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# THE SET Newsletter



**O**n January 29, Thailand's Market for Alternative Investment (mai) welcomed Multibax PCL (MBAX), a polyethylene plastic bag manufacturer and exporter, as its first listing in 2007. The new listing had THB 128 million (USD 3.56 million) paid-up capital. To broaden its overseas market, the firm will use funds raised from listing to expand production capacity, purchase new machinery and construct a warehouse.

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## JCP Property Fund becomes Thai bourse's first new listing for 2007

**J**CP Property Fund, under the management of Prima Vest Asset Management, became The Stock Exchange of Thailand (SET)'s first new listing for 2007, bringing the total number of Thai listed property funds to thirteen.

JCP Property Fund's securities commenced trading on January 5, 2007, in the Property Development Sector, Property & Construction Industry Group, using "JCP" as their trading symbol.

The fund has THB 620 million (approx. USD 17.24 million) in registered capital, composed of 62 million investment units with a par value of THB 10.00 each. PrimaVest Asset Management Co., Ltd., the fund manager, offered JCP investment units to the general public on November 21 - 29, at par.

The company is a non-redeemable and specific property fund. It will rent the immovable property of the office building JC Kevin Tower A in part (excluding 16<sup>th</sup> - 19<sup>th</sup> floors), common area totaling 13,462 sq.m. and a car park accommodating 287 cars. The rent, which includes income from related facilities and utilities, will be for 30 years, with extension rights for another five.

JC Kevin Tower A is located on Naratiwatratchanakar Road in Sathorn District, an important business area of Bangkok surrounded by high-rise buildings. The building



has been in commercial operation for five years, with an average occupancy during 2003-2005 of more than 80%. Its major tenants are American International Assurance and Oishi Restaurant, who combined occupy nearly 70% of total rental space.

The firm's dividend payment policy is to pay unit holders at least once a year at no less than 90% of its annual net profits.

JCP's principal unit holder is the Government Savings Bank Private Fund through MFC Asset Management PCL, holding 99.95% of its paid-up capital.

For more information on JCP Property Fund, please visit PrimaVest Asset Management website at [www.primavest.com](http://www.primavest.com) and SET's website at [www.set.or.th](http://www.set.or.th).

## Change in Name of Brokerage Firm

Date	Brokerage No.	Before Changing	Symbol	After Changing	Symbol
07/02/2007	11	Kasikorn Securities Public Company Limited	KSEC	Kasikorn Securities Public Company Limited	KS

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## Thai long-term equity fund investment grows USD 280 million in six months

The Stock Exchange of Thailand (SET) declared that long-term equity fund (LTF) investment from July to December, 2006 climbed by THB 10.29 billion (approx. USD 278 million), adding to the funds' net asset value (NAV) of more than THB 25 billion (approx. USD 695 million). More than 70,000 accounts were created in December alone, and more than 40% of investors maintained their outlay for three consecutive months during H2/2006.

Much of the growth in LTFs is directly attributable to the "Let's activate your LTF" campaign, which ran from July to December 2006, SET Executive Vice President (Capital Market Opportunity Center) Mr. Vichate Tantiwanich said.

"LTF accounts grew each month during H2/2006, and especially in December, which was the last opportunity to claim the tax privilege. The 73,948 LTF accounts in that month were four and a half times the November result of 16,330. The surge in new accounts indicates a greater public understanding of the instrument," said Mr. Vichate.

The promotion campaign's success is evidenced, by not only the increase in accounts, but also by the increase in investment on a three consecutive month basis, e.g., July – September, 2,376 accounts, (41% of all accounts); August – October: 3,163 accounts, (53%); September – November: 3,610 accounts (40%); October – December: 4,543 accounts (41%).



The LTF project was carried out with the cooperation of the Revenue Department, Securities and Exchange Commission, Association of Investment Management Companies, "Let Your Money Work for You Through Mutual Funds" project and SET. It promoted savings and long-term financial planning and investment through financial institutions, aiming to improve the balance between institutional and retail investors on the Exchange.

SET in collaboration with 18 fund management companies held 68 workshops and seminars, highlighting LTF investment for employees of listed firms and other agencies. Feedback was positive with 34 new LTFs introduced by securities companies leading to a rise in NAV of THB 25.19 billion.

For more information about LTFs, please visit the SET website at [www.set.or.th/Ltf](http://www.set.or.th/Ltf) or contact SET Call Center at (66) 2229 2222. 

## Thai bourse eases transitions to internet trading and remuneration changes

The Stock Exchange of Thailand (SET)'s Board of Governors requires investors trading online to use 'cash balance' or 'credit balance' accounts to qualify for the minimum brokerage fee of 0.15% of trade value. Trading through other types of accounts is permitted for a one-year period, but with a minimum brokerage fee of 0.20%, as previously ruled. The board also allowed securities companies a one-year transition before they will be required to include qualitative factors in assessing the remuneration of marketing representatives. The new remuneration guidelines will be tabled at the SET members meeting for discussion, and later submitted to Securities and Exchanges Commission (SEC) for review or amendment.

The Board's requires that investors have a "cash balance" or "credit balance" account to qualify for the reduced brokerage fee of 60% of the normal rate, or 0.15% of trade value. (Cash balance accounts require front-end cash as collateral, while holders of credit balance accounts may trade on the credit they have with their securities firms.)

However, to ease the transition to cash or credit balance accounts, internet clients without these accounts may

trade at the previous minimum brokerage fee of 0.20% of trade value for a year, during which SET will review the situation with its members.

The actions will contribute to achieving a larger and more disciplined investor base, and reduce risks associated with independent trading. The intention is to ease the changeover from normal trading to internet trading accounts, which are expected to increase investor numbers.

