

THAILAND

Capital Market Report 2008

**The Association of Securities Companies
(ASCO)**

**Prepared for Presentation at
The 14th Asia Securities Forum
11-13 October 2009
Sydney, Australia**

Acronyms and Abbreviations

ASCO	Association of Securities Companies
BOT	Bank of Thailand
GPF	Government Pension Fund
LTF	Long Term Equity Fund
MAI	Market for Alternative Investment
NRBA	Non-resident Baht Account
NRBS	Non-resident Baht Account for Securities
SBL	Securities Borrowing and Lending
SBT	Specific Business Tax
SEC	Securities and Exchange Commission
SET	Stock Exchange of Thailand
TFEX	Thailand Futures Exchange Public Co., Ltd.
ThaiBMA	Thai Bond Market Association

The Thai Economy, the Capital Market and the Securities Business

Review 2008

Macroeconomic Review

Economic growth

The real gross domestic product in 2008 grew at 2.6%, a slow down from the growth rate of 4.9% in the previous year. Private consumption and private investment grew at 2.5 and 3.2% respectively. Although the two items were higher than the respective figures of 1.6 and 0.6% of 2007, the recovery was slower than expected, due to the high inflation rate in the first three quarters and political uncertainties which resulted in the consumers and investors slowing down their spending and investment. As for the exports of goods and services, the growth rate of 5.5% was a drop from 7.1% in 2007 due to the economic slowdown of trading partners which was beyond expectation. Besides, the seizure of Suvarnabhumi International Airport from late November to early December resulted in the plunges of both the export volumes and the number of tourists, causing the service export volumes and tourism revenues to decline sharply, while the imports of goods and services grew at 7.5%, an increase from 3.4 % in the previous year as a result of the increase of imports in every sector in the first three quarters. However, imports in the last quarter slowed down along with domestic spending.

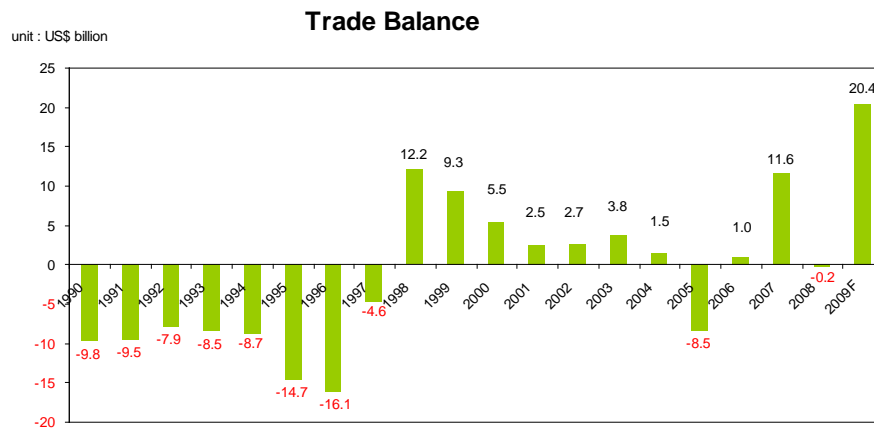
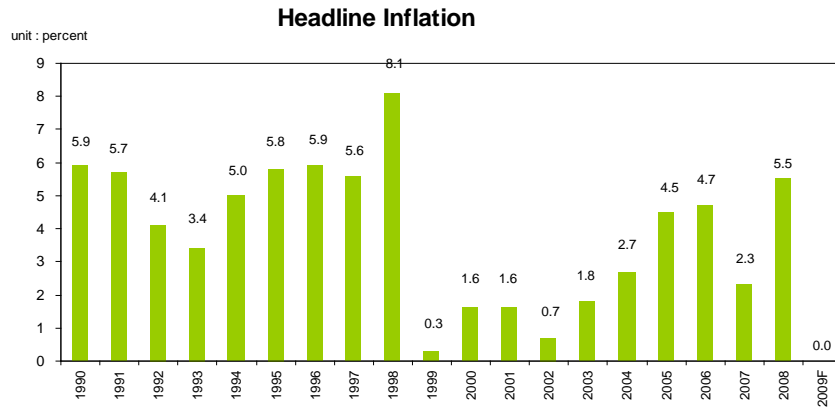
The Thai economy in 2009 is forecasted to contract by -3.0%. However, it is projected to start to gradually recover from the

