through the Clearing House of Thailand Securities Depository and the net balance payable to Thailand Clearing House.

#### **5.15 Securities and derivatives business payables**

Securities and derivatives business payables are the obligations of the Company in respect of its securities and derivatives business with outside parties, such as the net payable balances of cash accounts, securities delivery obligations as a result of short sales or securities borrowing, and obligations to return assets held by the Company as collateral for securities lending.

#### **5.16 Provisions**

Provisions are recognised when the Company and the subsidiaries companies have a present obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. In the event that no independent market value can be obtained, then an estimate is assessed.

#### **5.17 Related party transactions**

Related parties comprise enterprises and individuals that control, or are controlled by, the Company, whether directly or indirectly, or which are under common control with the Company.

They also include associated companies and individuals which directly or indirectly own a voting interest in the Company that gives them significant influence over the Company, key management personnel, directors and officers with authority in the planning and direction of the Company's operations.

#### **5.18 Foreign currency translation**

Foreign currency transactions occurring during the period has been translated into Baht at the rates ruling on the transaction dates. Assets and liabilities in foreign currencies outstanding on the balance sheet date have been translated into Baht at the rates ruling on the balance sheet date, with the exception of assets and liabilities covered by forward exchange contracts which are translated into Thai Baht at the contract rates.

Exchange gains and losses are included in determining income.

#### **5.19 Impairment of assets**

The Company and the subsidiary companies assess at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, the Company and the subsidiary companies make an estimate of the asset's recoverable amount. Where the carrying amount of the asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Impairment losses are recognised in the income statement. An asset's recoverable amount is the higher of fair value less costs to sell and value in use.

#### **5.20 Employee benefits**

Salary, wages, bonuses and contributions to the social security fund and provident fund are recognised as expenses when incurred.

#### **5.21 Income tax**

The Company and its local subsidiary record income tax in the accounts based on the taxable profits determined in accordance with tax legislation.

#### **5.22 Derivatives**

The Company engaged in the trading of financial derivative instruments, in response to client demand and/or trading purpose. Derivatives are regarded as off-balance sheet items and changes in the carrying amounts of derivatives are included in determining income.

Obligations under derivatives which the Company entered into for trading purpose are regarded as off-balance sheet items. Amounts deposited as security for these derivatives are recorded as receivable from Thailand Clearing House and gains (losses) from changes in the fair value of derivatives are included in determining incomes. The fair value of derivatives is based on the daily settlement prices quoted by Thailand Futures Exchange Public Company Limited.

### 5.23 Use of accounting estimates

Preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions in certain circumstances, affecting amounts reported in these financial statements and related notes. Actual results could differ from these estimates.

## 6. CASH AND CASH EQUIVALENTS

(Unit : Baht)

	Consolidated		The Company Only	
	2006	2005	2006	2005
Cash on hand	900,303	886,053	850,303	856,053
Current deposits and savings deposits	183,039,269	307,547,492	170,641,727	289,065,077
Promissory notes with maturity not more than 3 months	489,906,756	601,847,868	420,000,000	448,867,868
Total cash and cash equivalents	673,846,328	910,281,413	591,492,030	738,788,998
Less: Cash deposits held for customers	(246,648,478)	(169,667,816)	(246,648,478)	(169,667,816)
Net cash and cash equivalents	427,197,850	740,613,597	344,843,552	569,121,182

## 7. LONG-TERM DEPOSITS AT FINANCIAL INSTITUTIONS

(Unit : Baht)

	Consolidated		The Company Only	
	2006	2005	2006	2005
Treasury bill with maturity more than 3 months	-	100,000,000	-	100,000,000
Promissory notes with maturity more than 3 months	115,280,000	-	-	-
Deposits with restriction	3,094,053	3,094,053	-	-
Total long-term deposits at financial institutions	118,374,053	103,094,053	-	100,000,000
Less : Deposits held for customers	-	(100,000,000)	-	(100,000,000)
Net long - term deposits at financial institutions	118,374,053	3,094,053	-	-

As at 31 December 2006, a subsidiary company's fixed deposits with a bank totaling Baht 3.1 million (2005 : Baht 3.1 million) were pledged to secure a bank overdraft facility from a commercial bank and bank guarantee issued by bank on behalf of a subsidiary company.

## 8. INVESTMENTS IN DEBT AND EQUITY SECURITIES

(Unit : Baht)

	2006			
	Consolidated		The Company Only	
	Cost value/ amortised cost	Fair value	Cost value/ amortised cost	Fair value
<b>Short-term investments</b>				
<u>Trading securities</u>				
Equity securities				
Listed securities	851,416,914	854,897,821	851,416,914	854,897,821
Unit trusts	34,169,337	38,394,061	34,169,337	38,394,061
Warrants	2,762	9,294	2,762	9,294
Total	885,589,013	893,301,176	885,589,013	893,301,176
Debt securities				
Government bonds	1,615,665,246	1,590,720,405	1,615,665,246	1,590,720,405
Corporate debentures	101,636,636	97,501,931	101,636,636	97,501,931
Total	1,717,301,882	1,688,222,336	1,717,301,882	1,688,222,336
Total trading securities	2,602,890,895	2,581,523,512	2,602,890,895	2,581,523,512
Add : allowance for revaluation	(21,367,383)		(21,367,383)	
Net trading securities	2,581,523,512		2,581,523,512	
<b>Total short-term investment, net</b>	2,581,523,512		2,581,523,512	
<b>Long-term investments</b>				
<u>Other investments</u>				
Foreign unit trusts	768,768,000		-	
Other securities - ordinary shares	43,242,691		21,272,558	
Less : allowance for impairment	(4,810,217)		-	
Net other investments	807,200,474		21,272,558	
<u>Held-to-maturity debt securities</u>				
Government bond	7,902,429		-	
Net held-to-maturity debt securities	7,902,429		-	
<b>Total long-term investments, net</b>	815,102,903		21,272,558	
<b>Total investments in debt and equity securities - net</b>	3,396,626,415		2,602,796,070	

(Unit : Baht)

2005

	Consolidated		The Company Only	
	Cost value/ amortised cost	Fair value	Cost value/ amortised cost	Fair value
<b>Short-term investments</b>				
<u>Trading securities</u>				
Equity securities				
Listed securities	1,084,390,116	1,115,819,778	1,084,390,116	1,115,819,778
Unit trusts	34,169,337	36,978,537	34,169,337	36,978,537
Warrants	2,004,362	2,092,665	2,004,362	2,092,665
Total	1,120,563,815	1,154,890,980	1,120,563,815	1,154,890,980
Debt securities				
Government bonds	110,779,243	109,999,223	110,779,243	109,999,223
Corporate debentures	57,813,621	52,754,236	57,813,621	52,754,236
Total	168,592,864	162,753,459	168,592,864	162,753,459
Total trading securities	1,289,156,679	1,317,644,439	1,289,156,679	1,317,644,439
Add : allowance for revaluation	28,487,760		28,487,760	
Net trading securities	1,317,644,439		1,317,644,439	
<u>Held-to-maturity debt securities-due within 1 year</u>				
Government bond (net unearned discount)	39,894,735		-	
Net held-to-maturity debt securities-due within 1 year	39,894,735		-	
<b>Total short-term investment, net</b>	1,357,539,174		1,317,644,439	
<b>Long-term investments</b>				
<u>Other investments</u>				
Foreign unit trusts	833,293,000		-	
Other securities - ordinary shares	46,377,366		21,372,558	
Less : allowance for impairment	(5,474,639)		-	
Net other investments	874,195,727		21,372,558	
<u>Held-to-maturity debt securities</u>				
Government bond	7,878,036		-	
Net held-to-maturity debt securities	7,878,036		-	
<b>Total long-term investments, net</b>	882,073,763		21,372,558	
<b>Total investments in debt and equity securities - net</b>	2,239,612,937		1,339,016,997	

### 8.1 Investment with commitment

As at 31 December 2006, investment in government debt securities included totaled of Baht 738 million was securities sold under repurchase agreements. In addition, investments in held-to-maturity government securities of a local subsidiary amounting to Baht 7.9 million were pledged as security with the Ministry of Finance and Ministry of Industry, in accordance with the agreement under which the Ministry of Finance and the Ministry of Industry appointed this subsidiary company as a fund manager.