In addition to the resolution on internet trading, SET Board also moved to ease implementation of the rule: *Procedures for charging brokerage or agent's fees for the buying or selling of listed securities and members' good corporate governance*, effective January 1, 2007. The rule stipulates that up to 25% of a marketing representative's income under the incentive scheme must be based on qualitative factors, such as service quality and compliance with the Exchange's requirements, and that a securities firm should account for these in paying their six-monthly incentives to officers. However, to ease transition, implementation will be delayed for a year, during which SET will review the situation with its members. 

## Mergers & Acquisitions: Opportunities for Business Expansion

**M**ergers and acquisitions (M&A) are a tool used by many leading companies worldwide to expand their operations and enhance competitiveness.

The Stock Exchange of Thailand (SET), in collaboration with the Faculty of Law of Chulalongkorn University, the SET's Capital Market Academy and the law firm of Baker & McKenzie, recently co-hosted a seminar entitled “Mergers & Acquisitions: Opportunities for Business Expansion”.

Distinguished speakers included Dr. Kongkiat Opaswongkarn, Chief Executive Officer, Asia Plus Securities PCL; Mr. Kitipong Uraepatanapong, International Partner, Baker & McKenzie; and Mr. Vicha Poolvaraluck, President and CEO, Major Cineplex Group PCL.

The event provided an overflowing audience with insights about M&A, as summarized below.



### More M&A Worldwide

Dr. Kongkiat Opaswongkarn began with a description of the situation in Thailand.

“M&As in Thailand are becoming more and more important. Businesses have increasing interest in M&A mainly because of the need to enhance their competitiveness nationally, regionally and globally,” he said. “Given the fact that businesses in Thailand are relatively small when compared to global businesses, in order for these small-sized businesses in Thailand to be internationally competitive, they will need to expand their operations. Doing so by relying on the businesses’ own capacity to grow may take a long time. Merging with businesses that complement what they are missing in their business is therefore a shortcut to rapid expansion of operations.”



**Dr. Kongkiat Opaswongkarn**

Recently, leading companies, both in Thailand and overseas, have favored M&A (external growth) as a means of business expansion instead of allowing the businesses to grow at their own pace (internal growth). According to statistics on M&A worldwide, only 8,000 M&A transactions occurred in 1997. In 2006, however, 25,000 M&A transactions were carried out worldwide, valued at USD 3.5 billion. The number of M&As has risen every year, especially since 2000.

In 2006, 16 M&A transactions occurred in Thailand, valued at approx. USD 2.4 billion. Meanwhile, in the same year 8,000 such transactions were performed in the whole Asian region, valued at about USD 600 billion. In short, M&A in Thailand accounts for a very small portion when compared with the regional and global level. That also means that there is still large room for M&A to grow in Thailand in every industry, such as manufacturing, finance and services.

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### SET ... Key Facilitator of M&A

Dr. Kongkiat remarked that one of the key facilitators of M&A is The Stock Exchange of Thailand (SET) in cases where the M&A is carried out between listed companies, as both parties can rely on each other’s transparency in management and accounting systems. The M&A can then be executed more rapidly and smoothly.

Dr. Kongkiat said, “Let me stress that being listed on SET makes it easier for M&A to be successful. It also facilitates the procedures involved, such as securities swaps, acquisition by cash, capital increases, and credit approval from a bank. I believe that if a quality public firm announces an M&A, a commercial bank will be more than willing to give credit to the company.”

M&As increase the competitive edge for businesses by strengthening them through synergy. This is beneficial to all parties. Consumers enjoy cheaper prices of goods as an M&A contributes to the economies of scales and cuts business costs. Employees work in a larger and more stable organization. Shareholders gain long-term benefits from the strengthening of the business, which is a result of the decrease in costs. After an M&A, companies tend to gain higher profits than they did when operating as two separate companies. In addition, it creates more opportunities for merged companies to give back to society.

“I found that over 90% of M&As in Thailand are amicable,” Dr. Kongkiat noted. “They often occur when the market values of the two companies’ shares are lower than their actual values. This is because investors tend to think that in the long run, each company’s competitiveness would become less and less due to the small size of the businesses, the lack of economies of scales and the intensified competition in the industry. Investors are more interested in the merged companies as they see that M&A will eliminate the weaknesses of the two companies and the companies will complement each other with their strengths. The larger size also attracts attention from investors. These positive factors will raise the share values.”

### Match M&A Methods with Businesses

Mr. Kitipong Uraepatanapong said the next important thing to heed, besides the objectives of M&A, is the selection of the method of M&A. Methods are classified into the following three categories:

1. Share acquisition: share purchase or share swap
2. Asset or business acquisition: the buying party buys important assets of the selling party
3. Amalgamation: a merger between at least two companies in which the merger terminates the existing companies and forms a single new company. Amalgamation must be done in accordance with the Civil and Commercial Code and the Public Company Act B.E. 2535.

In order for an M&A to be successful, one needs to select the method that is the fastest and most cost-saving with minimum obstacles. Tax and legal issues also need to be taken into consideration.



**Mr. Kitipong Uraepatanapong**

“What Thai businesses lack is a proper structuring before being listed. A proper structure will allow effective tax management. Operators should plan ahead by drawing up a shareholding structure that best suits the M&A. From my past experience, I found that many deals could not be executed, as the companies could not agree on tax liabilities. We even consider tax issues a deal killer,” Mr. Kitipong said.

Mr. Kitipong added that in the future, laws relating to M&A will focus on consumer protection. Therefore, companies need to keep in mind in regards to M&A is that all related parties should be well taken care of.

### Consider All Related Parties

Based on M&A statistics worldwide, successful M&A that add value for the shareholders account for only 50% of all M&A transactions. The main reasons M&A fail to accomplish their goals usually stem from restructuring of the organization, personnel management and the failure to build a supportive new organizational culture.

