

ANNUAL REPORT 2001

KIATNAKIN FINANCE PUBLIC COMPANY LIMITED.

## Financial Highlights

Consolidated Financial Statement	Amount Unit : Million Baht			Changes from previous year (%)	
	2001	2000	1999	2001	2000
Total Assets	37,489	35,701	35,359	5	1
Total Assets (company)	36,763	35,944	32,007	2	12
Total Liabilities	27,784	26,885	28,868	3	(7)
Shareholder's Equity	9,704	8,816	6,491	10	36
Shareholder's Equity (company)	8,270	6,764	4,095	22	65
Total Revenue	4,938	7,588	6,351	(35)	19
Total Expense	3,292	4,352	3,975	(24)	10
Minority Interest, NET	257	423	1,113	(39)	(62)
NET Profit (Loss)	1,389	2,813	1,263	(51)	123
Unrealized Loss in Financial Claim Recorded in Shareholder's Equity	(832)	(1,474)	-	44	(100)

Financial Ratio	2001	2000	1999
Return on Equity (%)	15.00	36.75	30.04
Return on Equity (%) (company)	18.48	51.81	42.00
Return on Asset (%)	3.80	7.92	4.52
Return on Asset (%) (company)	3.82	8.28	4.77
Earning per Shares (Baht)	4.59	10.98	5.00
Book Value (Baht)	27.32	22.40	16.12
Tier 1 and Tier 2 Capital Ratio (%)	25.04	23.35	11.58
Dividend (Baht)	Under consideration	1.50	-

## **Message from the Chairman of the Board of Directors**

Dear Shareholders,

Last year marked the fifth year anniversary since the economic crisis of 1997. Overall, the Thai economy was still sluggish. The government has attempted to improve the economy by way of capital stimulus packages with the aim of revitalizing it. There have been several financial and monetary measures applied to boost up the private sector. However, the attempt has not been fruitful as two major obstacles still remain, the recession of global economy and the ongoing problems with the non-performing loans. The tragic incident of the WTC attack on September 11, 2001 has compounded the problems, affecting the export, investment, and tourism. The gloomy outlook has managed to convince most financial institutions to stay with personal consumption lending and prime corporate lending while avoiding sub-prime borrowers, mostly small to medium size enterprises.

As for our operation, Kiatnakin Finance PLC has focused on the resolving of the loans purchased from the Financial Sector Restructuring (FRA). Up until now, 60% of these loans have been resolved, significantly reduced the strain on our personnel and capitals. The company has again reentered the business of commercial and hire purchase lending. Last year, we extended over Baht 4,000 million of credit facilities to new clients whose businesses were still viable but required new financing. On hire purchase, we provided new credit amounting to Baht 2,500 million with emphasis on used car market outside Bangkok. As a result, our total outstanding lending stood at Baht 10,060 million as of year-end 2001, a 31% increase from the same period the year before. At the end of 2001, we also managed to reduce our non-performing loans down to Baht 1,776 million, 18% of the total loans. In the securities business, while the total amount of trading increased from Baht 85,539 million in 2000 to Baht 120,686 million in 2001, the income significantly decreased as a result of the Stock Exchange of Thailand (SET) policy on liberalizing securities brokerage fees. The securities business incurred losses of Baht 13 million for the year.

At year-end 2001, KK Finance has total assets of Baht 37,489 million, representing an increase of 5%, with total deposits of Baht 20,226 million, an increase of 15% from last year. Total equity has increased from Baht 8,816 million to Baht 9,704 million, a growth of 10%. Net profit for the year has been registered at Baht 1,389 million with an earning per share of Baht 4.59.

We have appointed two non-executive directors in 2001, Khun Somboon Chaidejsuriya and Khun Pichai Dachanapirom, to replace the vacancies. They are both fully qualified for the given responsibilities and are expected to make substantial contribution to the good corporate governance process. To provide additional skill to our directors, we have enrolled all of our executive directors in the Director Certification Program organized by the Thai Institute of Directors Association (IOD).

Although Thailand is still facing many economic problems, there are indications of revival in some business sectors. Some of the evidences are the increase in production index and consumer's confidence index. The latter was reflected by the total sale of houses and automobiles. While the export sectors are still recovering, foreign investments at the beginning of 2002 are showing sign of vitality. With the

benefit of low inflation and high liquidity, interest rates are expected to fall further, spurring up investment and consumption. As for Kiatnakin, in 2002 we will continue to focus on expanding commercial, construction, and automobile hire purchase lending. For the securities business, it is expected that we will benefit from the trade volume increase and from the policy change by the SET on minimum brokerage fee. We will also attempt to acquire more clients by improving the quality of our services, expanding our marketing networks, and increasing our trading channels through the Internet.

Amidst this economic uncertainty, we will cautiously continue to expand our businesses in the area in which we are most competent. The management deems that it is essential to maintain long position on the deposits, as well as high capital base (BIS ratio) and liquidity reserve, at higher level than our peers. The intent is to boost the confidence among our stakeholders and to ensure that our balance sheets are strong enough to withstand any future economic turbulence.

We would like to thank all of you for your continuing trust, confidence, and support.

Chairman  
The Board of Directors

## **Report of the Audit Committee**

### **Dear Shareholders,**

The Audit Committee was established by the resolution of the Board of Directors in November 1999; and two new directors were appointed on July 4, 2001 to replace a deceased director and another director who resigned. The Audit Committee operates under the Audit Committee's regulations, in which its authority and responsibilities are clearly specified in accordance with the directives of the Stock Exchange of Thailand to promote good corporate governance and efficient, effective business operations. The Committee consists of three independent directors with the Head of the Internal Audit Office performing the role of Committee Secretary. The committee meets at least once a quarter, and more often as need arises.