### 8.2 Long-term investments

#### (a) Other investments

During the year 2005, an overseas subsidiary company transferred its other investment in non-marketable securities from short-term investment to long-term investment because the management of such subsidiary company was looking for a buyer but do not expected such investment to be sold in the near future. The net book value at the transfer date, after allowance for impairment, was approximately Baht 20 million.

#### (b) Other foreign investment

As at 31 December 2006, other foreign investments of Baht 769 million was investments in unit trust of a foreign subsidiary which the subsidiary intends to hold for more than 1 year. Such investments are offshore funds, which mainly invest in equity securities of foreign companies.

### 8.3 Debt securities classified by maturity date

As at 31 December 2006 and 2005, the subsidiary classify investments in held-to-maturity debt securities by the remaining years to maturity as follows :-

(Unit : Baht)

	Consolidated			
	2006			
	Maturity			
	Within 1 year	1 - 5 years	Over 5 years	Total
<b>Held-to-maturity debt securities</b>				
Government bond	-	7,902,429	-	7,902,429
<b>Total investments in held-to-maturity debt securities</b>	-	7,902,429	-	7,902,429

(Unit : Baht)

	Consolidated			
	2005			
	Maturity			Total
	Within 1 year	1 - 5 years	Over 5 years	
<b>Held-to-maturity debt securities</b>				
Government bonds	39,894,735	-	7,878,036	47,772,771
<b>Total investments in held-to-maturity debt securities</b>	<b>39,894,735</b>	<b>-</b>	<b>7,878,036</b>	<b>47,772,771</b>

**8.4 Gain (loss) on trading in securities**

(Unit : Baht)

	Consolidated		The Company Only	
	2006	2005	2006	2005
Unrealised loss on revaluation of investment in trading securities	(49,855,142)	(242,876)	(49,855,142)	(242,876)
Unrealised gain (loss) on revaluation of securities borrowed under the securities borrowing and lending business	20,983,995	(53,596,480)	20,983,995	(53,596,480)
Realised gain (loss) on trading of securities	(48,781,404)	42,672,824	(48,781,404)	42,672,824
Loss on impairment of investments	-	(746,249)	-	-
<b>Total loss on trading in securities</b>	<b>(77,652,551)</b>	<b>(11,912,781)</b>	<b>(77,652,551)</b>	<b>(11,166,532)</b>

**8.5 Gain (loss) on trading in derivatives**

(Unit : Baht)

	Consolidated		The Company Only	
	2006	2005	2006	2005
Unrealised gain on revaluation of derivatives	23,111,003	-	23,111,003	-
Realised gain (loss) on derivatives	12,776,171	(712,350)	12,776,171	(712,350)
<b>Total gain (loss) on trading in derivatives</b>	<b>35,887,174</b>	<b>(712,350)</b>	<b>35,887,174</b>	<b>(712,350)</b>

## 8.6 Interest and dividend income from investments in securities

(Unit : Baht)

	Consolidated		The Company Only	
	2006	2005	2006	2005
Interest income from debt securities	38,396,992	35,832,120	37,612,008	33,846,740
Dividend income from equity securities	30,164,077	14,775,061	30,164,077	14,775,061
Total interest and dividend income from investments in securities	68,561,069	50,607,181	67,776,085	48,621,801

## 9. INVESTMENTS IN SUBSIDIARY COMPANIES ACCOUNTED FOR UNDER EQUITY METHOD

As at 31 December 2006 and 2005, the Company's investments in the subsidiary companies accounted for under equity method are as follows :-

Company's name	Business	Type of Relations	Paid up capital		Percentage of holding		Cost method		Equity method		Dividend	
			2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
					%	%	Million Baht	Million Baht	Million Baht	Million Baht	Million Baht	Million Baht
<u>Subsidiary companies included in consolidated financial statements</u>												
One Asset Management Limited	Mutual fund management	Shareholding	Baht 105 million	Baht 105 million	96	95	239	238	229	209	30	56
KGI Securities (Thailand) International Holdings Limited (incorporated in Hong Kong)	Holding	Shareholding	USD 39 million	USD 39 million	100	100	1,549	1,549	1,752	2,086	325	-
KGI (Thailand) Holdings Limited (incorporated in British Virgin Islands)	Holding	Shareholding	USD 20 million	USD 20 million	100	100	834	834	756	821	-	-
<u>Subsidiary companies excluded from consolidated financial statements</u>												
KGI E-World Co., Ltd. (closed)	Holding	Shareholding	-	1	-	100	-	1	-	-	-	-
KGI S-One Corporation Plc. (closed)	Holding	Shareholding	-	0.1	-	100	-	-	-	-	-	-
Thai Thamrong Finance Co., Ltd. (closed)	Finance	Shareholding	Baht 1,218 million	Baht 1,218 million	53	53	-	-	-	-	-	-
<u>Associated companies</u>												
Unitech System International Co., Ltd.	Software rights	Shareholding	Baht 42 million	Baht 42 million	40	40	-	-	-	-	-	-
Nithipat Finance Plc. (closed)	Finance	Shareholding	Baht 1,080 million	Baht 1,080 million	24	24	-	-	-	-	-	-
Total investments in subsidiaries in financial statements of the Company									2,737	3,116		

- 9.1 On 27 February 2007, the Board of Directors' Meeting approved the decision not to liquidate KGI Securities (Thailand) International Holdings Limited, which was previously approved on 8 May 2003 since the Company has plans for overseas activities.
- 9.2 In March 2005, the Company sold its investment in Ace Capital Company Limited (a subsidiary company excluded from consolidated financial statement) since the Company has introduced a policy to cease management control of this subsidiary. Investment in that subsidiary was recorded at zero and the Company has ceased taking equity. The Company has recorded a gain of Baht 90 million on the sale of the investment in the income statements.
- 9.3 KGI E-World Company Limited, a local subsidiary company, filed for deregistration with the Ministry of Commerce on 29 December 2005, and completed its liquidation on 12 July 2006.
- 9.4 KGI S-One Corporation Plc., a local subsidiary company, filed for deregistration with the Ministry of Commerce on 23 April 2002, and completed its liquidation on 8 September 2006.
- 9.5 During the year 2006, the Company acquired additional 70,119 ordinary shares from minority shareholders of its a local subsidiary company, One Asset Management Limited. As a result, as at 31 December 2006, the Company's shareholding in this subsidiary company has changed from 95 percent to 96 percent.

## 10. RECEIVABLES FROM CLEARING HOUSE

(Unit : Baht)

	Consolidated and the Company only	
	2006	2005
Receivables from Thailand Securities Depository	107,783,390	-
Receivables from Thailand Clearing House	43,653,700	-
Total receivables from Clearing House	151,437,090	-
Less : Receivables from Thailand Clearing House for customers	(13,283,400)	-
Receivables from Clearing House – net	<u>138,153,690</u>	<u>-</u>

## 11. SECURITIES AND DERIVATIVES BUSINESS RECEIVABLES

(Unit : Baht)

	Consolidated and the Company Only	
	2006	2005
<u>Securities business receivables</u>		
Cash accounts	380,767,330	937,151,536
Credit balance accounts	916,889,897	1,093,923,824
Receivables under securities borrowing and lending business :-		
- Guarantee deposit receivables	414,494,645	964,582,646
- Securities borrowing receivables	156,407,950	93,559,317
Other receivables :-		
- Installment receivables	330,085,782	357,104,688
- Overdue customers' accounts	347,131	102,395
Total securities business receivables	2,198,992,735	3,446,424,406
Add : Accrued interest receivables	19,244,057	15,512,417
Less : Allowance for doubtful accounts	(286,889,092)	(301,546,607)
Securities business receivables – net	1,931,347,700	3,160,390,216
Total securities and derivatives business receivables - net	1,931,347,700	3,160,390,216

11.1 As at 31 December 2006, the Company has other receivables totaling Baht 330 million on which the recognition of interest income on an accrual basis had been suspended (2005 : Baht 162 million).