Mr. Kitipong said: “Overseas, staff lay-off is usually the first task after an M&A as it is the easiest and fastest way to cut costs. Employees therefore need to continuously develop and adjust themselves to prepare for any changes. However, in most cases in Thailand, reducing staff is not a main focus.”

Dr. Kongkiat also said that staff management is a very important subject that needs close attention. This is especially true for businesses providing services, because personnel are a crucial factor in adding value to the businesses. If post-M&A restructuring is confusing and does not communicate objectives, targets and policies to employees clearly, it will affect the company adversely and the company may not be able to keep valuable staff, especially in the management level. Benefits expected to result from the M&A may not occur as previously planned.

### Real Experience

Mr. Vicha Poolvaraluck is underwent the process of M&A when Major Cineplex Group PLC and EGV Entertainment PLC merged in October 2004. He disclosed that the reasoning for the M&A was:

“At that time, there was much pressure on the cinema business from overseas and domestic competition which was increasingly intensified. Movie theaters owned by different companies were opening in the same areas. This made us think that this kind of competition would hinder the growth of the industry.”

With the same desire to see the movie theater industry in Thailand grow to its full potential, the merger between Thailand’s two leading cinema companies was carried

out. Synergy between the two organizations occurred in various aspects, resulting in a decrease in business costs.

Mr. Vicha explained: “After the M&A, we had more confidence to penetrate markets outside Bangkok. Previously, we were facing a problem in that when a company opened a branch in one province, the other company would have to open its branch there, too. This created a competition over areas to expand. Therefore, we dared not open branches in the provinces. But since we merged, our cost management is much more efficient. Over ten branches were opened after the M&A, resulting in a higher growth in the Thai cinema industry. We also take pride in that fact that Thailand is the only country in Asia that does not have a cinema company owned by foreigners.”

Before the M&A, the market capitalization of Major Cineplex Group PLC and EGV Entertainment PLC as of the



**Mr. Vicha Poolvaraluck**

end of June 2004 were, respectively, THB 8,287 million and THB 1,573 million, or a total capitalization of THB 9,860 million. In comparison, as of the end of 2006, the market cap of the merged Major Cineplex Group reached as high as THB 12.91 billion. In a mere two years and a half since the merger, the Group saw a market capital growth of THB 3.05 billion.

After the merger, the executives decided to maintain the brands of the two companies as Major Cineplex and EGV because they believed that each brand had its own value. The executives position each brand differently to serve the different demands of each target group. Major Cineplex focuses on families, EGV on teenagers. This gives a variety of choices to consumers.

Synergy is the most important benefit created by a M&A, Mr. Vicha said, but communication to all related parties to inform them thoroughly of the benefits after a M&A is also very crucial.

“Before the M&A, we discussed quite clearly the future structure of management, management policies and policies on personnel to prevent business from experiencing a stall after the merger. As it turned out, our management ran very smoothly after the M&A because we had a clear idea.

“In addition, we invited all executives and staff for a talk to inform every one of the objectives and the benefits we would receive. We allowed everyone to ask questions and make suggestions because high-level management, viewing things from the top, may have missed some aspects. Listening to the opinions from operational staff gave us wider perspectives that helped us cover all aspects more thoroughly.”

Finally, Mr. Vicha left us with an interesting thought that M&A is no longer a new strategy. Operators should not limit themselves and stick to their own businesses. They should keep an open mind that M&A can offer another means to contribute to growth of their businesses and can give much greater returns to their shareholders. Operators should focus on the goals of M&A in the future, rather than thinking about who wins or who loses. They should emphasize synergizing their strengths for the benefits of their businesses. ✍️

## Multibax PCL (MBAX)



**Mr. Surachai Atsawakaewmongkhon**  
Managing Director

**M**ultibax PCL (MBAX) listed on Thailand's Market for Alternative Investment (mai) on January 29, 2007. The company manufactures and distributes high-quality plastic bags, including food freezer, sandwich, re-zippable, fruit and vegetable and trash bags. The firm's securities will use "MBAX" as their trading symbol.

Its products are manufactured according to customers' specifications and all are exported to its primary markets in the UK, Germany, Scandinavia, USA, Canada, Chile, Australia, New Zealand and Asia. The company's current annual production capacity is more than 26,000 tons.

### A leading polyethylene plastic bags exporter

"After 11 years in this business, we are now Thailand's leading producer of plastic bags. Our factories are in the Laem Chabang Industrial Estate, near the new deep sea port there, from which we export weekly to California and other parts of the world. Because we obtain our raw materials nearby, from CCC Chemical Commerce Co., Ltd. (a subsidiary of Siam Cement PCL), we can control transportation and production costs and efficiency. Furthermore, as the factories are in the industrial estate, we receive tax exemptions," MBAX Deputy Managing Director, Mr. Surachai Atsawakaewmongkhon said.

The firm was certified under ISO 9001: 2000 for quality management and received the BRC Global Standard, the consumer product standards award. In regard to quality assurance, the company uses precise statistical measurements to guarantee that products delivered meet customer requirements precisely. For over a decade, MBAX products have been well-accepted and international sales continue to grow.

### MBAX to expand its business

At its initial public offering (IPO) during January 18 - 19, MBAX raised THB 175 million to expand production



capacity, purchase new machinery and construct a warehouse.

### Consolidated financial summary (in THB million)

	2004	2005	2005 (Jan.- Sep.)	2006 (Jan.-Sep.)
Sales revenue	817	1,326	1,024	987
Total revenue	813	1,325	1,023	1,000
Net profit	28	78	74	48

MBAX has THB 128 million (USD 3.55 million) paid-up capital, made up of an existing 93 million common shares and 35 million shares in capital increase, each with a par value of THB 1.00. Kasikom Securities PCL acted as MBAX's financial advisor.