through experience during the first quarter of the year. The main factor attributing to this improvement is the accelerated disbursement of public consumption and investment expenditures through the Government Stimulus Package 1 and 2, which has and will continue to support the recuperation of domestic demand. Nevertheless, the Thai economy is still facing risks associated with the fall in export of goods and services that resulted from the severe contraction of Thailand's trading partners' economies as well as shrinking tourism revenues stemming from political problems and risk associated with the epidemic of influenza A/H1N1.

Economic stability

In 2008, the headline inflation rate was at 5.5% per year, an increase from 2.3% of the previous year because of the rapidly rising prices of crude oil in the world market in the first half of the year. However, the sharp drop of oil prices in the second half significantly slowed down the inflation rate. Meanwhile, risks began to loom larger on external stability when the current account suffered a deficit of US\$0.2 billion or 0.1% of GDP, compared to a surplus of 5.7% of GDP in the previous year. The current account deficit was due to the trade deficit resulting from the import values which rose at 26.4%, surpassing the export value which grew at 16.8%. Net services also suffered a deficit due to the plummeting tourism revenues resulting from the seizure of Suvarnabhumi International Airport from late November to early December 2008 – the tourism high season.

Internal economic stability is expected to improve, with headline inflation in 2009 forecasted to fall to 0.0% per year (or within a range of -0.5% to 0.5% per year). This is due to the falling of crude oil price, which is expected to deeply drop from its 2008 level, along with the constantly appreciating Thai Baht. As for external stability, current account in 2009 is projected to record a large surplus of 9.0% of GDP (or within a range of 8.5% to 9.5% of GDP), as the trade balance reaches the historic high surplus of US\$20.4 billion. The large surplus is due to greater fall in import value relative to export value.



Fiscal and monetary measures

Major fiscal measures in 2008

1. Tax measures to stimulate the economy:

1.1) Tax measures to increase people's income

- Increase of the tax-exempt amount of net personal income from 100,000 to 150,000 Baht,

- Increase of the maximum amount of life insurance premiums as an allowance item from 50,000 to 100,000 Baht,
- Increase of maximum allowance amounts of the actual payments for investment units in a provident fund, the contribution to a provident fund, the contribution to the Government Pension Fund (GPF), or the contribution to the Welfare Fund under the private school law, from 300,000 to 500,000 Baht,
- Increase of the maximum allowance amount for actual payments for investment units in Long Term Equity Fund (LTF) from 300,000 to 500,000 Baht, and to 700,000 Baht for payments made from October 1 to December 31, 2008, and
- Increase of the allowance for the income earner's spouse, parents and children who are disabled and not self-supporting to 300,000 Baht for each disable person.

1.2) Tax measures in support of community enterprises and small and medium-sized enterprises

- Exemption of personal income tax for ordinary partnerships or non-juristic body of persons being a community enterprise and having assessable income not exceeding 1,200,000 Baht per year, effective from 2008 to 2010
- Adjustment of the corporate income tax rate for companies or juristic partnerships with paid-up

capital not exceeding 5 million Baht, waiving the income tax for the first 150,000 Baht of net profit; the rate for the remaining net profit being kept unchanged.

2. Tax measures to stimulate investment and enhance competitiveness of the Thai private sector:

- Ordinary persons and companies are allowed to deduct as expenses the costs of acquiring assets in the categories of machinery, equipment or material which effects energy saving, including installation costs, at 1.25 times the costs, provided that the assets are acquired and ready for use by December 31, 2010.
- Companies are allowed to deduct as expenses the initial depreciation of assets in the categories of machinery and equipment acquired for use in producing goods or providing services on the date of acquisition at the rate of 40 % of the asset costs and at the normal rate for the remaining portion of the costs, provided that the assets are acquired and ready for use by December 31, 2010.
- Companies are allowed to deduct as expenses the depreciation of assets in the category of computer programs within three accounting periods, commencing on the date of acquisition of the asset.
- Companies with fixed assets (excluding land) worth not exceeding 200 million Baht and not exceeding 200 employees are allowed to choose to deduct as

expenses the initial depreciation of assets at the rate of 100 % of the asset costs, provided that the combined costs of the assets do not exceed 500,000 Baht in one accounting period and that the assets are acquired and ready for use by December 31, 2010.