11.2 As at 31 December 2006 and 2005, the Company has classified securities business receivables, including related accrued interest receivables, in accordance with the relevant notification issued by the Office of the Securities and Exchange Commission. The classification is as follows :-

(Unit : Million Baht)

	Debt balances		Allowance for doubtful accounts set up by the Company	
	2006	2005	2006	2005
Doubtful debt	276	302	276	302
Substandard debt	67	66	-	-
Total	343	368	276	302
Additional reserve for possible loan loss			11	-
Total			287	302

During 2005 the Company was sued by a third party, seeking to have the court order that the mortgage instrument for the land placed as collateral for an installment receivable be revoked. At that time, the management of the Company believed that the mortgage had been made in good faith and that the Company would win the case, and the Company thus assigned a valuation to the collateral of 50 percent of the value appraised by an independent appraiser. However, in the year 2006 the plaintiff lodged a petition to withdraw the lawsuit and therefore the Company adjusted its valuation of the collateral in accordance with the relevant notification issued by the Office of the Securities and Exchange Commission. As at 31 December 2006, the outstanding balance of this installment receivable was Baht 69 million, against which land valued at approximately Baht 40 million (representing 80 percent of the value appraised by an independent appraiser) has been mortgaged as collateral.

- 11.3 As at 31 December 2006, securities business receivables include guarantee deposit receivables of approximately Baht 414 million, which comprise cash which the Company placed as collateral for securities borrowed as part of the securities borrowing and lending business. As at the same date, the fair value of those borrowed listed securities was approximately Baht 330 million. All of such borrowed securities were sold under short sale transactions or relent to others.

## 12. TROUBLE DEBT RESTRUCTURING

During the year 2006, the Company entered into debt restructuring agreements with securities business receivables with total net book values before deducting allowance for doubtful accounts amounting to approximately Baht 7.5 million. The receivables were restructured by means of rescheduling repayments or accepting the transfer of assets for debt settlement. The Company had previously either set aside full allowance for doubtful debt for such receivables or written them off. Details of receivables restructured during the year 2006 are as follows :-

Type of restructuring	Number of receivables	Outstanding balance before restructuring (Before deducting allowance for doubtful accounts)	Outstanding balance after restructuring
		Million Baht	Million Baht
Modification of payment terms	2	6.8	6.6
Transfer of assets and modification of payment terms	2	0.7	0.4

### 13. ALLOWANCE FOR DOUBTFUL ACCOUNTS

(Unit : Baht)

	Consolidated and the Company Only	
	2006	2005
Balance - beginning of the year	301,546,607	210,767,938
Add : Doubtful accounts	17,427,776	121,293,354
Bad debt write-back	-	20,704,488
Less : Reversal of doubtful accounts	(27,620,503)	(18,025,028)
Bad debt written-off	(4,464,788)	(33,194,145)
Balance - end of the year	286,889,092	301,546,607

### 14. PROPERTY, PLANT AND EQUIPMENT

(Unit : Baht)

	Consolidated						Total
	Land	Building and building improvement	Equipment	Furniture and fixtures	Vehicles	Installation in progress	
<u>Cost</u>							
31 December 2005	1,820,000	13,282,706	266,334,978	142,591,999	65,331,776	2,079,318	491,440,777
Purchase/Transfer in	-	-	18,680,717	2,320,937	10,812,259	12,760,326	44,574,239
Disposal/write-off	-	-	(12,245,868)	-	(7,768,000)	-	(20,013,868)
Transfer out	-	-	-	-	-	(7,580,891)	(7,580,891)
31 December 2006	1,820,000	13,282,706	272,769,827	144,912,936	68,376,035	7,258,753	508,420,257
<u>Accumulated depreciation</u>							
31 December 2005	-	9,788,877	215,186,009	108,020,011	43,347,072	-	376,341,969
Depreciation for the year	-	2,164,429	21,893,950	13,857,411	8,909,688	-	46,825,478
Disposal/write-off	-	-	(12,199,224)	-	(7,767,994)	-	(19,967,218)
31 December 2006	-	11,953,306	224,880,735	121,877,422	44,488,766	-	403,200,229
<u>Net book value</u>							
31 December 2005	1,820,000	3,493,829	51,148,969	34,571,988	21,984,704	2,079,318	115,098,808
31 December 2006	1,820,000	1,329,400	47,889,092	23,035,514	23,887,269	7,258,753	105,220,028
Depreciation charge included in income statements for the year							
2005							48,642,500
2006							46,825,478

(Unit : Baht)

The Company only							
	Land	Building and building improvement	Equipment	Furniture and fixtures	Vehicles	Installation in progress	Total
<u>Cost</u>							
31 December 2005	1,820,000	3,280,000	239,447,101	137,105,633	54,005,356	2,079,318	437,737,408
Purchase/Transfer in	-	-	17,377,482	2,295,745	4,430,000	12,760,326	36,863,553
Disposal/write-off	-	-	(12,235,681)	-	(2,632,000)	-	(14,867,681)
Transfer out	-	-	-	-	-	(7,580,891)	(7,580,891)
31 December 2006	1,820,000	3,280,000	244,588,902	139,401,378	55,803,356	7,258,753	452,152,389
<u>Accumulated depreciation</u>							
31 December 2005	-	1,920,854	192,156,089	103,073,506	33,534,676	-	330,685,125
Depreciation for the year	-	163,888	19,442,713	13,420,265	7,678,800	-	40,705,666
Disposal/write-off	-	-	(12,194,195)	-	(2,631,998)	-	(14,826,193)
31 December 2006	-	2,084,742	199,404,607	116,493,771	38,581,478	-	356,564,598
<u>Net book value</u>							
31 December 2005	1,820,000	1,359,146	47,291,012	34,032,127	20,470,680	2,079,318	107,052,283
31 December 2006	1,820,000	1,195,258	45,184,295	22,907,607	17,221,878	7,258,753	95,587,791
Depreciation charge included in income statements							
for the year							
2005							42,353,895
2006							40,705,666

As at 31 December 2006 and 2005, certain equipment and furniture and fixtures of the Company and a subsidiary have been fully depreciated but are still in use. The original cost of those assets before deducting accumulated depreciation was approximately Baht 288 million and Baht 296 million, respectively (The Company only : Baht 263 million and Baht 268 million, respectively).

As at 31 December 2006, a subsidiary company has vehicle, acquired under financial lease agreement, with net book value amounting to approximately Baht 6 million. The ownership of the fixed asset is to be transferred to that subsidiary company upon completion of payment.

## 15. INTANGIBLE ASSETS

(Unit : Baht)

Consolidated					
		Balance as at			Balance as at
		1 January			31 December
	Remaining period	2006	Increase	Amortisation	2006
Deferred underwriting					
license fee	-	5,833,333	-	(5,833,333)	-
Deferred derivative					
agent license fee	4.5 years	-	5,336,000	(800,400)	4,535,600
Computer software	1 - 5 years	5,212,003	3,778,791	(2,319,987)	6,670,807
Goodwill	5 years	41,156,231	-	(7,221,316)	33,934,915
Total		<u>52,201,567</u>	<u>9,114,791</u>	<u>(16,175,036)</u>	<u>45,141,322</u>

(Unit : Baht)

The Company Only					
		Balance as at			Balance as at
		1 January			31 December
	Remaining period	2006	Increase	Amortisation	2006
Deferred underwriting					
license fee	-	5,833,333	-	(5,833,333)	-
Deferred derivative					
agent license fee	4.5 years	-	5,336,000	(800,400)	4,535,600
Computer software	1 - 5 years	3,224,909	3,035,791	(1,419,646)	4,841,054
Total		<u>9,058,242</u>	<u>8,371,791</u>	<u>(8,053,379)</u>	<u>9,376,654</u>

## 16. PROPERTY FORECLOSED

(Unit : Baht)

	Consolidated and the Company Only	
	2006	2005
Cost	73,712,783	73,712,783
Less : Allowance for impairment	(8,673,628)	(8,673,628)
Property foreclosed – net	<u>65,039,155</u>	<u>65,039,155</u>

Property foreclosed represents land received in settlement of the debts of the Company's receivables.

They are stated net of allowance for impairment, based on each property's appraised value.