The IPO price of THB 5.00 reflected a price/earnings (P/E) ratio of 12.24 (calculated by dividing its 12-month net profits average between October, 2005 and September, 2006 by 128 million shares). This compares favorably with mai's average P/E on January 11, 2007 of 8.72. The firm's dividend payment policy is to pay no less than 40% of its net profits after tax and legal reserves.

The company has two certificates from the Board of Investment (BOI), entitling it to pay tax at 50% of tax liable on profits (for five years from 2006), and an exemption from corporate income tax (for eight years from April 5, 2004) on profits from its annual production. Shareholders will be not liable for withholding tax on dividends received during the exemption period.

After the IPO, the principal shareholders in the company are Mr. Voraphot Srimahachota, holding 17.20% of paid-up capital, followed by Mr. Anuwat Suthmahatayangkun and Mr. Surachai Atsawakaewmongkhon, who each hold 10.55%.

For more information on MBAX, please visit their corporate website at [www.multibax.com](http://www.multibax.com), mai's website at [www.mai.or.th](http://www.mai.or.th), or SETTRADE.Com's website at [www.settrade.com](http://www.settrade.com).



## Thai Depository announces plans for 2007

**T**hailand Securities Depository Co., Ltd. (TSD)'s plans for 2007 will further its mission: "To be a valued partner in the capital market offering excellent services".

### TSD to be a comprehensive back-office services center

Following positive feedback from members and stakeholders in 2006, TSD will continue to develop its infrastructure and systems this year as it evolves into a comprehensive depository services center for clearing and settlement, and securities and mutual funds registration. It will also provide back office services for equity, debt, and derivatives instruments.

The company's back office services will be ready for clearing and settlement, ETF (exchange-traded funds) and SET50 Index Options, scheduled for Q2/2007 and Q3/2007, TSD Chief Executive Officer Ms. Sopawadee Lertmanaschai announced.

"Our new services will include cross-collateral management, private repos, securities borrowing and lending for equity, and employees' choice service for provident funds, benefiting both members and the Thai capital market overall," Ms. Sopawadee said.

In 2007, TSD aims to have 85% of total securities deposited with it, increase to 150,000 the number of e-dividend service users, and maintain customer satisfaction at its current level of 78.5%.

### TSD's impressive 2006 performance

2006 was a year of successful consolidation in securities depository, clearing and registration. Transactions in these services totaled THB 660 million (approx. USD 17.40 million), an increase of THB 14 million or 2.6% year-on-year (y-o-y).

The total value of deposited securities as at December 31, 2006, spiked 67% from THB 2.20 trillion (approx. USD 54.63 billion) from end-2005 to THB 5.51 trillion (approx. USD 145.27 billion) in 2006, after the integration of equity and debt instrument depository services in May 2006. TSD supplies depository services for about 74% of all listed equities, or 363,687 million shares worth THB 3.36 trillion (approx. USD 88.59 billion).

Public sector bonds from 460 issues worth THB 2.15 trillion (approx. USD 56.69 billion) are with the depository, representing about 65% of the total previously registered with the Bank of Thailand.



Ms. Sopawadee Lertmanaschai

Five hundred and twenty-seven issuers have accounts with TSD receiving shareholders' deposits which total THB 86,468 million. (approx. USD 2,279.76 million).

Turning to its clearinghouse business, in 2006 TSD cleared and settled securities worth THB 695,059 million (approx. USD 18,325.46 million), or 17.57% of total trading turnover (THB 39.6 trillion). The depository cleared and settled about 15.7%, or THB 4,306 million (THB 27,414 million), of total turnover on Market for Alternative Investment (mai). In supporting the derivatives market (opened April, 2006), the company served 198,737 contracts on SET50 Index Futures totaling THB 97,898.96 million (approx. USD 2,581.14 million).

As securities registrar, TSD provided services to 590 companies, of which 518 were listed. These securities are worth THB 5.1 trillion (approx. USD 134.46 billion). Also provided were bond registrar services for 58 issues worth THB 133,912 million (approx. USD 3,530.63 million), and THB 16,100 million (approx. USD 424.48 million) in baht-denominated bonds or 'BahtBonds'.

The company processed more than 1.1 million dividend and interest payments worth THB 256,819 million (approx. USD 6,771.12 million). Of this amount, 65%, or 730,000 transactions, were automatic transfers to shareholders' bank accounts (e-dividends), an increase of 57% y-o-y. In addition, TSD has provided an 'Issuer Portal' for issuers or listed firms to access the shareholder database and better manage their share registration.

The depository provided registration services for 152 funds in 2006, up from 63 in 2005, while participation by provident funds more than doubled: from 46 to 99. The value of securities in these provident funds as of end-2006 was worth THB 113,371 million (approx. USD 2,989.06 million), a 38% year-on-year rise. In addition, TSD provided comprehensive back office services to securities firms, covering equity, debt and derivatives products.

For more information, please visit [www.tsd.co.th](http://www.tsd.co.th) or call TSD Call Center on (66) 2229-2888, or e-mail [contact.tsd@set.or.th](mailto:contact.tsd@set.or.th).