- The corporate income tax rates for newly listed companies, which file an application for listing from January 1 to December 31, 2008 and are listed by December 31, 2009, were reduced as follows:
 1. The corporate income tax rate was reduced from 30 to 20 % of the net profit for companies newly listed with the Market for Alternative Investment (MAI) for three consecutive accounting periods.
 2. The corporate income tax rate was reduced from 30 to 25 % of the net profit for companies newly listed with the SET for three consecutive accounting periods.
- The corporate income tax rate for existing listed companies on the SET was reduced:
 1. From 30 to 20 % of the first 20 million Baht of net profit for companies listed on the MAI for three consecutive accounting periods from the period commencing on or after January 1, 2008
 2. From 30 to 20 % of the first 300 million Baht of net profit for companies listed on the SET for

three consecutive accounting periods from the period commencing on or after January 1, 2008

- The Specific Business Tax (SBT) rate was reduced from 3 to 0.1 % for revenue before any expenses from the sales of immovable property for commerce or for profit. The new rate is applicable to title registrations and legal acts pertaining to immovable property made within one year of the effective date of the law.
- The ownership transfer registration fee was reduced from 2 % of the appraisal price and the mortgage registration fee from 1% of the appraisal price, but not exceeding 200,000 Baht, to 0.01 % of the appraisal price.

Major monetary measures in 2008

1. The lifting of the 30% unremunerated reserve requirement on short-term capital inflows, effective 3 March 2008, in order to reduce obstacles which caused foreign investors to lose confidence in the Thai economy and to open up opportunities for foreign capital to be used for long-term development of the country.
2. Encourage portfolio investment abroad by increasing the foreign investment limit for the SEC to US\$30 billion to allocate to securities companies, mutual fund companies, and individual investors (through investments with private funds or securities companies).

3. Revise the structure of Non-resident Baht Account (NRBA) by segregating into Non-resident Baht Account for Securities (NRBS) and Non-resident Baht Account (NRBA) so as to help monitor fund flows of non-residents. Under the new structure, the transfer of baht between the same types of accounts is allowed while the transfer between different types of account is prohibited.
4. Revise the rule for domestic financial institutions to borrow baht from non-residents by reducing the limit for transactions with no underlying trade or investment for all maturities to no more than 10 million baht outstanding balance per group of non-residents so as to limit channels of Thai baht speculation.
5. Revise the rules regarding the provision of Thai baht liquidity by domestic financial institutions to non-residents by expanding each institution' limits for transactions with no underlying trade or investment to no more than 300 million baht outstanding balance per groups of non-residents so as to increase demand for purchases of foreign currencies and two-way flows.
6. The policy interest rate (the 1-day repurchase rate) was cut of 0.5% from 3.25% at the beginning of the 2008 to 2.75% at the end of 2008, in tandem with the Monetary Policy Committee's policy. In 2009, the rate was extremely cut of 1.50% to 1.25% to help support economic recovery.
7. A total of 15 international financial institutions, foreign government's financial institutions, and foreign juristic

persons were allowed to issue bonds or debentures in the Thai currency in Thailand within December 31, 2008, with the ceiling amount of 3,500 million Baht each, totaling 52.5 billion Baht.

8. Deposit protection was increased, with full protection lasting until August 10, 2011, up to 50 million Baht until August 10, 2012 and up to one million Baht thereafter.