## 17. SECURITIES SOLD UNDER REPURCHASED AGREEMENT

As at 31 December 2006 and 2005, securities sold under repurchased agreement consists of :-

(Unit : Baht)

	Consolidated and the Company Only	
	2006	2005
Government bonds	728,068,198	-

## 18. SECURITIES AND DERIVATIVES BUSINESS PAYABLES

(Unit : Baht)

	Consolidated and the Company Only	
	2006	2005
Securities business payables of securities trading business	447,422,600	991,483,359
Payables under securities borrowing and lending business		
- Securities borrowing payables	331,707,950	814,216,967
- Guarantee deposit payables	183,871,740	116,258,756
Total securities and derivatives business payables	963,002,290	1,921,959,082

## 19. SUBORDINATED LOANS FROM A SUBSIDIARY COMPANY

The Company has subordinated loans amounting to Baht 2,045 million from an overseas subsidiary company. These loans are unsecured, interest free Baht loans maturing in March 2007. During the year 2006, the Company received the interim dividends from this overseas subsidiary company with total amounting to Baht 325 million, and used this to offset against loans borrowed from the subsidiary. As at 31 December 2006, the outstanding balance of the subordinated loans is approximately Baht 1,720 million.

## 20. SHARE CAPITAL

### Year 2006

The Annual General Meeting of the shareholders of the Company held on 20 April 2006 approved the following :-

- (a) The reduction of the Company's paid up and registered capital from Baht 3,983,526,260 to Baht 1,991,763,130 by way of a reduction of par value of the ordinary shares from Baht 2 to Baht 1 per share.

- (b) The offset of the share premium of Baht 1,991,763,130 generated by the reduction of the par value of the ordinary shares from Baht 2 to Baht 1 against the remaining share discount. After the capital reduction and offset, the outstanding balance of the Company's share premium was Baht 982,166,480.

On 17 July 2006, the above capital reduction was approved by the Office of the Securities and Exchange Commission and there was no objection from the creditors. The Company therefore registered the reduction in its capital with the Ministry of Commerce on 7 August 2006 and transferred share premium to offset the remaining share discount.

### **Year 2005**

The Annual General Meeting of the shareholders of the Company held on 21 April 2005 approved the following :-

- The reduction of the Company's registered capital from Baht 23,049,357,922.50 (3,073,247,723 ordinary shares of Baht 7.50 each) to Baht 14,938,223,475 (1,991,763,130 ordinary shares of Baht 7.50 each) through the cancellation of 1,081,484,593 unissued ordinary shares with a par value of Baht 7.50 each, previously reserved to accommodate the exercise of Warrant #4, which expired on 30 April 2004.
- The reduction of the Company's registered and paid-up capital by reducing the par value of ordinary shares as follows :-
  - (a) The reduction of the Company's registered capital from Baht 14,938,223,475 (1,991,763,130 ordinary shares at Baht 7.50 each) to Baht 3,983,526,260 (1,991,763,130 ordinary shares at Baht 2 each) and ;
  - (b) The reduction of the Company's paid-up capital from Baht 14,938,223,475 (1,991,763,130 ordinary shares at Baht 7.50 each) to Baht 3,983,526,260 (1,991,763,130 ordinary shares at Baht 2 each).
- The offset of the share premium of Baht 10,954,697,215 generated by the reduction of the par value of the shares from Baht 7.50 to Baht 2.00 against the share discount of Baht 11,964,293,865. After the capital reduction and offset, the balance sheet would present discount on common shares of Baht 1,009,596,650.

The capital reduction detailed above was approved by the Office of the Securities and Exchange Commission and there were no objections from the creditors. The Company therefore registered the change of its capital with the Ministry of Commerce on 30 June 2005.

## **21. SHARE PREMIUM (DISCOUNT)**

On 16 November 2005, the Office of the Securities and Exchange Commission issued an announcement providing guidelines on how to record the offset of a share capital reduction against a retained deficit, with reference to the opinion expressed by the Federation of Accounting Professions (“FAP”) in a letter dated 10 November 2005, in respect of recording the offset of premiums or reserves against deficits in retained earnings while there is still share discount outstanding in shareholders’ equity. It opined that companies must apply the share premium arising as a result of a capital reduction to eliminate the outstanding share discount first, with any remaining premium then able to be used to offset the deficit; and that any companies whose accounting does not accord with such principle should take corrective action, implementing the changes with immediate effect.

However, on 26 January 2006, the FAP issued a letter relaxing the enforcement of this accounting method, whereby companies are allowed to reduce share capital to eliminate any share discount. The Company chose to reduce its share capital and transfer the resulting share premium to eliminate the share discount. As at 31 December 2005, the outstanding balance of the Company’s share discount, net of share premium, was Baht 1,010 million.

In this respect, as described in Note 20 to financial statements, the Company's Annual General Meeting of the shareholders held on 20 April 2006 approved a share capital reduction of approximately Baht 1,992 million and the transfer of the share premium generated from the capital reduction to offset all of the outstanding share discount. The Company registered the capital reduction with the Ministry of Commerce on 7 August 2006 and transferred the share premium to offset the remaining share discount. As at 31 December 2006, the Company's outstanding share premium was approximately Baht 982 million.

## 22. ESOP WARRANTS

The Board of Directors' meeting held on 24 February 2006 approved the issuance of up to 99,236,870 warrants to the Company's directors and employees free of charge. The exercise ratio is to be 1 warrant per 1 ordinary share and the warrants are to be exercisable every 6 months, with a term of no more than 4 years from the first offering date. The ESOP Committee was granted authority to determine the exercise date and exercise price, which is not to be below the par value of the shares.

However, the Board of Directors' meeting held on 20 April 2006 approved the postponement of the issuance of the ESOP warrants in order to review the allocation of warrants, because there had been changes to the Board of Directors. Any issuance of the warrants is subject to approval by a meeting of the shareholders.

As at 31 December 2006, the Company have not issued the above ESOP warrants.

## 23. STATUTORY RESERVE

Pursuant to Section 116 of the Public Limited Companies Act B.E. 2535, the Company is required to set aside to a statutory reserve at least 5 percent of its net income after deducting accumulated deficit brought forward (if any), until the reserve reaches 10 percent of the registered capital. The statutory reserve is not available for dividend distribution.

As at 31 December 2006, the Company had set aside the statutory reserve of Baht 9,500,000 from its net income for the year 2006.

## 24. FEES AND SERVICES INCOME

(Unit : Baht)

	For the years ended 31 December			
	Consolidated		The Company only	
	2006	2005	2006	2005
Mutual fund management fee	178,215,309	191,584,325	-	-
Private fund management fee	16,242,645	16,556,058	-	-
Management fee, registrar and custodian fees	10,113,079	9,120,328	60,210	73,335
Underwriting fee	5,529,780	17,443,164	5,529,780	17,443,164
Financial advisory fee	2,762,963	6,656,500	2,762,963	6,656,500
Securities borrowing and lending fee	5,947,339	6,311,661	5,947,339	6,311,661
Selling agent fee	3,280,214	4,441,593	2,782,049	2,511,970
Others	375,325	672,568	369,375	643,227
Total fees and services income	<u>222,466,654</u>	<u>252,786,197</u>	<u>17,451,716</u>	<u>33,639,857</u>

## 25. NUMBER OF EMPLOYEES AND RELATED COST

(Unit : Thousand Baht)

	Consolidated		The Company only	
	2006	2005	2006	2005
Personnel expenses for the year	503,784	505,444	422,459	423,244
Reversal of prior year accrued bonus expenses	(2,525)	(22,853)	(2,525)	(22,853)
	<u>501,259</u>	<u>482,591</u>	<u>419,934</u>	<u>400,391</u>
Number of employees at end of year (persons)	688	624	603	540

Personnel expenses of the current year and prior year included the reversal of 2005 and 2004 accrued bonuses amounting of Baht 2.5 million and Baht 22.9 million, respectively. These accrued bonuses was recorded at the end of the years at the estimated amounts approved by Board of Directors' meetings. However, the management reconsidered the appropriate amount of bonus paid and concluded that such amount should be less than the estimated amount. The unpaid amount was therefore reversed in the following year.