### Statistical Highlights

Statistics	2005	2006	Statistics	2005	2006
<b>Securities Clearing and Settlement</b>			<b>Fund Registration</b>		
No. of participants (participants)	73	84	No. of securities using e-dividend services (securities)	424	475
Daily average value of securities' clearing and settlement (THB million)*	2,543	2,860	No. of investors using e-dividend services (investors)	357,945	623,372
Daily average number of clearing and settlement transactions (per thousand transactions)	2,084	2,319	No. of funds (funds)		
Daily average value of defaults in securities' delivery (THB million)	19	16	mutual funds	14	18
<b>Securities Depository</b>			retirement mutual funds	19	22
No. of participants (participants)	457	638	long-term equity funds	10	13
No. of securities deposited in the securities depository system, including stocks and bonds (securities)	918	1,463	provident funds	46	99
Value of securities in the securities depository as % of securities' market value	62%	65%	Net asset value (THB million)		
Volume of securities in the securities depository as % of securities' market volume	70%	74%	mutual funds	8,973	12,801
Proportion of listed companies in the issuer account project (%)	71%	100%	retirement mutual funds	1,127	1,872
<b>Securities Registration</b>			long-term equity funds	1,093	1,894
No. of companies in the securities registration system (companies)	563	590	provident funds	82,163	113,371
No. of securities in the securities registration system (securities)	712	748	<b>Broker Operation Services</b>		
			Number of brokers using services - cash market (companies)	9	8
			full service (system and operational)	1	1
			application service (system only)	0	1
			back-up service (back-up site)	18	24
			Number of brokers using services - derivative market (companies)		

\* Daily average value of securities trading in 2005 and 2006 was THB 16,454 million and THB 16,281 million, respectively.

# The Effect of Changes in Accounting for Investments from the Equity Method to the Cost Method in Separate Financial Statements

By Angkarat Priebjivat, Ph.D.<sup>1</sup>

The Federation of Accounting Professions (FAP) is revising the Thai Accounting Standards (TAS) for investments, which are currently TAS 44, Consolidated Financial Statements and Accounting for Investments in Subsidiaries; TAS 45, Accounting for Investments in Associates; and TAS 46, Financial Reporting for Interests in Joint Ventures. These changes are to ensure that Thai standards are in line with the revised International Financial Reporting Standards (IFRSs) 2003 which were issued by the International Accounting Standard Board (IASB)<sup>2</sup>.

## Change in Accounting Standards for Investments

The major issue in these three standards is the change in accounting for investments in a company's separate financial statement from the equity method to the cost method.

Until now, the parent company had to report its investment in subsidiaries, associates or joint ventures using the equity method of accounting. However, under the revised accounting standards for investment, the parent firm is required to report investments in subsidiaries, associates or joint ventures in the separate financial statements at cost – unless the subsidiary, associate, or joint venture in question was a listed firm. In such instances, the parent firm is allowed to report its investments at fair value.

Under the revised method, the net income in the separate financial statement will be different from that reported in the consolidated financial statement. This change could confuse investors who do not understand this accounting practice. As a consequence, they may have questions on the reliability or transparency of the financial statements.

## The Equity Method of Accounting for Investment

When the equity method of accounting is used, the parent company initially records the investment in the stock of an investee at cost. The investment account is then adjusted to recognize the proportionate share of income or losses of the investee after the date of acquisition when it is earned by the investee. Inter-company profits and losses are eliminated. Dividends received from an investee reduce the carrying amount of the investment and are not reported as dividend income. As a result of applying the equity method, the investment account reflects the investor's equity in the underlying net assets of the investee. Typically, the income (loss) in the separate financial statements is equal to that in the consolidated financial statements.

## The Cost Method of Accounting for Investment

Under the cost method, the investment is recorded at cost at the time of purchase. Dividends received from an investee will be reported as revenue. No elimination of inter-company profit and losses is needed. Thus, the income or losses in the separate

financial statements are different from that in the consolidated financial statements, and the difference between the two sets of income figures might confuse investors.

To compare, applying the cost method signifies the control or influence investors can exercise over the dividend policy, which will affect dividend revenue in the income statement. On the other hand, applying the equity method signifies the control or influence investors can exercise over the overall performance and management of the investee. This will be reflected in its proportionate share of profit or loss. This reason supports applying the equity method in the separate financial statements.

However, under the current revision, IASB claims that the separate financial statement should instead reflect only its own operating results, excluding its share of profits or losses in subsidiaries or associates. Thus, the parent company should account for the investment in the separate financial statements at cost or at fair value and present its share of income or loss from affiliates in consolidated financial statements.

According to TAS 39, a change in accounting treatment requires the company to restate its financial statements. Consequently, when the company switches from the equity to the cost method for investments, it must adjust the carrying value of the investment account and the retained earnings as of the date of change.

If the company used to realize its share of profits from investments, adopting the cost method will decrease the carrying amount of investment and retained earnings. Conversely, if the company used to realize its share of losses from investments, adopting the cost method will increase the carrying costs of investment and retained earnings.

After adopting the cost method, the company will report income from investments only if it receives dividends from the investee. Therefore, if the amount of dividends received is not equal to the firm's share of the profits earned by the investee, if no dividend is received, or if the investee suffers a loss, the income (loss) in the separate financial statements will differ from that in the consolidated financial statements.

Dividend payments are another concern when applying the cost method. Thai law requires that companies must declare dividends from their separate financial statements. Holding companies may be using the equity method to realize profits of investees as profits of the parent firm. In such cases, if the holding company has no other activities, and pays dividends from the revenues received from investees, changing to the cost method will mean that the parent firm will have revenues only in periods where the investees pay dividends – and the parent's revenues will spike in any period where the investees do pay dividends. This feast-or-famine flow of income could mislead potential investors and affect their decision process.

<sup>1</sup> Associate Professor of School of Business Administration, National Institute of Development Administration (NIDA). Opinions expressed herein are the sole responsibility of the author, and may not represent those of other bodies.