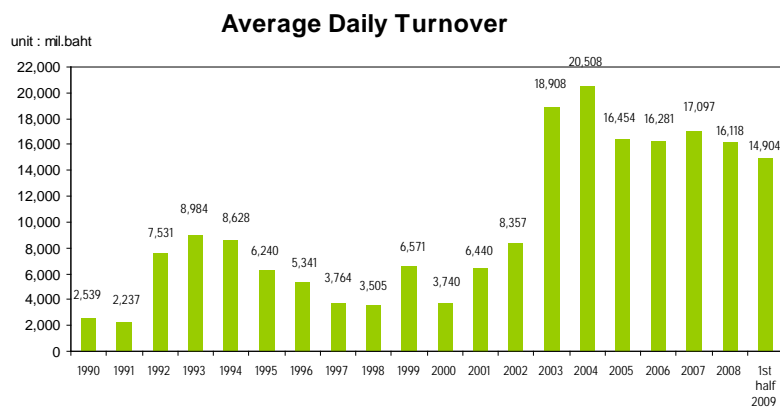
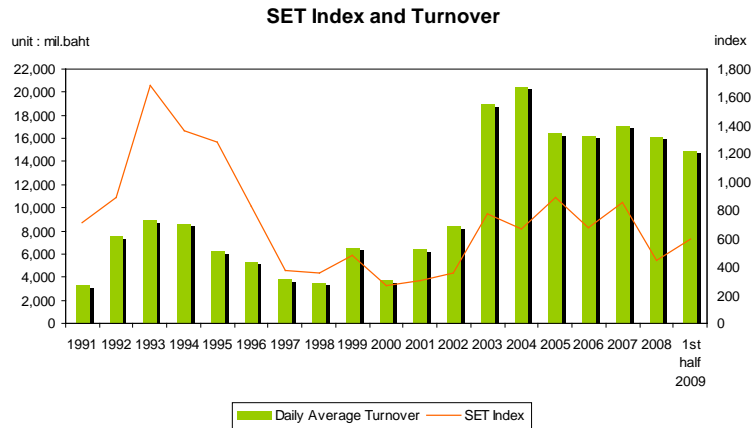
Performance of Thai Capital market

In 2008, a number of remarkable internal and external forces were taking place. The US financial crisis had widespread impact on the global economy and world financial markets, including Thailand, which suffered from sharp economic slowdown and a sluggish stock market. Then there were internal factors – political uncertainty and a high inflation rate. All these factors impacted on Thailand's economy and damaged sentiment toward the stock market.

The SET index at the end of 2008 closed at 449.96, a drop of 408.14 points or 47.56 % from the end of 2007 when the SET index stood at 858.10. The volatility of the market was clearly evident as the highest SET index in 2008 went up to 884.19 on May 21 and the lowest plummeted to 384.15 on October 29. The average daily turnover of SET and MAI in 2008 was 16,118 million Baht, a drop from 17,097 million Baht of 2007.

The SET Index at the end of Jun 30, 2009 closed at 597.48, an increase of 147.52 points or 32.78% from the end of 2008, while

the average daily turnover values dropped by 7.53% from 16,118 million baht in 2008 to 14,904 million baht.

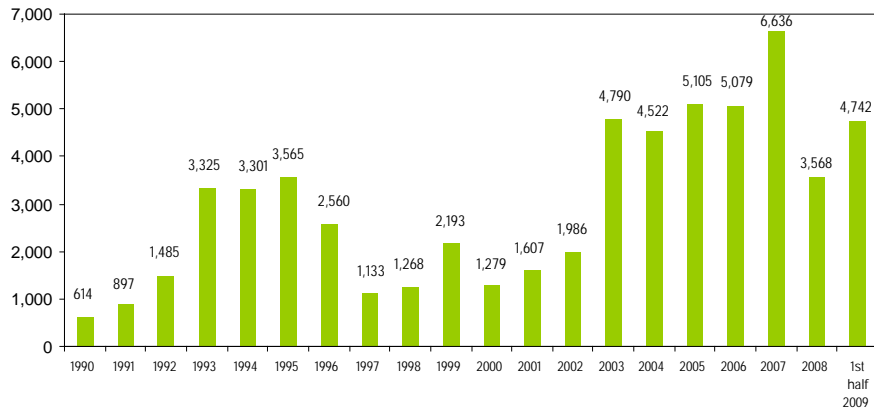


Total market capitalization at the end of 2008 stood at 3,568 billion Baht, a 46.23% drop from 6,636 billion Baht at the end of 2007. As at the first half of 2009, the total market capitalization was 4,742 billion baht, an increase of 1,174 million baht or 32.90% from the end of 2008.