## 26. PROVIDENT FUND

The Company, its local subsidiary and their employees have jointly established the provident funds in accordance with the Provident Fund Act B.E. 2530. The funds are monthly contributed to by employees, at the rate of 3 to 6 percent of their basic salaries, and by the Company and a local subsidiary company at the same rate. The fund will be paid to employees upon termination in accordance with the rules of the funds. During the year ended 31 December 2006 and 2005, Baht 12.2 million and Baht 12.1 million, respectively were contributed to the employees' provident funds by the Company and the subsidiary company. (The Company only: Baht 9.6 million and Baht 9.7 million, respectively).

## 27. DIRECTORS' REMUNERATION

Directors' remuneration represents the benefits (exclusive of salaries, bonus and related benefits payable to executive directors) paid to the Company's directors in accordance with Section 90 of the Public Limited Companies Act.

Directors' remuneration of the current year and the prior year included adjustments made by adding or reversal remuneration of directors for the years 2005 and 2004. At the end of the years, the Company estimated and recorded directors' remuneration based on the amount approved for the prior year and subsequently adjusted the amounts when the amount approved by the Annual General Meeting of Shareholders was known. Directors' remuneration for the years were as follows :-

(Unit : Thousand Baht)

	For the year ended 31 December			
	Consolidated		The Company Only	
	2006	2005	2006	2005
Directors' remuneration for the year	12,778	15,585	6,665	9,050
Reversal of prior year accrued directors' remuneration	(4,450)	(2,790)	(4,450)	(2,790)
	<u>8,328</u>	<u>12,795</u>	<u>2,215</u>	<u>6,260</u>

## 28. CORPORATE INCOME TAX

No corporate income tax is payable on the earnings for the year 2006 and 2005 of the Company since tax losses brought forward from previous years exceed net income for the years.

Corporate income tax presented in consolidated financial statements was that of a local subsidiary company.

## 29. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the net income for the year by the weighted average number of ordinary shares in issue during the year.

## 30. RELATED PARTY TRANSACTIONS

During the years, the Company and its subsidiaries had significant business transactions with related parties, which have been concluded on commercial terms and bases agreed upon in the ordinary course of business between the Company and those companies. Below is a summary of those transactions.

					(Unit : Thousand Baht)
	Consolidated		The Company only		Transfer Pricing Policies
	2006	2005	2006	2005	
<b><u>Transactions with subsidiary</u></b>					
(eliminated from the consolidated financial statements)					
<b><u>Commission fee income</u></b>					
One Asset Management Limited (The Company's subsidiary which is 96% held by the Company)	-	-	367	700	Commission fee at a percentage of net asset value of fund serviced or at the contracted rate
<b><u>Management fee expense</u></b>					
One Asset Management Limited (The Company's subsidiary which is 96% held by the Company)	-	-	-	208	Management fee at 0.5% p.a. of the net asset value of the fund at the last day of the month
<b><u>Transactions with related parties</u></b>					
<b><u>Brokerage fee from securities business</u></b>					
KGI Asia Limited (KGI Group is a major shareholder of KGI Asia Limited and of the Company)	116	9,296	116	9,296	Brokerage fee at 0.25 percent of value of trades
KGI Securities Co., Ltd. (KGI Group is a major shareholder of KGI Securities Co., Ltd and of the Company)	858	3,605	858	3,605	
<b><u>Custodian fee income</u></b>					
Bangkok Tiger Limited (It is owned by KGI Group and it is one of major shareholders of the Company)	47	59	47	59	Baht 15 for every Baht 1 million of securities value, each day
Pacific Line Limited (It is owned by KGI Group and it is one of major shareholders of the Company)	12	15	12	15	Baht 15 for every Baht 1 million of securities value, each day
<b><u>Interest income from guarantee deposit receivable under securities borrowing business</u></b>					
Funds managed by One Asset Management Limited	456	1,357	456	1,357	Interest rate of 4.30 percent per annum (2005 : interest rate of 1.9 percent per annum)

					(Unit : Thousand Baht)
	Consolidated		The Company only		Transfer Pricing Policies
	2006	2005	2006	2005	
<u>Securities borrowing fee</u>					Securities borrowing fee at 3 percent
Funds managed by One Asset Management Limited	295	2,780	295	2,780	per annum of outstanding value of borrowed securities.
<u>Premium on forward exchange sales contract of subsidiary company</u>					
KGI International Finance Limited (KGI Group is a major shareholder of KGI International Finance Limited and of the Company)	1,897	3,794	-	-	Exchange rate of Baht 39.16 per USD 1 (2005 : Exchange rate of Baht 41.86 per USD 1).
<u>Capital expenditure for developing computer system (Global Standard Business Program)</u>					At the rate determined with reference to cost plus 4 percent margin.
KGI Securities Co., Ltd. (KGI Group is a major shareholder of KGI Securities Co., Ltd and of the Company)	344	-	344	-	
KGI Hong Kong Limited (KGI Group is a major shareholder of KGI Securities Co., Ltd and of the Company)	1,822	-	1,822	-	
<u>Directors' remuneration</u>					
KGI Securities (Thailand) Plc.	2,215	6,260	2,215	6,260	
One Asset Management Limited (The Company's subsidiary which is 96% held by the Company)	75	75	-	-	
KGI Securities (Thailand) International Holdings Limited (The Company's subsidiary which is 100% held by the Company)	3,019	3,230	-	-	
KGI (Thailand) Holdings Limited (The Company's subsidiary which is 100% held by the Company)	3,019	3,230	-	-	

					(Unit : Thousand Baht)
	Consolidated		The Company only		Transfer Pricing Policies
	2006	2005	2006	2005	
<u>Remuneration provided to the subsidiary company's directors and employees in form of equity securities</u>					
Right to purchase 100,000 shares of the subsidiary company at par value of Baht 10 per share in 2005	-	-	-	-	During the year 2005, the subsidiary company offered its directors and employees the right to purchase 100,000 ordinary shares of the subsidiary company at par value of Baht 10 per share. Such rights were fully exercised in July 2005.

As at 31 December 2006 and 2005, the outstanding balances of the above transactions, as presented in the balance sheets are as follows :-

					(Unit : Thousand Baht)
	Consolidated		The Company Only		Transfer Pricing policies
	2006	2005	2006	2005	
<u>Accrued service fee</u>					No interest charged
o Subsidiary company					
One Asset Management Limited (The Company's subsidiary which is 96% held by the Company)	-	-	-	48	
o Related companies					
Bangkok Tiger Limited (It is owned by KGI Group and it is one of major shareholders of the Company)	11	12	11	12	
Pacific Line Limited (It is owned by KGI Group and it is one of major shareholders of the Company)	3	3	3	3	

					(Unit : Thousand Baht)
	Consolidated		The Company Only		Transfer Pricing policies
	2006	2005	2006	2005	
<b><u>Accrued interest receivable from</u></b>					Interest rate of 4.30 percent per annum (2005 : Interest rate of 1.9 percent per annum)
<b><u>  guarantee deposit receivables</u></b>					
<b><u>  under securities borrowing</u></b>					
<b><u>  business</u></b>					
o Related party					
Funds managed by One Asset Management Limited	111	125	111	125	
<b><u>Securities and derivatives</u></b>					No interest charged
<b><u>  business payables</u></b>					
o Related companies					
KGI Securities Co., Ltd. (KGI Group is a major shareholder of KGI Securities Co., Ltd. and of the Company)	3	1,750	3	1,750	
KGI Asia Limited (KGI Group is a major shareholder of KGI Asia Limited and of the Company)	-	59	-	59	
<b><u>Advertising payables</u></b>					No interest charged
o Related company					
KGI Securities Co., Ltd. (KGI Group is a major shareholder of KGI Securities Co., Ltd and of the Company)	1,972	2,241	1,972	2,241	
<b><u>Accounts payable - Global</u></b>					No interest charged
<b><u>  Standard Business Program</u></b>					
o Related companies					
KGI Securities Co., Ltd. (KGI Group is a major shareholder of KGI Securities Co., Ltd and of the Company)	344	-	344	-	
KGI Hong Kong Limited (KGI Group is a major shareholder of KGI Securities Co., Ltd and of the Company)	1,822	-	1,822	-	

(Unit : Thousand Baht)