<sup>2</sup> In September 2006, FAP issued the revision of existing TAS 44, Consolidated Financial Statements and Accounting for Investment in Subsidiaries; TAS 45, Accounting for Investments in Associates, and TAS 46, Financial Reporting of Interests in Joint Ventures. This revision requires a company to switch from using the equity method to the cost method in reporting its investments in subsidiaries, associates and joint ventures. Although the effective date for the new requirement was the year ended December 31, 2006, any company not ready for the change is permitted to apply the new rule starting from January 1, 2007. However, FAP is still in the process of revising those three standards to be consistent with IFRS.

## Accounting for Investment in Subsidiaries, Associates and Joint Ventures

Financial Statements/ Investment	Current Accounting Standard		Proposed Accounting Standard	
	Consolidated	Separate	Consolidated	Separate
Subsidiaries	n.a.	Equity	n.a.	Cost or Fair Value
Associates	Equity	Equity	Equity	Cost or Fair Value
Joint Ventures	Equity	Equity	Equity	Cost or Fair Value

### Effect of change in accounting for investment<sup>3</sup>

As mentioned above, the change in accounting for investments from the equity to the cost method causes the income reported in the separate financial statements to be different from that reported in the consolidated financial statements. Moreover, after the restatement, the carrying costs of the investment and retained earnings will be different from those reported in the previous period. If this difference is significant, it may affect investors' decisions. Also, the change in accounting standards could impact dividend payout decisions, especially for holding companies.

A sample from the 2005 financial statements of 50 listed companies in The Stock Exchange of Thailand (SET) with the highest market capitalization (components of the SET50 Index) was used to study the significant effects of accounting changes for investment on income (loss), carrying costs, retained earnings, and dividend payout ratios, since these accounting standards are mandated only for public firms. The total market capitalization of these 50 companies accounts for approximately 70% of SET's total market capitalization. All of these companies present consolidated financial statements, and hence would be affected by the change in accounting for investments.

At a confidence level of 99%, the findings show the following

1. The incomes (losses) in the separate financial statements differ significantly from those in the consolidated financial statements.
2. The dividend payout ratios in the separate financial statements under the cost method differ significantly from those in the consolidated financial statements.
3. As of the date of change in accounting standards, retained earnings in the separate financial statements differ significantly from those in the consolidated financial statements.
4. As of the date of change in accounting standards, the ratios of investment to total assets in the separate financial statements differ significantly from those in the consolidated financial statements.

### Recommendations

1. Changing accounting for investments from the equity to the cost method could considerably influence investors' decisions, due to significant changes of net profit (loss), carrying costs of investment, retained earnings, dividend payout ratios, and especially differences of income reported under the separate and consolidated financial statements. To mitigate this impact, accounting professionals and related agencies should collaborate in educating investors, users of financial statements, analysts, accountants and related parties of the effects of this change. Full disclosure of information along with the

management's report on this issue will also assist users in understanding the effects of this change.

2. In the first year of changing from the equity to the cost method, companies should disclose in the Management Discussion and Analysis section of the annual report their ability to pay dividends and dividend policy. Firms should disclose how the dividend payout ratio under the cost method differs from that under the equity method and its consequences, e.g., the company might have to adjust its dividend payout ratio. Companies should also disclose the criteria used in determining the dividend payout ratio, and tell whether the calculation values were from the separate or consolidated financial statements.
3. Since the company is required to retroactively apply the cost method in recording its investments, its separate financial statements will be significantly affected, including carrying costs of investment and retained earnings will be significantly affected. Thus, the FAP should consider the effect of this change in determining the initial cost of investment when the company first applies the cost method. As of February 2007, IASB is revising the IFRS 1: First-time Adoption of IFRS, regarding measuring cost of an investment in a subsidiary. In addition, IASB has proposed two alternatives to be used as deem cost when the company switches to the cost method in accounting for investment in subsidiaries:

- 1) The proportionate equity in the book value of subsidiaries' net assets.
- 2) The fair value of investment in subsidiaries.

Nevertheless, IASB has not finalized the conclusion on this issue yet. The FAP should consider this pending conclusion as a guideline in determining the initial cost of investment when enforcing the revised standards.<sup>4</sup>

### References:

International Accounting Standard Board:

- IAS 27: Consolidated and Separate Financial Statements
- IAS 28: Investments in Associates
- IAS 31: Interests in Joint Ventures
- ED on IFRS 1: First-Time Adoption of IFRS: Cost of an Investment in a Subsidiary

The Federation of Accounting Professions:

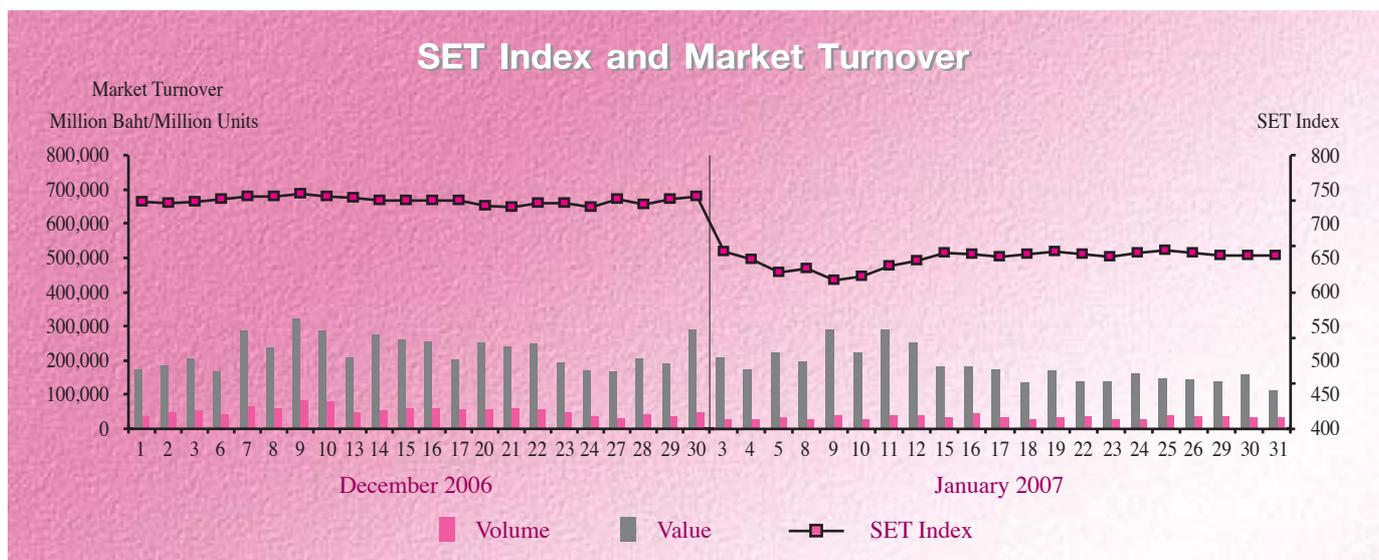
- TAS 39: Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies.
- TAS 44: Consolidated Financial Statements and Accounting for Investments in Subsidiaries.
- TAS 45: Accounting for Investments in Associates.
- TAS 46: Financial Reporting of Interests in Joint Ventures.