The Audit Committee's responsibilities include:

- Reporting to the Board of Directors on whether the financial information that has been prepared and disclosed is correct and fair
- Proposing the auditors to be appointed at the Annual General Meeting of shareholders with the fee for the annual audit
- Monitoring to ensure that all relevant regulations and laws are fully complied with
- Safeguarding the interests of the company
- Preventing conflicts of interest
- Supervising the operation of the Internal Audit Office, as well as approving the annual audit plan prepared by the Internal Audit Office

For the financial year 2001, we have reviewed the annual financial reports through discussion made with the internal auditor, the external auditor, and the management. We have also reviewed the performance of the Internal Audit Office, as well as overall operations of the company to ensure that they are in compliance with all applicable rules and regulations. In 2001, special attention was given to the company's computer system, the financial claims acquired from the Financial Restructuring Authority (FRA), and risk management in accordance with the regulator's guidelines. And finally, we have prepared the Report of the Audit Committee for disclosure in the Company's Annual Report and hereby proposed to the Annual General Meeting of shareholders that Pricewaterhouse Cooper ABAS Limited be appointed auditors of the Company for the financial year ending December 31 2002.

Tanin Chirasoontorn  
Chairman of the Audit Committee

## 1. General Information

### 1.1 Company

**Company:** Kiatnakin Finance Public Company Limited  
**Head Office:** Bangkok  
**Address:** 12th Amarin Tower, 500 Ploenchit Road,  
Pathumwan, Bangkok 10330  
**Nature of Business:** Finance  
**Telephone:** (66) 2256-9122, 257-0808  
**Fax:** (66) 2256-9669, 256-9933  
**Registration Number:** 172  
**Web site:** <http://www.kiatnakin.co.th>  
**No. of ordinary shares sold:** 302,662,250 shares as of December 31, 2001

### 1.2 Juristic Entities in which the Company holds 10% or more of the total registered shares

Company	Locations	Nature of Business	% owned by Company	No. of ordinary shares issued (Shares)
1. Chiang Mai Yarnyont 1993 Co.,Ltd	244/1 Wuaalaai Road, Haiya, Amphur Muang, Chiang Mai 50100 Tel. (053) 283-159 Fax (053) 283-159	Car Trading	10	6,500
2. Chatabud Co.,Ltd	1550 New Petchburi Road, Makasan, Ratchatevee, Bangkok 10320 Tel. (662) 652-8899 Fax (662) 234-5095	Real Estate	10	100,000
3. BTM Leasing (Thailand) Co.,Ltd	4 <sup>th</sup> Floor, Harindhorn Tower 54 North Sathorn Road, Silom, Bangrak, Bangkok 10500 Tel. (662) 266-3060 Fax (662) 266-3067	Leasing	10	600,000
4. Attakorn Co.,Ltd	180,182,184 Niphat Uthit 1 Road, Hadyai, Songkhla 90110 Tel. (074) 355-042-6 Fax (074) 355-045	Hire purchase	10	800,000

<b>Company</b>	<b>Locations</b>	<b>Nature of Business</b>	<b>% Shares owned by Company</b>	<b>No. of ordinary shares issued (Shares)</b>
5. Kiatnakin Securities Co., Ltd.	7 <sup>th</sup> Floor, Amarin Tower, 500 Ploenchit Road, Pathumwan, Bangkok 10330 Tel. (662) 256-9898-9 Fax (662) 256-9787	Securities	99.99	65,000,000
6. Radanatun Finance Company	8 <sup>th</sup> Floor, Amarin Tower, 500 Ploenchit Road, Pathumwan, Bangkok 10330 Tel. (662) 652 1166 Fax (662) 652 1177	Finance	99.99	50,000,000
7. Kiatnakin Fixed Income Fund	Tisco Asset Management Co., Ltd. 5 <sup>th</sup> Floor Tisco Tower 48/16-17 North Sathorn, Sathorn, Bangkok 10120 Tel. (662) 633-7777 Fax (662) 633-7300	Unit Trust	10.33	7,221,224
8. Asia Recovery Fund 1	Thai Farmers Asset Management Co., Ltd. 252/38-41 Muangthai-Patra Tower 1, 31 <sup>st</sup> Floor, Rachadaphisek, Huaykwang, Bangkok 10320 Tel. (662) 693-2300 Fax (662) 693-2328	Unit Trust	68.73	165,121,150
9. Asia Recovery Fund 2	Thai Farmers Asset Management Co., Ltd. 252/38-41 Muangthai-Patra Tower 1, 31 <sup>st</sup> Floor, Rachadaphisek, Huaykwang, Bangkok 10320 Tel. (662) 693-2300 Fax (662) 693-2328	Unit Trust	94.32	438,818,400

<b>Company</b>	<b>Locations</b>	<b>Nature of Business</b>	<b>% Shares owned by Company</b>	<b>No. of ordinary shares issued (Shares)</b>
1 0 . A s i a Recovery 3 Fund	Thai Farmers Asset Management Co., Ltd. 252/38-41 Muangthai-Patra Tower 1, 31 <sup>st</sup> Floor, Rachadaphisek, Huaykwang, Bangkok 10320 Tel. (662) 693-2300 Fax (662) 693-2328	Unit Trust	74.00	259,476,838
1 1 . T h a i Restructuring Fund	One Asset Management Co.,Ltd. 24 <sup>th</sup> Floor, Siam tower 989 Rama 1 Road, Pathumwan Bangkok 10330 Tel. (662) 659-8888 Fax (662) 659-8864	Unit Trust	98.91	78,698,484
1 2 . A s i a R e c o v e r y Property 1 Fund	One Asset Management Co.,Ltd. 24 <sup>th</sup> Floor, Siam tower 989 Rama 1 Road, Pathumwan Bangkok 10330 Tel. (662) 659-8888 Fax (662) 659-8864	Unit Trust	42.88	60,226,083
1 3 . A s i a Recovery 3 P r o p e r t y Fund	One Asset Management Co.,Ltd. 24 <sup>th</sup> Floor, Siam tower 989 Rama 1 Road, Pathumwan Bangkok 10330 Tel. (662) 659-8888 Fax (662) 659-8864	Unit Trust	98.61	64,954,538

### 1.3 Other References

Registrar: Thailand Securities Depository Company Limited  
Address: 4<sup>th</sup> Floor, Stock Exchange of Thailand Building, 62 Rachadapisek Road, Klongtoey, Bangkok 10110



Telephone:	662 359-1200-1
Fax:	662 359-1259
Shareholder's Representative	None
Auditor:	Suchart Luengsurawat: PriceWaterHouseCooper ABAS Ltd. 15 <sup>th</sup> Floor, Bangkok City Tower 179/74-80 South Sathorn Road, Bangkok 10120
Telephone:	662 286-9999
Fax:	662 286-5050
Legal Adviser:	None
Consultant / Manager under Contract Audit Committee:	None

## **2. Nature of Business**

### **2.1 Summary of business activities**

As of December 31, 2001, Kiatnakin Finance Public Company Limited has a paid up capital of Baht 3,026,622,500 and has two subsidiaries: Kiatnakin Finance Public Company Limited and Radanatun Finance Public Company Limited.