	Consolidated		The Company Only		Transfer Pricing policies
	2006	2005	2006	2005	
<b><u>Advances from</u></b>					No interest charged
o Subsidiary company					
KGI Securities (Thailand) International Holdings Limited (The Company's subsidiary which is 100% held by the Company)	-	-	1,345	1,529	
o Related companies					
KGI Securities Co., Ltd. (KGI Group is a major shareholder of KGI Securities Co., Ltd and of the Company)	-	2,401	-	2,401	
KGI Hong Kong Limited (KGI Group is a major shareholder of KGI Securities Co., Ltd and of the Company)	-	414	-	414	
<b><u>Advances from related company of subsidiary company</u></b>					No interest charged
o Related company					
KGI Hong Kong Limited (KGI Group is a major shareholder of KGI Hong Kong Limited and of the Company)	253	721	-	-	
KGI Asia Limited (KGI Group is a major shareholder of KGI Hong Kong Limited and of the Company)	2,887	-	-	-	

(Unit : Thousand Baht)

	Consolidated		The Company Only		Transfer Pricing policies
	2006	2005	2006	2005	
<b><u>Subordinated loans from subsidiary company</u></b>					No interest charged
o Subsidiary company					
KGI Securities (Thailand) International Holdings Limited (The Company's subsidiary which is 100% held by the Company)	-	-	1,791,614	2,045,305	
<b><u>Obligation under sale of forward exchange contract of subsidiary company</u></b>					Exchange rate of Baht 41.86 per USD 1.
o Related company					
KGI International Finance Limited (KGI Group is a major shareholder of KGI International Finance Limited and of the Company)	-	627,900	-	-	

### 31. DIVIDENDS

#### The Company

During the year 2005, the Annual General Meeting of the Company's shareholders passed a resolution for the Company to declare a dividend as follows :-

(Unit : Baht)			
Dividends	Approved by	Total dividends	Dividend per share
Dividends for earnings of 2004	Annual General Meeting of the Company's shareholders on 21 April 2005	199,048,976	0.10
Total for the year 2005		199,048,976	0.10

### **Subsidiary companies**

During the year 2006 and 2005, the Board of directors' meeting of subsidiary companies approved the payment of dividend as follows :-

(Unit : Baht)

<u>Dividends</u>	<u>Approved by</u>	<u>Total dividends</u>	<u>Dividend per share</u>
<u>A local subsidiary :-</u>			
Interim dividends for earnings from 1 January 2006 to 30 June 2006	Board of Directors' meeting on 25 August 2006	31,500,000	3.00
Total for the year 2006		<u>31,500,000</u>	<u>3.00</u>
Interim dividends for earnings from 1 January 2005 to 30 June 2005	Board of Directors' meeting on 29 July 2005	31,500,000	3.00
Interim dividends for earnings from 1 July 2005 to 30 November 2005	Board of Directors' meeting on 21 December 2005	27,615,000	2.63
Total for the year 2005		<u>59,115,000</u>	<u>5.63</u>
<u>An overseas subsidiary :-</u>			
Interim dividends	Board of Directors' meeting on 29 June 2006	95,557,500	2.42
Interim dividends	Board of Directors' meeting on 4 December 2006	143,628,000	3.64
Interim dividends	Board of Directors' meeting on 29 December 2006	86,505,600	2.19
Total for the year 2006		<u>325,691,100</u>	<u>8.25</u>

## **32. COMMITMENTS AND CONTINGENT LIABILITIES**

32.1 Significant contingent liabilities as at 31 December 2006 are as follows :-

- 1) As at 31 December 2006, the Company had a commitment to purchase shares in a subsidiary company for approximately Baht 104 million. In December 1997, that subsidiary company was ordered closed and the Central Bankruptcy Court issued a final receiving order against its property on 29 May 2001. The Company has not set up any provision for loss as a result of the case since its legal counsel is of the opinion that the contract was of a reciprocal nature, stipulating conditions to be fulfilled and the counterparty had not fulfilled these conditions. The Company's management, therefore, believes that no loss will arise as a result of this matter.

- 2) In January 2002, the Company received a letter from the legal advisor of a company which is the counterparty to an agreement with the Company. Such company granted the Company the right to receive information relating to investment in the Stock Exchange of Thailand for customers. The letter called for penalty charge of Baht 5 million for the breach of the copyright of the above information system and asked the Company to stop such breach. Up to present, the negotiations with the counterparty have yet to reach a conclusion and it is anticipated that the legal proceedings may need to be undertaken. The Company is therefore unable to estimate its contingent liability and has therefore not yet recorded any liability in the accounts.
- 3) As at 31 December 2000, the Company has a contingent liability in respect of its guarantee on the revenue for the year ended 31 December 2000 of a business sold out to a third party during the year 2000, whereby if that business was unable to generate income of at least USD 0.3 million, the Company would have to compensate for the shortfall. In December 2001, the Company received notice to pay compensation for a shortfall amounting to approximately Baht 2 million. The compensation has been accounted for as a liability in the financial statements for the year 2001. Negotiations with the counterparty have yet to reach a conclusion.

32.2 Significant commitments as at 31 December 2006 are as follows :-

- 1) The Company and its subsidiaries have the significant outstanding commitments under long-term office space, office equipment and motor vehicles rental and services agreements. Future rental payable under these leases as at 31 December 2006 are as follows :-

(Unit : Million Baht)			
Year	The Company	The Subsidiaries	Total
2007	56.2	9.8	66.0
2008 – 2010	31.1	0.5	31.6
2011 – 2016	0.7	-	0.7

- 2) The Company has an obligation in respect of an agreement related to maintenance of computers and provision of related services, under which the Company is to pay a monthly fee of approximately Baht 2.7 million. No due date is stipulated in the agreement.
- 3) The Company is required to pay a membership fee to the Stock Exchange of Thailand comprising a monthly payment of Baht 50,000 and at a rate of 0.005 percent of the trading volume.
- 4) The Company is required to pay contributions to the Compensation Fund for Clearing and Settlement, which is overseen by the Thailand Securities Depository Company Limited (TSD), on a monthly basis, at a rate of 0.008 percent, 0.012 percent or 0.016 percent of its net settlements each month, depend on settlement risk of the Company.
- 5) The Company is required to pay contributions to the Securities Investor Protection Fund, which is overseen by the Stock Exchange of Thailand, on a monthly basis, at a rate of 0.0005 percent of the trading volume.
- 6) The Company has an obligation to pay a service fee under an on-line trading service agreement to Settrade.com, which is overseen by the Stock Exchange of Thailand, at a rate of 0.02 - 0.05 percent of its trading volume, with the minimum payment not less than Baht 20,000 per month.
- 7) The Company is required to pay execution fee to the Thailand Future Exchange, at the rate of Baht 35 per contract and clearing fee to the Thailand Clearing House, at the rate of Baht 15 per contract for buying or selling derivatives.
- 8) The Company is required to pay contributions to the Clearing Fund, which is overseen by the Thailand Clearing House Company Limited, on a monthly basis, at the minimum rate of Baht 1,000. The Thailand Clearing House may change the monthly contribution rate and may request more fund, depend on settlement risk of the Company.
- 9) The Company has an obligation to pay service fee upon an on-line derivative trading agreement to Settrade.com, which is overseen by the Stock Exchange of Thailand, at the rate of Baht 50 - 90 per contract for buying or selling derivative. The minimum fee is set to be Baht 40,000 per month.

10) The Company has the following commitments in respect of derivative contracts:-

- Derivatives on the Thailand Futures Exchange (TFEX)

As at 31 December 2006, the Company has commitments in respect of SET50 Index Futures contracts traded through the Thailand Futures Exchange for 1,005 contracts as detailed below.

	<u>Short position</u>
Future contracts of March 2007	983
Future contracts of June 2007	20
Future contracts of September 2007	2
Total Future contracts	<u><u>1,005</u></u>

As at 31 December 2006, the SET50 index stood at 473.27 and the contract multiplier was Baht 1,000 per index point.