In 2008, nine new companies were listed with the SET, nine were delisted, and one moved from the MAI to the SET. For the first half of 2009, three new companies were listed and four were delisted, bringing the total number of listed companies to 476 in the end of 2008 and 475 in the end of June 2009.

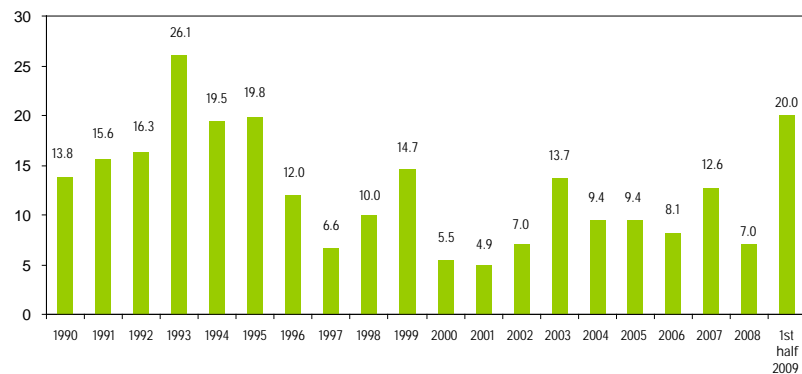
Market Capitalization

unit : bil.baht



Market PER

unit : times



For the Market for Alternative Investment (MAI), the number of listed companies in 2008 and in the end of June 2009 were 49 and

54 respectively. The MAI index at the end of 2008 and the end of June 2009 were at 162.93 and 192.15 respectively.

For the Thai Futures Exchange (TFEX), three products – SET50 Index Futures, SET50 Index Options, Single Stock Futures – were traded in 2008. The average trading volume was 8,837 contracts per day, an increase of 69.32 % from 5,219 contracts per day in 2007 and there were 22, 747 open interest at the end of 2008. The global financial crisis in 2008 emphasized on investors the importance of using derivatives as a risk management and profit-generating tool. The daily trade of derivatives peaked at 21,474 contracts on October 29.

In 2009, TFEX launched a new product - Gold Futures in February 2009. As for the first half of 2009, the average trading volume was 10,460 contracts per day. There were 26,539 open interest at the end of June 2009.

As regards Thai Debt Instrument Market, the total trade volume of debt instruments on the primary market in 2008 was 11.23 trillion Baht, an increase of 78.81 % from 6.25 trillion Baht in 2007. In the first half of 2009, sales of debt instruments in the primary market was 5.98 trillion baht. Meanwhile, the total trade volume on the secondary market in 2008 and the first half of 2009 totaled 17.36 trillion Baht and 8.03 trillion Baht respectively. The average daily turnover was at 70.29 billion Baht in 2008, and 67.46 billion Baht in the first half of 2009.

Capital market measures

Major capital market measures in 2008 were as follows:

1. Supporting the business operators in upgrading the business to full integration and diversification and enhancing business flexibility by allowing securities companies to have cross management with other securities companies.
2. Allowing ordinary persons to invest in foreign markets through private funds or securities companies.
3. Commencing the enforcement of the Trust for Transactions in Capital Market Act on January 14, 2008, as a tool in development of new products in the capital market.
4. Improvement of the regulations governing securities borrowing and lending (SBL) and short selling for flexibility in risk management.
5. Improvement of the regulations governing securities trading in cash by increasing the minimum margin for the cash account from 10 to 15 % of the buy limit.
6. Amendment of the legislations that were not up to international standards in such areas as shareholders' right protection, customer asset protection, securities settlement and delivery systems, and deterrence of frauds and exploitation of shareholders of listed companies.
7. Commencement of a measure to reward entrepreneurs with good records of compliance and ethical practices by using the fast track scheme in approving new branches or new products.