The three types of activity which comprise the business of the group are as follows:

- 1) Finance business is conducted by Kiatnakin Finance Public Company Limited and Radanatun Finance Public Company Limited.
- 2) Securities business is conducted by Kiatnakin Securities Company Limited.
- 3) Investment in funds is conducted through investment in six funds, namely Asia Recovery I, Asia Recovery II, Asia Recovery III, Thai Restructuring, and Asia Recovery Property I and Asia Recovery Property III

### **2.2 Revenue structure**

The revenues structure of Kiatnakin Finance Public Company Limited and its subsidiary companies in 2001 are as follows:

**Unit: Million Baht**

Product Services /	Operated by	% Shares Owned	1998		1999		2000	
			Revenue	%	Revenue	%	Revenue	%
Securities	K i a t n a k i n Securities Co., Ltd.	99.99		15	280	4	189	4
Finance	K i a t n a k i n Finance Public Company Limited		2,495	39	1,605	21	1,952	39
Finance	R a d a n a t u n Finance Public Company Limited	99.99	-	-	157	2	77	2
A s s e t Management	Mutual Funds*	N/A	2917	46	5,546	73	2,720	55
Total			6,351	100	7,588	100	4,938	100

\* Composed of 6 Mutual Funds as shown in Table no. 8-13,, Juristic Entities in which the Company holds 10% or more

### **2.3 Summary of significant changes in the past year**

- Establishment of new business group, Special Asset Group
- Organization of a Mutual Fund to invest in properties
- Liberalization of Commission in 2001 and return to a fixed-fee base of 0.25% in beginning of 2002
- Cooperate with Stock Exchange of Thailand “SETTRADE” for Internet trading

### **2.4 State of the finance industry and competitive strategy**

#### **Finance Industry**

At present, Thailand has 21 financial institutions, dramatically varying in size. Six of these companies are considered large (ACL, EFS, KK, NFS, SICCO and TISCO), aggregately holding total assets of Baht 247,609 million or 85.4% of the total industry.

#### **Market and competitive condition**

Most financial companies are limiting the credit expansion. This is due mainly to the uncertainty in the recovery of the economy. With the low interest rate scenario and the expectation that it will go down even further, these companies are focusing on the sectors that will affect them the least, namely mortgaged loans, hire purchase loan, and personal consumption loans. We have been concentrating in expanding business in hire purchase loans for used cars that produce a higher yield. We have also

ventured into the new target of refinancing loan from other financial institutions. We have tested this new target market in the past year and found that it has a very good potential.

The competition is very intense in the retail consumers sectors. Pricing strategy is employed, especially in housing loans and hire purchase loans. Loan growth in other areas is still very limited since finance companies in general are still concerned with new NPL's as well as recurring ones.

Our target clients are companies with viable business and required working capital in Bangkok metropolitan area. Hire purchase loans, however, are focused in the upcountry. We have been using our network of branches, which have been positioned strategically nationwide. Moreover, we have been offering our products and services through our own web site ([www.kkf.co.th](http://www.kkf.co.th)), which presents no limitation in terms of time or location, and which is relatively low-cost.

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### **Competitive position and future trend**

As of year-end 2001, Kiatnakin Finance's total assets stood at Baht 37,489 million, and ranked no. 4 among the Thai financial company. Our BIS ratio is 25.04%, significantly above the required position of 8% by the Bank of Thailand (BOT). This firm foundation will enable us to grow and remain competitive in the years to come.

Financial business will be much more competitive in the future, particularly in the consumer section, namely hire purchase loans and personal consumption credit, both of which have benefited from the decreasing interest rate. While commercial banks are reducing credit for businesses, we are looking for opportunity for new business in that area. More competition is expected from commercial banks in the consumer loans sector. As a result, financial institutions in general are trying to improve their delivery system using advanced information technology and telecommunication to achieve a higher efficiency with lower cost.

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### **Securities industry**

At present, there are 40 companies that offer securities brokerage services. Among these are 28 brokers and 10 sub-brokers.

### **Market and competitive condition**

Last year, the liberalization of brokerage fee was still in effect, and securities business was highly competitive. The strategies frequently used included headhunting for personnel with loyal clients as well as price-cutting to gain market shares. Some companies chose to merge or share their back offices to reduce operating costs.

Most of Kiatnakin Securities' clients are short-term investors. We have targeted to grow medium-term and long-term investors to balance our client's base. This group of clients has high net-worth, would like to have a higher yield than what they can get from their deposits, and is willing to accept slightly higher risk. Moreover, securities

businesses are expanding their brokerage services through the Internet, which is a new marketing channel that enables them to serve investors more widely and with less operating costs, in comparison to opening more branches.

### **Competitive position and future trend**

By the end of 2001, the value of securities traded by Kiatnakin Securities Co, Ltd. was 120,686 million Baht in total, which was 3.82% of the market share. Kiatnakin Securities was ranked no. 10 of the companies with the most trading volume. In general, Thailand's securities industry has been highly competitive since 2000, and carry on through the deliberation of brokerage commission introduced in 2001. At the beginning of 2002, the SEC put back into effect the regulated minimum commission charge of 0.25% on brokerage services as well as a prescribed ceiling that the company can pay the marketing staff. Violation of the regulation will result in heavy penalty. This measure is expected to cool off the competition to some degree.

Kiatnakin Securities Co, Ltd. has continually developed its organization to increase its potential to compete in the future. It has created more securities trading channels by offering services through the Internet. This has enabled Kiatnakin to increase the efficiency of its services and to reduce operating costs. The company has also continually expanded its client base of long-term investors.