Priebjrvat, Angkarat. "Effects of Accounting Changes: Investments in Subsidiaries, Associates, and Joint Ventures," Working paper, School of Business Administration, National Institute of Development Administration, December 2006.

<http://www.iasplus.com/agenda/ifrs1separate.htm>

<sup>3</sup> The new standards allow companies to choose either cost or fair value in reporting their investment in subsidiaries, associates and joint ventures in separate financial statements. This study, however, only compares the effect of the change from equity method to cost method, since most subsidiaries of listed companies are non-listed and therefore the researcher had no information about their fair values.

<sup>4</sup> Refer to note 2; FAP required companies to restate their financial statements (investments must be reported at acquisition cost) when switching from the equity to the cost method. In cases where that was not practical, firms were allowed to use carrying values (investment that was reported using the equity method) as deem cost. The announcement confused companies and there are many unresolved issues.



### The Stock Price Indices in January 2007

Index	High (Date)	Low (Date)	Close	
			January 2007	Compared with December 2006 (%)
SET	660.71 (25)	616.75 (9)	654.04	↓ 3.80
SET50	462.52 (25)	428.73 (9)	456.89	↓ 3.46
SET100*	1,005.22 (25)	933.35 (9)	993.62	↓ 3.85
mai	187.06 (31)	175.61 (9)	185.54	↓ 4.08

\* The SET 100 Index was launched on May 3, 2005.

### Stock Market Turnover in January 2007

	Volume (Million Shares)				Value (Million Baht)				
	January 2007		Compared with December 2006 (%)		January 2007		Compared with December 2006 (%)		
	SET	mai	SET	mai	SET	mai	SET	mai	
Total	50,218.97	923.52	↓ 6.07%	↓ 55.55%	Total	285,184.47	2,430.72	↓ 12.02%	↓ 68.13%
Daily Average	2,391.38	43.98	↓ 15.02%	↓ 59.78%	Daily Average	13,580.21	115.75	↓ 20.40%	↓ 71.17%

### Statistics of Listed Debentures in January 2007

Issues	Total Outstanding Value (Million Baht)	Total Turnover	
		Volume (Shares)	Value (Million Baht)
584	3,242,182.77	7,700	7.47

### Transactions by Type of Investors\*\*

Unit : Million Baht

Type of Investors	December 2006				January 2007			
	Buy	%	Sell	%	Buy	%	Sell	%
Foreigners (corporate & individual)	103,263.45	31.13	135,173.09	40.74	125,531.10	43.65	113,710.10	39.54
Local Institutions*	53,336.04	16.08	39,422.52	11.88	30,022.42	10.44	37,550.71	13.06
Local Investors	175,159.24	52.80	157,163.11	47.37	132,061.67	45.92	136,354.38	47.41
<b>Total</b>								

\* Including securities companies, mutual funds, banks, finance firms, insurance companies, juridical entities and provident funds

\*\* Including transactions of mai

## Top Ten Securities with Highest Market Value in January 2007

Rank	Securities		Market Value	
			Million Baht	% of Total
1	PTT	PTT	558,180	11.68
2	PTT Exploration and Production	PTTEP	310,527	6.50
3	The Siam Cement	SCC	278,400	5.82
4	Advanced Info Service	ADVANC	218,587	4.57
5	Bangkok Bank	BBL	202,337	4.23
6	Kasikornbank	KBANK	142,003	2.97
7	Krung Thai Bank	KTB	135,274	2.83
8	Thai Oil	TOP	117,301	2.45
9	The Siam Commercial Bank	SCB	112,736	2.36
10	PTT Chemical	PTTCH	111,758	2.34
<b>Total</b>			<b>2,187,103</b>	<b>45.75</b>

## Top Ten Most Actively Traded Securities (Main Board) in January 2007

Rank	Securities		Number of Securities	Turnover Value	
				Million Baht	% of Total
1	Bangkok Bank	BBL	182,892,188	18,857.42	7.39
2	PTT	PTT	92,255,323	18,557.16	7.27
3	The Siam Commercial Bank	SCB	262,410,775	14,734.07	5.77
4	Kasikornbank	KBANK	256,053,889	14,697.65	5.76
5	PTT Exploration and Production	PTTEP	96,228,411	8,948.04	3.51
6	Thai Oil	TOP	159,344,503	8,507.23	3.33
7	Krung Thai Bank	KTB	728,201,290	8,299.88	3.25
8	TPI Polene	TPIPL	526,448,819	7,683.64	3.01
9	The Siam Cement	SCC	29,783,725	6,852.72	2.69
10	Advanced Info Service	ADVANC	80,141,249	5,902.26	2.31
<b>Total</b>			<b>2,413,760,172</b>	<b>113,040.07</b>	<b>44.29</b>

