

Translation

Kor.Tor.(Wor) 51 /2001

December 26, 2001

Managing Directors

All Listed Companies, Members, Non-member Securities Companies, Mutual funds, Auditors and Financial advisors

Dear Sirs,

Re: The Stock Dividend Tax

Please find attached: 1. Letter from the Revenue Department, no. KK 0811/9198 dated September 19, 2001
2. Sample of Tax Calculation of revenue from stock dividend

As a result of cooperation between The Stock Exchange of Thailand (SET) and other organizations in exploring ways to promote more investment on the SET, clarification of measures to support issuing of Stock Dividends have been announced. This provides more alternatives for listed companies to pay the return to shareholders by paying Stock Dividend rather than a paying Cash Dividend, in a situation where the company has achieved a good performance but still needs to maintain the liquidity of its working capital. In the past, listed companies hesitated to issue Stock Dividends to shareholders because they were uncertain about the possible resulting tax implications

In order to clarify these tax obligations in relation to Stock Dividends, the SET has sought to consult with the Revenue Department as to the principles of tax payments on them. As a result, the Revenue Department has offered explanations and given directions as per the attached letter, which can be summarized as follows:

1. Stock Dividends Tax

As Stock Dividends are categorized as "Assessable Income" under Section 39 and 40(4)(b) of the Revenue Code, deductions shall be made at the rate of 10 per cent of the aforesaid income under Section 50(2)(e) of the Revenue Code at the time that the shareholders receive these from the issuing company.

In the case where the recipient is both an individual and a resident in Thailand, he has the right to choose to include the above income for computation of tax under the second paragraph of Section 48(3) of the Revenue Code. Furthermore, an individual who receives the above revenue from a Juristic Company or Partnership organized under Thai law and chooses to include the above income for computation of tax, shall be entitled to a tax credit which may be offset against their assessed income under Section 47 bis of the Revenue Code.

2 Value of Stock Dividend

The value of each Stock Dividend received by shareholders is counted as assessable income and is liable to be taxed as income, as follows:

Value of each Stock Dividend = $\frac{\text{Amount transferred from retained earning to contributed capital}}{\text{Number of Stock Dividend issued in that period}}$

In addition to this, for listed companies that have accumulated losses and cannot pay dividends, the SET notes that, under Section 7 of the Public Company Act (No.2) B.E. 2544 (2001), a public company may incorporate other reserve funds, legally reserved funds and share capital premiums consecutively to help balance out the accumulated losses of the company. However, this process must be approved by a shareholders' meeting and be considered by applying only accumulated losses, reserve funds or share capital premiums in the latest financial statement already audited by approved auditors.

This allowance should enable listed companies to both reduce their accumulated losses and to make dividend payments faster. Recently, many listed companies have resolved their difficulties using the above method and can now pay dividends to their shareholders. Now other listed companies that still have accumulated losses may consider and propose this option for the benefit of their shareholders at an ordinary shareholders meeting that may be held within April 2002.

This should help encourage more investment in their Securities and the Capital Markets of Thailand as a whole.

Please be informed accordingly.

Sincerely yours,

(Signed) Kittiratt Na-Ranong

(Kittiratt Na-Ranong)

President

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A Sample of Tax Calculations in the case of Stock Dividends

Stock Dividend Tax Calculation methods following the advice of the Revenue Department

1. Value of each Stock Dividend = $\frac{\text{Amount transferred from retained earnings to contributed capital}}{\text{Number of Stock Dividends issued in that period}}$

Example:

The amount of retained earnings being written off and transferred to paid up capital	=	90 Million Baht
Number of Stock Dividends issued in that period	=	10 million shares
Value of each Stock Dividend	=	9 Baht/Share (90/10)

2. Tax to be withheld

Listed companies that wish to make dividend payments are entitled to deduct income tax at the rate of ten per cent of the value of the stock dividend as mentioned in clause 1. We can compare this with the case of paying dividends in cash at 10 Baht per share, where the company deducts withholding tax equal to 1 Baht per share and pays the rest as a cash dividend equal to 9 Baht per share. However, payment by stock dividend does not allow the company to deduct this tax immediately from shareholders, as is the case of payment of cash dividends.

To solve this problem, the company may propose to a shareholders' meeting that the dividend payment be made by a combination of stock and cash dividends together as follows:

Stock Dividend	=	900 Baht/Share
Cash Dividend	=	1.00 Baht/Share for withholding tax
Total Dividend Payment	=	1000 Baht/Share
Withholding Tax 10%	=	1.00 Baht/Share
Payment by Dividend Stock	=	900 Baht/Share