## **3. Risk Management**

Business risk can be categorized into five types as credit risk, market risk, liquidity risk, strategy risk, and operational risk.

As an essential part of risk management, we have created a clear and explicit standard operational procedure for each product covering all risk management aspects, in line with the overall strategy. Adequacy of capital is also carefully maintained to ensure that reasonable buffer is in place to safeguard the company from any unforeseen negative development. The followings are risk factors, which can be identified in our business operations.

### **Finance business**

#### **Risks from the abolishment of deposits guaranteed by the government**

Public deposits are currently under the guarantee of Financial Institutions Development Fund (FIDF). It is expected that a deposit insurance institution will be established to insure the savings of small depositors. This may have a negative impact on deposits gathering for all financial institutions. Kiatnakin has already taken several measures to build confidence among our depositors. This includes a policy of maintaining the BIS ratio at a much higher level than that required by the Bank of Thailand. We are also expanding our depositors' base on a continual basis to avoid concentration of large deposits. New instruments will be introduced to provide additional alternatives for our deposit clients, while we can spread our risk through differentiation of products. We are among the first of financial institutions to have a rating for the company from TRIS. Our current rating from TRIS is 'BBB', a credibility that can be identified by all depositors.

**Risks from the deregulation to allow commercial banks to operate in the same areas of business as finance companies, and allowing additional finance companies to open**

These changes may result in more competition with our company and could be detrimental to our overall performance. Measures have been taken to alleviate this risk. Kiatnakin Finance is focusing on the core business that we have particular expertise in, with a group of very experienced personnel. We have also introduced the latest technology to strengthen the overall operations and reduce operating costs. Furthermore, the company's flexible management structure allows it to make rapid adjustments to cope with changes in the environment and/or to bring in business partners to increase its competitiveness.

**Risks from the impairment of financial claims acquired from the Financial Sector Restructuring Authority (FRA)**

Since most of the financial claims that Kiatnakin acquired from the Financial Sector Restructuring Authority (FRA) are non-performing assets, the continuing economic recession will inevitably slow down the restructuring process. This risk has, however, been mitigated in the very beginning of the acquisition process. The identified assets have been carefully studied, and their prices have been determined on the basis that all risks have already been taken into consideration. The same analysis and precaution, if not more, were used as if new loan facilities were being made. Certain conservative measures have also been taken in coming up with the fair value process to ensure that sufficient provisions have been made in booking these assets. Full attention has also been given by the management at all levels to ensure that these assets are being followed up and monitored on a regular basis.

**Risks from the impairment of properties taken in settlement for these financial claims**

Because the value of properties taken in settlement for particular financial claims could fluctuate at times, measures have been taken to alleviate this risk to conservatively come up with a fair value for these properties. For this reason, it can be expected that even if there is any impairment, it will not seriously affect the value of these properties.

**Securities Business**

For the securities business, there are other risks apart from risks from operating our business that may affect our results of operations. What we would like to elaborate here is industry risk, which is a risk factor that is beyond our control and may result in positive or negative effects on our operation.

### **International factors**

These factors affect investment and have an impact on Thailand and its trading partners. These developments include global economy, instability of exchange rates, comparative interest rates, and world oil prices.

### **Local factors**

These latter factors include the state of the Thai economy and the rate of its recovery, as well as the rehabilitation of the Thai financial sector. These factors also involve the government's monetary and financial policies on interest rates, its taxation policies, its economic measures, and liquidity within the system. Furthermore, there is the government's legal and regulatory changes related to securities businesses, such as the removal of restrictions on the number of securities companies.

## **4. Shareholding and Management Structure**

The company has no major shareholders or groups of shareholders as defined by the SEC.

### **4.1 List of 10 largest shareholders (as of December 30, 2001)**

<b>No.</b>	<b>Name</b>	<b>Number of shares</b>	<b>Percentage</b>
1	Ms. Panida Thepkanchana	26,701,748	8.84
2	Ms. Vansamorn Wannamethee	24,182,120	8.00
3	HSBC (Singapore) Nominees PTE LTD	18,789,800	6.22
4	Ms. Thitinan Wattanavekin	17,605,800	5.83
5	Eastern Sugar Company Limited	17,300,000	5.73
6	Ms. Natthika Wattanavekin	14,868,156	4.92
7	Mr. Supol Wattanavekin	5,373,216	1.78
8	Mr. Sukarn Wattanavekin	5,037,668	1.67
9	ALBOUYS NOMINEES LIMITED	3,575,600	1.18
10	HSBC TRUSTEE (SINGAPORE) LTD.	3,312,120	1.10

*Source: Top 20 Major Shareholder's Report, Thailand Securities Depository Company Limited*

### **4.2 Management**

## Management structure

The management of Kiatnakin Finance PLC consists of three boards, the Board of Directors, the Executive Board, and the Audit Committee. The details of their authority and responsibilities are as follows.

### Authority and responsibilities of the Board of Directors

- Operate under the law, the memorandum and articles of association of the company and the resolutions of the company's shareholders.
- Empower a person or a group of persons to act on its behalf.
- Set the policies and strategic directions for the management to implement.
- Set up guidelines on risk management
- Set up a meeting at least on a quarterly basis to monitor and evaluate the operating results of the company.

The Board of Directors consists of nine directors and a secretary to the board, whose names are as follows.

### Kiatnakin's Board of Directors

No.	Name	Position
1	Mr. Supol Wattanavekin	Chairman of the Executive Board
2	Mr. Vichien Jearkjirm	Managing Director
3	Mr. Chet Patrakornkul	Director, Assistant Managing Director
4	Mr. Pravit Varutbangkul	Director, Assistant Managing Director
5	Ms. Thitinan Wattanavekin	Director, Assistant Managing Director
6	Mr. Veerapol Pairachavej	Director, Assistant Managing Director
7	Mr. Tanin Chirasoonthorn	Director, Chairman of the Audit Committee
8	Mr. Pichai Dachanapirom	Independent Director, Member of the Audit Committee
9	Mr. Somboon Chaidejsuriya	Independent Director, Member of the Audit Committee
10.	Ms. Mayuree Puangkanok	Secretary, Board of Director

### Authority and responsibilities of the Audit Committee

The Audit Committee was established under the approval of the Board of Directors as an independent body to support and act on its behalf. This committee will review the company's financial reports that will be presented to the shareholders and other relevant persons. The roles, authority, and responsibilities of this committee are as follows.