- Over-the-Counter derivatives (DTC)

As at 31 December 2006, the Company has commitments in respect of Over-the-Counter derivative contracts as follows:-

Short Position

- A put option contract under which the option is a European-style option linked to the price of a listed company with theoretical values as of 31 December 2006 totaling Baht 0.26 million.
- Three call option contracts under which the option is a European-style binary (or digital) option linked to the SET50 index with theoretical values as of 31 December 2006 totaling Baht 1.08 million.
- Three call option contracts under which the options are European-style Asian options linked to the SET50 index with theoretical values as of 31 December 2006 totaling Baht 1.63 million.

### Long Position

- Two put option contracts embedded in bill of exchange whereby the payoff are predicated on underlying instrument. The face value of the bill of exchange as of the contract date were Baht 14.99 million.
- Ten Swap equity contracts with theoretical values as of 31 December 2006 totaling Baht 5.53 million.

### **33. FINANCIAL INFORMATION BY SEGMENT**

The majority of the operations of the Company and its subsidiary companies involve the single business segment of securities related business, including mutual fund management, and are carried on in Thailand, Hong Kong and the British Virgin Islands. As a result, all revenues, operating profits and assets as reflected in these financial statements pertain to the aforementioned industry and geographic areas.

(Unit : Million Baht)

	For the year ended 31 December									
	Securities business		Holding business		Mutual fund management		Elimination entry		Total	
	(Thailand)		(Hong Kong and British Virgin Islands)		(Thailand)					
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
Total incomes	921	995	-	-	216	225	(41)	(41)	1,096	1,179
Total expenses	(739)	(837)	(9)	(12)	(133)	(135)	(6)	(7)	(887)	(991)
Corporate income tax	-	-	-	-	(25)	(27)	-	-	(25)	(27)
Net income attributable to minority interest	-	-	-	-	-	-	(2)	(3)	(2)	(3)
Net income (loss)	<u>182</u>	<u>158</u>	<u>(9)</u>	<u>(12)</u>	<u>58</u>	<u>63</u>	<u>(49)</u>	<u>(51)</u>	<u>182</u>	<u>158</u>

(Unit : Million Baht)

	For the year ended 31 December									
	Securities business		Holding business		Mutual fund management		Elimination entry		Total	
	(Thailand)		(Hong Kong and the British Virgin Islands)		(Thailand)					
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
Cash and cash equivalents and long-term deposits at financial institutions	345	569	10	17	190	158	-	-	545	744
Investments in debt and equity securities – net	2,603	1,339	786	852	8	48	-	-	3,397	2,239
Investments in subsidiary companies, accounted for under equity method	2,737	3,116	-	-	-	-	(2,737)	(3,116)	-	-
Receivables from Clearing House	138	-	-	-	-	-	-	-	138	-
Securities and derivatives business receivables – net	1,931	3,160	-	-	-	-	-	-	1,931	3,160
Loans and advances to related companies	-	-	1,731	2,055	-	-	(1,731)	(2,055)	-	-
Premises and equipment - net	96	107	-	-	10	8	-	-	106	115
Other assets	161	134	-	-	31	31	34	15	226	180
Total assets	<u>8,011</u>	<u>8,425</u>	<u>2,527</u>	<u>2,924</u>	<u>239</u>	<u>245</u>	<u>(4,434)</u>	<u>(5,156)</u>	<u>6,343</u>	<u>6,438</u>

### **34. FINANCIAL INSTRUMENTS**

A financial instrument is any contract that gives rise to both a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial instruments of the Company and its subsidiaries carried in the balance sheets include cash and cash equivalents, long-term deposits at financial institutions, investments, receivables from and payables to Clearing House, securities and derivatives business receivables and payables, borrowings and subordinated loans from a subsidiary company.

#### **Financial risk management policy**

The Company and its subsidiary companies are exposed to risks from changes in interest rates and currency exchange rates and risks from nonperformance of contractual obligations by counterparties. The Company uses derivatives, as and when it considers appropriate, to manage such risks. In addition, the Company has a policy to enter into contracts with creditworthy counterparties. Therefore, the Company does not expect any material financial losses to be arisen from that the counterparties will fail to discharge their obligations as stipulated in the financial instruments contracts.

The accounting policies of derivatives are disclosed in notes to financial statements re: significant accounting policies.

#### **34.1 Interest Rate Risk**

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

The exposure to interest rate risk of the Company and its subsidiary companies relate primarily to their cash at banks, long-term investments in debt securities and long-term borrowings which carry interest rate. However, because most of the financial assets and liabilities carry flotation interest rate which will fluctuated in line with the market interest rates or carry fixed interest rate which approximate the current market interest rate, the Company and its subsidiary companies do not use derivatives to manage their interest rate risk. The details of long-term loans are set out in Notes to the financial statements No. 19.

As at 31 December 2006 and 2005, the significant financial assets and liabilities classified by types of interest rate and, for the financial assets and liabilities carrying fixed interest rate, by the contractual reprising or maturity date (whichever is earlier) are as follows :-

(Unit : Million Baht)

Consolidated										
Outstanding balance of financial instruments as at 31 December 2006										
	Floating interest rate	Fixed interest rate				Without interest	Total	Floating interest rate	Fixed interest rate	Effective interest rate
		Remaining period to maturity date or end of contract								
		Within 1 year	1 - 5 years	Over 5 years	Unspecified					
<b>Financial Assets</b>										
Cash and cash equivalents	45	344	-	-	-	38	427	1.82	4.92	4.56
Long-term deposits at financial institutions	-	118	-	-	-	-	118	-	5.17	5.17
Investments in debt and equity securities - net	-	512	502	682	-	1,701	3,397	-	4.00	5.23
Receivable from Clearing House	-	30	-	-	-	108	138	-	3.00	3.00
Securities and derivatives business receivables - net	414	917	-	-	-	600	1,931	4.30	6.75	5.99
<b>Financial liabilities</b>										
Borrowings	-	-	-	-	-	15	15	-	-	4.95
Securities sold under repurchased agreement	-	728	-	-	-	-	728	-	4.97	4.97
Payables to Clearing House	-	-	-	-	-	130	130	-	-	-
Securities and derivatives business payables	-	-	-	-	-	963	963	-	-	-

(Unit : Million Baht)

Consolidated										
Outstanding balance of financial instruments as at 31 December 2005										
	Floating interest rate	Fixed interest rate				Without interest	Total	Floating interest rate	Fixed interest rate	Effective interest rate
		Remaining period to maturity date or end of contract								
		Within 1 year	1 - 5 years	Over 5 years	Unspecified					
<b>Financial Assets</b>										
Cash and cash equivalents	116	533	-	-	-	92	741	2.24	3.77	3.51
Long-term deposits at financial institutions	-	3	-	-	-	-	3	-	2.00	2.00
Investments in debt and equity securities - net	-	59	144	8	-	2,029	2,240	-	3.33	4.77
Securities and derivatives business receivables - net	956	1,094	-	-	-	1,110	3,160	2.43	6.00	4.34
<b>Financial liabilities</b>										
Payables to Clearing House	-	-	-	-	-	126	126	-	-	-
Securities and derivatives business payables	-	-	-	-	-	1,922	1,922	-	-	-

(Unit : Million Baht)

## The Company Only

Outstanding balance of financial instruments as at 31 December 2006										
	Floating interest rate	Fixed interest rate				Without interest	Total	Floating interest rate	Fixed interest rate	Effective interest rate
		Remaining period to maturity date or end of contract								
		Within 1 year	1 - 5 years	Over 5 years	Unspecified					
<u>Financial Assets</u>										
Cash and cash equivalents	33	274	-	-	-	38	345	1.91	4.95	4.62
Investments in debt and equity										
securities - net	-	512	494	682	-	915	2,603	-	3.98	5.24
Investments in subsidiary										
companies, accounted for under equity method	-	-	-	-	-	2,737	2,737	-	-	-
Receivable from Clearing House	-	30	-	-	-	108	138	-	3.00	3.00
Securities and derivatives business										
Receivables – net	414	917	-	-	-	600	1,931	4.30	6.75	5.99
<u>Financial liabilities</u>										
Borrowings	-	-	-	-	-	15	15	-	-	4.95
Securities sold under repurchased										
agreement	-	728	-	-	-	-	728	-	4.97	4.97
Payables to Clearing House	-	-	-	-	-	130	130	-	-	-
Securities and derivatives business										
payables	-	-	-	-	-	963	963	-	-	-
Subordinated loans from										
subsidiary company	-	-	-	-	-	1,720	1,720	-	-	-