\* Excluding transactions on Foreign Board and mai

## Top Ten Most Actively Traded Securities (Foreign Board) in January 2007

Rank	Securities		Number of Securities	Turnover Value	
				Million Baht	% of Total
1	Bangkok Bank	BBL-F	112,650,642	11,864.72	39.53
2	Kasikornbank	KBANK-F	145,254,789	8,448.67	28.15
3	The Siam Cement	SCC-F	12,143,429	2,883.04	9.61
4	Land and Houses	LH-F	334,294,246	2,172.89	7.24
5	Advanced Info Service	ADVANC-F	29,349,000	2,164.51	7.21
6	Krung Thai Bank	KTB-F	62,064,900	670.24	2.23
7	Bank of Ayudhya	BAY-F	24,398,200	433.96	1.45
8	Kiatnakin Bank	KK-F	10,375,500	285.50	0.95
9	Banpu	BANPU-F	1,546,400	274.73	0.92
10	Electricity Generating	EGCOMP-F	2,211,900	213.81	0.71
<b>Total</b>			<b>734,289,006</b>	<b>29,412.07</b>	<b>98.00</b>

\* Excluding transactions of mai

## Top Ten Outstanding Non-Voting Depository Receipts (NVDRs) in January 2007

Rank	Securities		Number of NVDRs	% of Paid-up Capital
1	Raimon Land	RAIMON-W	513,542,768	66.33
2	Raimon Land	RAIMON	777,899,652	36.90
3	Golden Land Property Development	GOLD	198,457,915	31.50
4	Hemaraj Land and Development	HEMRAJ-W	117,726,691	28.07
5	LP.N. Development	LPN	370,848,589	25.13
6	Jasmine International	JAS-W	21,223,320	23.66
7	Bangkok Land	BLAND	3,711,692,450	23.64
8	Tisco Finance	TISCO	127,234,334	23.50
9	Pranda Jewelry	PRANDA	79,099,000	22.74
10	Land and Houses	LH	1,821,899,952	21.48

## Market data of TFEX\*

Transaction Summary	October 2006	November 2006	December 2006	January 2007
Total Volume (Contracts)	28,695	34,948	44,790	61,433
Daily Average Volume (Contracts)	1,366.43	1,588.55	2,357.37	2,925.38
Total Value (Million Baht)	14,338.86	18,073.54	21,912.02	27,662.81
Daily Average Value (Million Baht)	682.80	821.52	1,153.26	1,317.28
Month-end Open Interest (Contracts)	6,196	8,122	7,601	7,772

Market Summary: SET50 Index Futures		Open	High	Low	Settle
Symbol	Contract Month				
S50H07	Mar-07	460.00	464.50	421.00	455.00
S50M07	Jun-07	462.20	465.00	421.50	456.00
S50U07	Sep-07	460.00	464.00	423.00	455.90
S50Z07	Dec-07	463.50	466.00	428.00	457.00

\* TFEX started its trading on April 28, 2006.

## SET co-hosts ASIA MOOT CORP 2007



Executives from the Faculty of Commerce and Accountancy of Thammasat University joined SET executives at a press conference and forum on Thammasat's ASIA MOOT CORP Forum Series II on January 31.

ASIA MOOT CORP® is the premier intercollegiate business plan competition in the region. Its mission is to foster the entrepreneurial spirit and the ability of future managers in Asia while they are studying in the region's leading business schools.

The SET and the Faculty of Commerce and Accountancy will host the ASIA MOOT CORP Competition for the second time in Thailand on March 20-22. ✍️

## BOT's Governor discusses Thai capital market



To provide an accurate understanding of the Bank of Thailand (BOT)'s policies relating to the Thai capital market, BOT Governor Tarisa Watanagase, Ph.D., gave a keynote speech entitled "BOT's policies for the capital market" at the TSD Networking Night. The Governor explained the rules and practices regarding the new reserve requirements on imports of foreign funds, non-resident Baht accounts, and reporting.

The event was held by Thailand Securities Depository Co. Ltd (TSD), a SET subsidiary, on January 26. ✍️

## "Kor Hoon mai on stage" spotlights mai stocks and Thai economic direction in 2007

On January 25, the first-time "Kor Hoon mai on stage" seminar provided investors with insights on the Thai economic direction in 2007 and investment guidance for mai stocks.

Distinguished speakers included Dr. Somchai Sujjpongse, Deputy Director-General of the Fiscal Policy Office; Dr. Thanavath Phonvichai, Director of the Center for Economic and Business Forecasting, University of the Thai Chamber of Commerce; and Mr. Sombat Anuntarumporn and Ms. Naowanit Silaparat – top executives from Interlink Communication PCL and Baan Rock Garden PCL, respectively.

mai will host the "Kor Hoon mai on stage" seminar two additional times later this year. ✍️



## SET's seminar on world economic trends



SET and Bangkok University co-hosted the seminar, "World's economic direction and Thai capital market." Key speakers included Dr. Somchai Sujjpongse, Deputy Director-General of Fiscal Policy Office; Ms. Wiwan Tharahirunchote, Managing Director of Kasikorn Asset Management Co., Ltd; and Mr. Vichate Tantiwanich, Chairman of the Market for Alternative Investment (mai) Advisory Committee.

Deputy Industry Minister Piyabutr Cholvijam gave the keynote speech on "The world's economic direction and Thailand's manufacturing industry."

The seminar was held at Bangkok University on January 24 and attracted a large audience. ✍️