- To review and ensure the accuracy and adequacy of the company's financial reports.

- To review and ensure the appropriateness, effectiveness, and efficiency of the company's internal control and internal audit.
- To review and ensure that the company operates under the laws related to Securities and the Securities Exchange of Thailand, in accordance to all prescribed rules and regulations related to the company's business.
- To consider and select the company's external auditor and to propose the fees for such service.
- To consider the disclosure of company information in the event of related party transactions or potential conflicts of interest, and to ensure the accuracy and adequacy of any disclosure.
- To prepare a report on the committee's work in reviewing and monitoring the company. This report is to be included in the company's annual report and must be signed by the chairperson of the committee.
- To consider, select, shuffle, transfer, or discharge the personnel of the Internal Audit Office.
- To prepare a report on the committee's work and present it to the Board of Directors.

In addition, the Audit Committee is responsible for investigating and inspecting relevant persons and issues within the limits of its authority. If appropriate, the committee also has the authority to employ or temporarily hire specialists to assist its investigations and inspections.

The Audit Committee must meet at least four times, or more if necessary, every year. The committee may invite the company's management or relevant parties to join meetings and provide relevant information. The committee may ask them to perform tasks that the Board of Directors requests, and the committee approves.

The Audit Committee consists of three members and a secretary to the committee, whose names are as follows

#### **Kiatnakin's Audit Committee**

<b>No.</b>	<b>Name</b>	<b>Position</b>
1.	Mr. Thanin Chirasoonthorn	Director, Chairman of the Audit Committee
2.	Mr. Pichai Dachanapirom	Director, Member of the Audit Committee
3.	Mr. Somboon Chaidechasuriya	Director, Member of the Audit Committee
4.	Mr. Kriengsak Sukhanaphorn	Secretary of the Audit Committee

#### **Authority and responsibilities of the Executive Board**

The company's Executive Board of Directors is responsible for preparing business plans, selecting senior management, laying out regulations, and directing the company's operation according to the Board of Directors' policies. The Executive Board also has authority and responsibilities as follows.



- To appoint a committee or several committees to perform general or specific tasks.
- To approve business/financial plan and expense budget.
- To approve appointment of Vice President and Senior Vice President title.
- To approve all operating policies and guidelines for all business group, with the exception of General Group, Special Assets Group, and Hire Purchase Group.
- To recommend operating procedures for all business group for the approval of the Board of directors. Appointment of Assistant Managing Directors also needs approval from the Board of Directors.
- To have a meeting at least once a month.

The Executive Board consists of ten members and a secretary to the board, whose names are as follows.

### **Kiatnakin's Executive Board**

<b>No.</b>	<b>Name</b>	<b>Position</b>
1	Mr. Supol Wattanavekin	Chairman of the Executive Board
2	Mr. Vichien Jearkjirm	Managing Director
3	Ms. Thitinan Wattanavekin	Director, Assistant Managing Director
4	Mr. Pravit Varutbangkul	Director, Assistant Managing Director
5	Mr. Veerapol Pairachavej	Director, Assistant Managing Director
6	Mr. Thanawat Neamsub	Assistant Managing Director
7	Mr. Chet Phatrakornkul	Director, Assistant Managing Director
8	Ms. Sineenart Tejagupta	Assistant Managing Director
9	Mr. Sarawut Charuchinda	Assistant Managing Director
10.	Mr. Tawatchai Sudtikitpisarn	Assistant Managing Director
11.	Ms. Mayuree Puangkanok	Secretary to the Executive Board

### **(2) Selection procedure for company directors and management**

Candidates for directors are selected through a procedure in which all of the company's shareholders can participate. The Executive Board is responsible for identifying qualified candidates to be concurred by the Board of Directors and approved by the Shareholders. At the shareholders' meeting, additional names can be proposed to be selected by the shareholders. This procedure must be governed by the following company's rules and regulations.

- One share entitles the holder one vote.
- Each shareholder must exercise all votes, granted under rule number 1, to select one or more directors, but the vote cannot be divided.
- The persons receiving the highest number of votes are, in descending order, appointed directors in a number equal to the number of directors to be elected at

that time. In the case of a tie for the final available appointment, the chairman has the final vote.

### **(3) Management Compensation**

#### **Financial compensation**

- Compensation equivalent to Baht 2.24 million was paid to three directors in the form of meeting allowances.
- Compensation paid to ten members of the Executive Board and Management in 2001 amounted to Baht 63.97 million.

#### **Other compensation**

At the Annual General Meeting of the company's shareholders, a resolution was passed to approve the issuance of not more than ten million warrants (the ESOP warrants) to purchase ordinary shares in the year 2000. These shares were to be allocated to the company's directors and/or employees of the company and its subsidiaries. Details of this allocation are as follows.

#### **Warrants Allocation to Directors**

<b>No.</b>	<b>Name</b>	<b>Position</b>	<b>ESOP (units)</b>
1.	Mr. Supol Wattanavekin	Chairman of the Executive Board	250,000
2.	Mr. Vichien Jearkjirm	Managing Director	200,000
3.	Ms. Thitinan Wattanavekin	Director, Assistant Managing Director	100,000
4.	Mr. Pravit Varutbangkul	Director, Assistant Managing Director	100,000
5.	Mr. Veerapol Pairachavej	Director, Assistant Managing Director	100,000
6.	Mr. Chet Patrakornkul	Director, Assistant Managing Director	100,000
7.	Mr. Tanin Chirasoonthorn	Independent Director, Chairman of the Audit Committee	50,000

#### **Changes in No. of shares held by executives during the year 2001**

<b>No.</b>	<b>Name</b>	<b>Position</b>	<b>Changes in no. shares held in 2000</b>
1	Mr. Supol Wattanavekin	Chairman of the Executive Board	Remain 5,373,216 shares
2	Mr. Vichien Jearkjirm	Managing Director	Remain 216,210 shares