(Unit : Million Baht)

## The Company Only

Outstanding balance of financial instruments as at 31 December 2005										
	Floating interest rate	Fixed interest rate				Without interest	Total	Floating interest rate	Fixed interest rate	Effective interest rate
		Remaining period to maturity date or end of contract								
		Within 1 year	1 - 5 years	Over 5 years	Unspecified					
<u>Financial Assets</u>										
Cash and cash equivalents	98	380	-	-	-	91	569	2.61	3.84	3.59
Investments in debt and equity										
securities - net	-	19	144	-	-	1,176	1,339	-	3.93	5.08
Investments in subsidiary										
companies, accounted for under equity method	-	-	-	-	-	3,116	3,116	-	-	-
Securities and derivatives										
business receivables - net	956	1,094	-	-	-	1,110	3,160	2.43	6.00	4.34
<u>Financial liabilities</u>										
Payables to Clearing House	-	-	-	-	-	126	126	-	-	-
Securities and derivatives										
business payables	-	-	-	-	-	1,922	1,922	-	-	-
Subordinated loans from										
subsidiary company	-	-	-	-	-	2,045	2,045	-	-	-

### 34.2 Credit 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.

The Company is exposed to credit risk primarily with respect to securities and derivatives business receivables, loans, other accounts receivable. The Company's management controls such risk by establishing credit limits for customers and counter parties and analysing their financial position as an ongoing basis. As a result, the Company does not expect to incur material financial losses.

The Company is not exposed to concentrations of credit risk because it has a variety of customer base and large number of customers. The maximum exposure to credit risk is limited to the carrying amount of securities and derivatives business receivables, loans, other receivables as stated in the balance sheet.

### 34.3 Liquidity risk

The maturity dates of financial instruments held as of 31 December 2006 and 2005, are as follows, counting from the balance sheet date :-

(Unit : Million Baht)

	Consolidated					
	As at 31 December 2006					
	At call	Within 1 year	1-5 years	Over 5 years	No maturity	Total
<b><u>Financial Assets</u></b>						
Cash and cash equivalents	246	98	-	-	83	427
Long-term deposits at financial institutions	-	118	-	-	-	118
Investments in debt and equity securities - net	-	512	502	682	1,701	3,397
Receivable from Clearing House	-	138	-	-	-	138
Securities and derivatives business receivables – net	-	958	56	-	917	1,931
<b><u>Financial liabilities</u></b>						
Borrowings	-	15	-	-	-	15
Securities sold under repurchased agreement	-	728	-	-	-	728
Payables to Clearing House	-	130	-	-	-	130
Securities and derivatives business payables	-	963	-	-	-	963

(Unit : Million Baht)

	Consolidated					
	As at 31 December 2005					
	At call	Within 1 year	1-5 years	Over 5 years	No maturity	Total
<b>Financial Assets</b>						
Cash and cash equivalents	358	74	-	-	309	741
Long-term deposits at financial institutions	-	3	-	-	-	3
Investments in debt and equity securities - net	-	42	161	8	2,029	2,240
Securities and derivatives business receivables – net	-	2,000	66	-	1,094	3,160
<b>Financial liabilities</b>						
Payables to Clearing House	-	126	-	-	-	126
Securities and derivatives business payables	-	1,922	-	-	-	1,922
<b>Off-balance sheet items</b>						
Obligation under sale of forward exchange contract	-	628	-	-	-	628

(Unit : Million Baht)

	The Company Only					
	As at 31 December 2006					
	At call	Within 1 year	1-5 years	Over 5 years	No maturity	Total
<b>Financial Assets</b>						
Cash and cash equivalents	220	54	-	-	71	345
Investments in debt and equity securities - net	-	512	494	682	915	2,603
Investments in subsidiary companies, accounted for under equity method	-	-	-	-	2,737	2,737
Receivable from Clearing House	-	138	-	-	-	138
Securities and derivatives business receivables - net	-	958	56	-	917	1,931
<b>Financial liabilities</b>						
Borrowings	-	15	-	-	-	15
Securities sold under repurchased agreement	-	728	-	-	-	728
Payables to Clearing House	-	130	-	-	-	130
Securities and derivatives business payables	-	963	-	-	-	963
Subordinated loans from subsidiary company	-	1,720	-	-	-	1,720

(Unit : Million Baht)

	The Company Only					Total
	As at 31 December 2005					
	At call	Within 1 year	1-5 years	Over 5 years	No maturity	
<b>Financial Assets</b>						
Cash and cash equivalents	279	-	-	-	290	569
Investments in debt and equity securities - net	-	2	161	-	1,176	1,339
Investments in subsidiary companies, accounted for under equity method	-	-	-	-	3,116	3,116
Securities and derivatives business receivables – net	-	2,000	66	-	1,094	3,160
<b>Financial liabilities</b>						
Payables to Clearing House	-	126	-	-	-	126
Securities and derivatives business payables	-	1,922	-	-	-	1,922
Subordinated loans from subsidiary company	-	-	2,045	-	-	2,045

### 34.4 Liquidity risk - derivatives

As of 31 December 2006, the Company has liquidity risk in respect of the following derivatives: -

(Unit: Thousand Baht)

	Consolidated and the Company Only			
	Remaining period before maturity date			
	6 months -			Total
	1 - 6 months	1 year	over 1 years	
<u>Derivative - OTC</u>				
Put Options				
Long position	14,987	-	-	14,987
Short position	4,360	-	-	4,360
Call Options				
Short position	414	2,640	16,000	19,054
Equity swap				
Long position	1,359	-	-	1,359

### **34.5 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 of 31 December 2006, the Company has investments in subsidiary companies in foreign currency under equity method of USD 60 million (equivalent to Baht 2,508 million). However, the Company has obtained Thai Baht loans from those subsidiaries totalling approximately Baht 1,720 million. As at 31 December 2006, the Company has not entered into any forward exchange contracts to manage its foreign exchange risk.

### **34.6 Fair value**

Fair value represents the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction. The Company and its subsidiary companies have estimated the fair value of financial instruments as follow :-

#### **a) Financial assets**

The method used for determining the fair value is dependent upon the characteristics of the financial instruments. The fair values of financial assets including cash and cash equivalents, long - term deposits at financial institutions and receivables from Clearing House are considered to approximate their respective carrying values since the financial instruments are predominantly subject to market interest rates. The fair values of financial instruments that have standard terms and conditions and are traded on an active and liquid market, such as investments in securities, are determined based on the quoted market price. In addition, the fair values of securities business receivables and derivative business receivables are determined based on their book value, less allowance for doubtful accounts.

#### **b) Financial liabilities**

Borrowings from financial institutions, securities sold under repurchased agreement, payables to Clearing House and securities business payables and derivative business payables are presented at their book value since they mature in the short-term.

As of 31 December 2006, there are no financial instruments of which the book values are materially different from fair value.

## **35. SUBSEQUENT EVENT**

### **35.1 Approval of dividend payment of the Company**

The Board of Directors' Meeting of the Company held on 27 February 2007 approved the payment of a dividend of Baht 0.07 per share, or the total of approximately Baht 139 million, in respect of the year 2006. The dividend will be paid in May 2007. However, the dividend payment is subject to approval by the Annual General Meeting of the Company's shareholders in April 2007.

### **35.2 Approval of dividend payment of the subsidiary**

The Board of Directors' Meeting of a local subsidiary held on 13 February 2007 approved the payment of a dividend of Baht 5.52 per share, or the total of Baht 57,960,000, in respect of the period 1 January 2006 to 31 December 2006. As an interim dividend payment of Baht 3.00 per share was made during 2006, the final dividend payment would be Baht 2.52 per share, or a total of Baht 26,460,000. The dividend will be paid in March 2007.

## **36. PRESENTATION**

Certain amounts in the financial statements for the year ended 31 December 2005 presented herein for comparative purpose have been reclassified to conform to the current period's classifications, with no effect on the net income or shareholders' equity as previously reported.

## **37. APPROVAL OF FINANCIAL STATEMENTS**

These interim financial statements were authorised for issue by the Company's Board of Directors on 27 February 2007.