8. Urgent measures to mitigate the effects of the global financial crisis and reduce volatility in securities trading:
- Lifting the minimum share number (10 % of the voting rights) for which a tender offer is required in case of partial tender offer.
 - Allowing shareholders acquiring voting rights up to the trigger point due to the company launching a treasury stock program to be able to purchase additional shares up to their original rights, without having to make a tender offer.
 - Allowing offering of debentures to institutional investors, warrants to existing shareholders, and securities to directors and employees, with no prior approval or filing required.

Performance of Securities Companies

Overview of Securities Industry

2008 was the tough time for securities firms, particularly due to the market fluctuations. All securities companies have had to adjust themselves and adapt to intensifying competition. They have strived to boost incomes from alternative channels in anticipation of the liberalization of the industry and ensuing lower brokerage commissions. New business alliances have been sought, such as forging exclusive broking agreement with foreign securities companies. Moreover, in the case where stock brokers have banks as major shareholders, efforts have been made to build group synergies.

The Securities and Exchange Commission (SEC) plans to fully liberalize the securities industry and brokerage commissions in 2012. Preparations toward that event have been made to allow securities companies to adjust. The SEC has relaxed the rules and regulations governing securities business operations such as upgrading securities business to cover full range of services, improvement of flexibility to support the business structure by allowing securities companies to have cross management in other securities companies.

At the end of 2008, there were 41 securities companies with brokerage licenses. Of this total, 39 were SET members. As for the derivatives business, 36 companies were members of TFEX.

At the end of June 2009, the number of securities companies with brokerage licenses was remained the same. On the derivatives side, 41 companies were licensed, 36 of which are general members of TFEX, while the other 5 members are gold related agents.

Performance

The total revenue of the securities industry in 2008 was 24,227 million Baht, a drop of 7.49 % from 26,188 million Baht in 2007. Brokerage fees remained the major revenue of the securities business. In 2007 and 2008, the brokerage revenues from equity trading were 18,063 and 17,118 million Baht or 68.97% and 70.65%, respectively.

For the first half of 2009, revenue of securities companies were 9,981 million Baht. Brokerage fees were still remained the major source of incomes.

Revenue of Securities Industry

	<i>2007</i>		<i>2008</i>		<i>1st half 2009</i>	
	Mil. Baht	%	Mil. Baht	%	Mil. Baht	%
Brokerage – Equity	18,063	68.97%	17,118	70.65%	7,118	71.32%
Brokerage - Derivatives	552	2.11%	1,011	4.17%	572	5.73%
Underwritin g	422	1.61%	425	1.76%	75	0.75%
Financial Advisory	507	1.94%	564	2.33%	320	3.20%
Gains on Equity Trading	1,707	6.52%	(123)	(0.51%)	80	0.80%
Gains on Derivatives Trading	1,218	4.65%	901	3.72%	273	2.74%
Interest and Dividend	2,200	8.40%	2,084	8.60%	716	7.18%
Others	1,519	5.80%	2,247	9.28%	827	8.28%
Total Revenue	26,188	100.00%	24,227	100.00%	9,981	100.00%

The expenses of the securities industry in 2008 totaled 20,026 million Baht, an increase of 18.16 % from 16,948 million Baht in

2007, with the major item being personal expenses, which in 2008 totaled 9,630 million Baht, slightly dropping from 9,814 million Baht in 2007. The immense volatility of the economy and the capital market in 2008 prompted the securities business to set aside provisions for bad and doubtful debts totaling 2,432 million Baht. For the first half of 2009, total expenses of securities companies were baht 8,483 million Baht.