No.	Name	Position	Changes in no. shares held in 2000
3	Ms. Thitinan Wattanavekin	Director, Assistant Managing Director	Remain 17,605,800 shares
4	Mr. Pravit Varutbangkul	Director, Assistant Managing Director	Remain 0 share Unchanged
5	Mr. Veerapol Pairachavej	Director, Assistant Managing Director	Remain 100,000 shares Change 20,000 shares
6	Mr. Chet Phatrakornkul	Assistant Managing Director	Remain 0 share
7	Mr. Thanawat Neamsub	Assistant Managing Director	Remain 6,000 shares
8	Ms. Sineenart Tejagupta	Assistant Managing Director	Remain 35,200 shares Decrease 18,800 shares
9	Mr. Sarawut Charuchinda	Assistant Managing Director	Remain 0 share Unchanged
10.	Mr. Tawatchai Sudtikitpisarn	Assistant Managing Director	Remain 0 shares

### **Provident Fund**

At the end of 2001, Kiatnakin Finance PLC has contributed Baht 1.2 million to the Kiatnakin Provident Fund. This is for the share of the fund attributable to ten of the company's executive directors.

### **(4) Business Administration**

Kiatnakin Finance PLC is directed to operate in accordance with the Code of Best Practices for listed companies. The details of this code, stipulated by the Stock Exchange of Thailand, are as follows.

Three administrative bodies administer the company. These are the Board of Directors, the Audit Committee, and the Executive Board. Each of these bodies should perform their tasks in accordance with the following codes of practice:

- To perform the tasks as required by law, the company's objectives and regulations, and the resolutions of the shareholders' meeting, with honesty. Look after the company's benefits and with full accountability to the shareholders. Performance can be evaluated through auditing results and inspection by relevant government bodies, such as the Bank of Thailand, the Office of the Securities and Exchange Commission (SEC), and the Stock Exchange of Thailand. To disclose relevant information to the shareholders with accuracy, transparency, and clarity on equal basis.
- To provide the company's Management with clear policies and direction for implementation. Meet regularly to review the company's plans. Through the Audit Committee and the Internal Audit Office and their quarterly reports review on the company's operation, monitor the company's operating performance and make a report to the Board of Directors.
- Ensure that the company's internal control and internal audit procedure are in place in accordance with the guidelines prescribed by the Stock Exchange of Thailand, the Office of the Securities and Exchange Commission (SEC), and the Bank of Thailand.

According to the regulation stipulated by the Stock Exchange of Thailand, the Audit Committee is an independent body consisting of three members who are not involved with the company's internal management. During the past year, the committee freely used its judgment as part of their tasks to ensure that the company operates justly for all shareholders. The report of the Audit Committee can be seen in the company's annual report.

If necessary, the committee will seek professional opinions from external experts relevant to operations with the expenses provided by the company.

The members of the Board of Directors must have qualifications as required by the regulations detailed in the Public Company Act, the Act for Stocks and the Stock Exchange of Thailand, and the Capital Act for various professions, including management, business administration, finance, banking, law, accountancy, etc. They must have sound knowledge and experience that is beneficial to the company's operation. All of the members of the Board of Committee must thoroughly acknowledge their duties and responsibilities and ensure transparency. They must promote the code of practice in the case of conflicts of interest, and where there is a conflict of interest between a member of the Board of Directors and the company, he/she cannot participate in the meeting on that issue.

##### **(5) Policies and preventive measures against insider trading**

The company requires its directors and management to provide reports on their holding of the company's stocks. This includes the stock holding of the directors and/or management and their spouses and dependent children, and other related persons. The company's regulations prohibit any of its directors or employees to use his/her position, or any opportunity offered by his/her work, for his/her personal benefit, which is unethical, unprofessional, and constitutes a violation of regulations as well as a conflict of interest.

The Internal Audit Office is responsible for auditing the company's operation regarding the use of internal information, and for reviewing adherence to the regulations on professional ethics. If it finds that someone has violated the regulations, it is responsible for reporting the case to the Audit Committee and the Board of Directors so that commensurate punishment, according to the company's regulations, can be taken.

#### **(6) Internal Control**

The directors of the company believe that Kiatnakin Finance PLC and its subsidiaries have adequate and appropriate internal control systems to protect their assets from being used by the management without appropriate approval. The company and its subsidiaries have no history of internal control exceptions. The opinion of the Audit Committee, which comprises mainly independent directors, does not differ from that of the Board, and the auditor has noted no significant internal control issues. In addition, transactions between the company and parties with which there may be conflict of interest are transactions conducted in the normal course of business and have been disclosed by the company in the notes of the financial statements. Such transactions are thus appropriate, and regarded as normal business transactions.

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### **5. Related Party Transactions**

Please See Auditor's Note, Financial Statements

### **6. Analysis of the Company's Financial Position and Operating Performance**

#### **Results of Operations**

With rather static states of economy in 2001, KK has another profitable year. We have registered a net profit of Baht 1,389 million. The unrealized losses booked as a negative net worth has also improved from Baht 1,474 million in 2000 to Baht 832 million in 2001 or an improvement of Baht 642 million.

These unrealized losses shown in the Net Worth is a fair value taken on the cash flows with a conservative discount on those transactions with a committed restructured package as well as the collateral of the financial claims booked in the company whose restructure package were not yet finalized. These losses are expected to gradually improve with the progress made in the restructuring process. These collaterals are being appraised by independent appraisal companies approved by the Security Exchange Commission (SEC) and the Bank of Thailand (BOT), within a prescribed time frame required by BOT in connection to the loan reserve calculation procedure.

The main source of income for KK Finance remains in the progress of restructuring made on the acquired financial claims. KK Finance has found its niche in this business and will continue to pursue this opportunity as long as it is available. It has been very rewarding economically and socially in having a part in rejuvenating the economy by rendering financial support to various projects that would otherwise be left dormant and unproductive.

## **Business performance**

KK Finance divides its main business functions into four units. This includes Investment in Financial Claims, General Loans, Hire Purchase Loans, and Securities Brokerage Services. Details are elaborated as followed.

### **Investment in Financial Claims**

Since 1999, KK Finance has developed a niche and expertise in managing the financial claims acquired from the FRA. At the end of 2001, the fair value of these assets stands at Baht 15,535 million, representing over 60% of the total earning assets, down from the peak of Baht 26,037 Million. While we try to get these assets restructured in a timely fashion, we did not rush to get cash settlement, unless the borrower chose to do so. All restructure deals were made in a win-win situation with mutual benefits for both parties, based on a realistic condition.

By the end of 2001, 55% of the total claims have been restructured with a specific schedule of repayment, and the remaining is in the negotiation and litigation process. We see the litigation action as part of the collecting process, and as a normal course of action we always keep our position open for negotiation.

### **General Loans**

Concerted efforts have been made in restructuring the existing problem loans in our book since the 1997 crisis. We were able to reduce the total outstanding non-performing loans in year-end 2000 of Baht 3,302 million to Baht 1,776 million in year-end 2001. We have not been spending any meaningful effort in developing new conventional loans throughout the year. However, we have been busy in identifying problem loans with good potential in the portfolio of other finance institutions and arranging refinancing packages that benefits all parties involved. Basic risk management has been carefully carried out with a suitable pricing to match the acceptable level of risk.

### **Hire Purchase Loans**

With the intense competition in pricing for hire purchase loans in new cars, KK finance has hardly participated in this market. We have been doing second-hand cars financing for the last two years. We grew by about Baht 2,500 million in new hire purchase business in 2001. We could have done more, but we have chosen to maintain high-quality deals with reasonable

return rather than competing with a pricing strategy. As a result, the over three months overdue were lower than 2% at year-end 2001.

### **Securities Brokerage Service**

Because of the liberalization of the brokerage commissions, 2001 has seen an immense competition in pricing of brokerage commissions. KK Securities has not entertained such a strategy and as a result, has been losing some market shares, but we were still able to maintain the top ten ranking, in terms of volume. We have been preparing ourselves for some time prior to the commission liberalization. We have been trying to minimize our fixed cost and as a result we were able to keep our losses at a minimal level of Baht 13 million for the year 2001.

We are not among the first to provide Internet trading service. We have chosen to associate ourselves with SetTrade, and reportedly we are presently one of the highest providers, in terms of volume, of the Internet trading services.

## **Financial Statement Analysis**

### **Income on Financial Claims**

The majority of income of KK Finance is derived from managing financial claims. And since we cannot analyze this income as other conventional loans, we would like to discuss it separately prior to going into other items in the Income Statement. Similar to other types of investment, all cash payments are realized as Interest and Dividends Income, and all outstanding investments are revalued at fair value with unrealized gain or loss booked in the non-interest revenue for those financial claims carried in the mutual funds, or in the shareholders' equity for those carried in our own portfolio. Appended below are the details of the income from financial claims for the last three years.

	<b>2001</b>	<b>2000</b>	<b>1999</b>
Realized gain on Fin Claims Fund	1,666	3,542	2,744
Realized gain on Fin Claims KK	565	617	1,334
<b>Total Realized Gain</b>	<b>2,232</b>	<b>4,159</b>	<b>4,077</b>
Unrealized gain on Fin Claims Fund	1,042	2,099	-
Unrealized gain on Fin Claims KK	642	(1,474)	-
<b>Total Unrealized Gain</b>	<b>1,684</b>	<b>624</b>	<b>-</b>
<b>Total Gain</b>	<b>3,916</b>	<b>4,783</b>	<b>4,077</b>

In 1999, all financial claims were booked at cost since they had just been acquired and would be represented as fair value. In 2000, the external auditor deemed it necessary that the outstanding financial claims be revalued periodically on a fair value basis. The management committee has adopted a fair value procedure based on a risk-adjusted discounted cash flow concept under the review of the external auditor.

Basically, financial claims are classified into two groups. First are those claims that have already been restructured with an agreed repayment schedule. Second are those claims that have not yet been restructured. We took a discounted cash flow of the repayment schedule, with an average discount rate of 14% to compute the fair value of the first group. The fair value of the second group are computed by taking a 36-month discounted cash flow of 90% of the appraised value of the collateral using a discount rate of 15% p.a., or the average expected claims, whichever is lower. Additional conservative measures employed to stop realizing the cash flow are timing required in the litigation process, including final verdict received and foreclosure of assets. Non-restructured claims without collateral are valued at zero.

All collaterals have been reappraised at least once after our acquisition, and 95% were performed by external appraisers approved by the SEC and BOT. Collaterals of claims over Baht 5 million must be reappraised on an annual basis, and those under Baht 5 million are reappraised every three years. This is under the guidelines prescribed by the BOT.

### **Interest and Dividends Income**

The largest part in the total interest and dividends income is accounted for by the income from investment in financial claims that are explained in detail above.

Interest income from general loans and money placement has improved 31% from Baht 225 million in 2000 to Baht 294 million. This is mainly a result of the decrease of NPL's as well as over Baht 3,000 million new refinance loans booked over the period. Interest income from hire purchase loans also improved by Baht 167 million or 47% over the period with about Baht 2,500 million of new contracts.

### **Loan Loss Provision and Charged offs**

KK Finance has strictly followed the guidelines of the Bank of Thailand in the provision for loan losses procedure. At the end of 2000, we have provided 100% provision for all doubtful accounts and have also charged off against that provision. The remaining was provided for classified loans with delinquency of up to 12 months. In 2001, we have provided Baht 89 million for all current loans and have also charged off another Baht 520 million doubtful accounts. Since all the problem loans have been fully provisioned for, we do not expect to have any significant additional expense in this category.



## **Non-Interest Income**

This income category has shown a significant decrease over the year (from Baht 2,602 million to Baht 1,685 million) due mainly to the revaluation of financial claims.

As explained above, we began to take a fair value of all financial claims in the year 2000, and the financial accounting standard prescribes that gain or loss from revaluation of financial assets booked in KK's portfolio must be accounted for directly to the Shareholders' Equity rather than Profit and Loss Statement. As a result a loss in Shareholders' Equity has been recorded in the year 2000. In 2001, this number has improved to a loss of Baht 832 million or an improvement of Baht 642 million over the year.

Gain or loss of the fair value taken on those financial assets booked in the mutual fund were recorded in the Profit and Loss account and were consolidated into KK Finance account in the non-interest income category.