Expenses of Securities Industry

	<i>2007</i>		<i>2008</i>		<i>1st half 2009</i>	
	Mil. Baht	%	Mil. Baht	%	Mil. Baht	%
Expenses on Borrowing	407	2.40%	549	2.74%	156	1.84%
Fee & Services Expenses	1,392	8.21%	1,629	8.14%	682	8.04%
Provision for Bad Debts & Doubtful A/C	(5)	(0.03%)	2,432	12.14%	72	0.85%
Personnel Expenses	9,814	57.90%	9,630	48.09%	4,895	57.70%
Premises & Equipment Expenses	3,059	18.05%	3,201	15.98%	1,542	18.18%
Other Expenses	2,281	13.46%	2,585	12.91%	1,136	13.40%
Total Expenses	16,948	100.00%	20,026	100.00%	8,483	100.00%

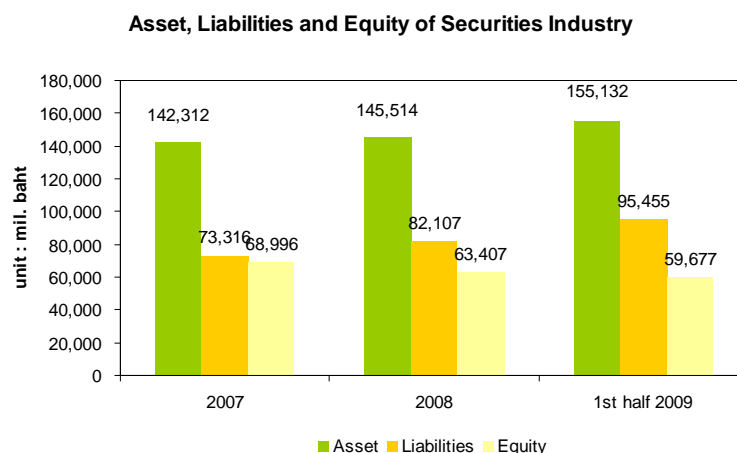
In 2008, the securities industry recorded net profit of 2,456 million Baht, a decrease of 62.60 % from 6,568 million Baht in 2007, due to the drop in revenues as a result of the capital market slump and

the large amounts of provisions for bad and doubtful debts. For the first half of 2009, net profit of securities companies were 972 million Baht.

Financial position

The combined assets of the securities industry at the end of 2008 stood at 145,514 million Baht, an increase of 2.24 % from the end of 2007 when the corresponding figure was 142,312 million Baht. Most of the assets were cash and cash equivalents, and business receivable items which accounted for 31.03% and 15.26% respectively. The sources of funds at the end of 2008 comprised liabilities totaling 82,107 million Baht and shareholders equity of 63,407 million Baht. Most of the liabilities were business payable which accounted for 38.77%

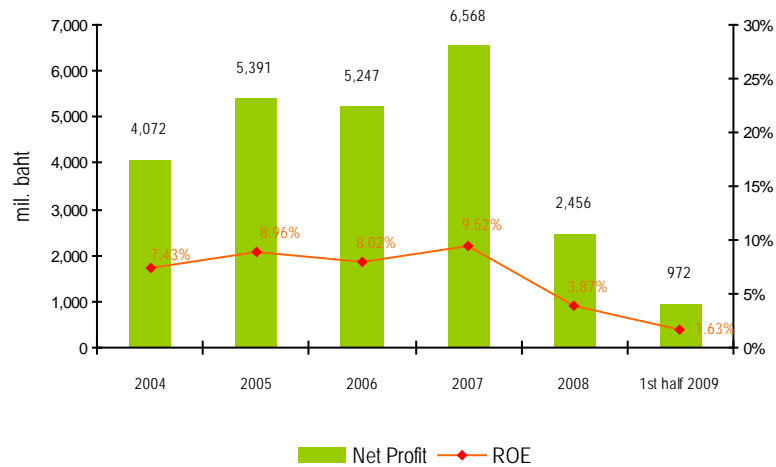
As at the end of June 2009, total assets of securities companies were 155,132 million Baht, an increase of 6.61% from the end of 2008. Liabilities and shareholders' equity were 95,455 million Baht and 59,677 million Baht respectively.



Return on Equity

The ROE of the securities industry in 2008 was 3.87 %, dropping from 9.52 % in 2007. ROE for the first half of 2009 (not annualized) recorded at the low rate of 1.63%

Net Profit and ROE of Securities Industry



Source : The Fiscal Policy Office, Ministry of Finance
The Securities and Exchange Commission
The Stock Exchange of Thailand
Thailand Futures Exchange Public Company Limited
Thai Bond Market Association