## **Operating Expenses**

KK Finance was able to keep its operating expense in check over the year. The improvement over the period is due mainly to the extraordinary expense related to service fee on a portion of financial claims incurred in 2000.

## **Net Income**

On the surface, it would appear that the net income over the year has deteriorated from Baht 2,813 million in 2000 to Baht 1,389 million in 2001. This is due mainly to the financial accounting standard in recording the performance of financial assets where unrealized gain or losses are being booked in the shareholders' equity. It must be pointed out that there is an improvement of Baht 642 million over the year from an unrealized loss of Baht 1,474 million in 2000 to an unrealized loss of Baht 832 million in 2001.

## **Financial Position**

### **Assets**

	<b>2001</b>	<b>2000</b>	<b>1999</b>
Investment in Securities	4,663	4,334	2,872
Invest in Fin Claims	15,535	16,617	19,545
General Loan	6,136	5,025	7,490
Hire Purchase Loan	3,546	2,515	2,499
Allowances for Doubtful Accounts	(212)	(204)	(2,294)
Properties Foreclosed	4,735	3,567	500

Total Assets	37,489	35,701	35,359
Non Performing Loan (NPL)	1,776	3,302	6,265

### **Investment in Securities**

Investment in Securities increased from Baht 4,334 million in 2000 to Baht 4,663 million in 2001, or 8%. These securities are mainly government bonds that KK Finance maintain for cash reserve requirement prescribed by the Bank of Thailand as well as extra liquidity.

### **Investment in Financial Claims**

The fair value of Investment in Financial Claims decreased Baht 1,082 million from Baht 16,617 million in 2000 to Baht 15,535 million in 2001, or 7%. Within this amount, Baht 5,754 million have a specific repayment schedule while the remaining are still in the collection and negotiation process.

### **Loans and Receivables**

KK Finance was able to achieve a loan growth of about 31% or Baht 2,383 million from 2000 to 2001. This is partially due to the success in approving about Baht 4,000 million of credit facilities for refinancing project loans during the year. We were also able to put on about Baht 2,500 million new Hire Purchase loans. Most of these contracts were made on used cars, which provide higher yield than loans made to new cars.

### **Non-Performing Loans (NPL)**

NPL has been improving over the year from Baht 3,302 million to Baht 1,776 million in terms of absolute amount. In terms of percentage to total loans and receivables, the improvement can be shown as a decrease from 43% to 18%. This achievement is a result of the concerted effort made to solve these problem loans.

### **Allowance for Possible Loan Losses**

Allowance for Possible Loan Losses increased on a year-to-year basis from Baht 204 million to Baht 211 million. Since 100% reserve for problem loans had already been put up at year-end 2000, this increase represents reserve provided for the new loans made during the year.

No reserve was made on the financial claims since a fair value was made and designed to take all necessary steps as a loan reserve procedure. With very conservative criteria in taking the fair value on these assets, a stringent reserve has deemed to be achieved.

## Property Foreclosed

Since part of the settlement of both loans and financial claims was made in terms of properties rather than cash, property foreclosed has increased significantly from Baht 3,567 million in 2000 to Baht 4,734 million in 2001, or 33%. In this amount, Baht 2,762 million were foreclosed under a buy-back agreement made with the borrowers either on a first right of refusal or other basis within a longest period of two years with carrying cost under the responsibility of the borrowers. In addition, our Special Assets Management team was able to turn Baht 192 million of these assets into earning assets. In 2001 we were also able to sell Baht 458 million of properties.

## Liabilities and Shareholders' Equity

	2001	2000	1999
Deposits	22,702	20,374	22,576
Debentures	3,995	5,531	4,422
<b>Total Borrowings and deposits</b>	<b>26,696</b>	<b>25,904</b>	<b>26,998</b>
Capital	5,019	5,012	3,838
Retain earnings	4,004	3,068	256
Unrealized loss on investment in loans	(832)	(1,474)	-
Unrealized gain on available-for-sale securities	79	158	0.70
<b>Total Shareholders' equity</b>	<b>8,270</b>	<b>6,764</b>	<b>4,095</b>

## Deposits

With the remaining low interest rate and a rather high liquidity in the market, we continue to fund our position from deposits. Deposits increased from Baht 20,374 million in 2000 to Baht 22,701 million in 2001, or 11%. We have been taking a lot of measures in managing the liquidity risk since the 1997 crisis, and we still do because of the slow recovery of the economy. We do not believe in funding short and lending long. We have been taking long-term deposits for some time to maintain an acceptable maturity gap between assets and liabilities. At year-end 2001, over 50% of our deposits have a remaining maturity of over 12 months. We are also continuously expanding our customer's base to improve the concentration.

## Shareholders' Equity

Shareholders' Equity of KK Finance increased by Baht 1,506 million from 2000 to 2001. This is mainly accounted for by the net profit of Baht 1,389 million and the improvement of unrealized gain on part of the financial claim of Baht 642 million from the operating performance of 2001 with the payment of dividend of Baht 453 million in 2000. Our BIS ratio presently stands at 25.04%.

## **‘Better People for a Better Nation with Kiatnakin’ Project**

Shaping our younger generation to help reshape our country

Throughout 30 years, Kiatnakin has established firm roots for its business, a business that is driven by a large group of staff who are highly competent in their professions. Along this shining route of Kiatnakin’s history, we have also continuously shared and given back to our society. This is in line with the aspiration of Khun Kiat Wattanawekin, the company’s founder, who strived for a good business that is also socially responsible.

**‘Better People for a Better Nation with Kiatnakin’** Project is a special project set up to commemorate Kiatnakin’s 30<sup>th</sup> anniversary in 2001. This project aims to improve our nation’s younger generation by joining other private sectors, government organizations, and charities in supporting various youth-oriented activities. This is because we believe that human resource is the most important element in developing our country to the same level as other civilized nations in the future. Apart from this special project, Kiatnakin has also supported a lot of social activities throughout its 30 years.

The ‘Better People for a Better Nation with Kiatnakin’ Project for 2001 has supported the activities of the following charities

### **Duang Pratheep Foundation**

- \* Annual awards for excellent members of cooperatives
- \* Provide Scholarship for children of the member of cooperatives

### **Foundation for the Better life of Children**

- \* Training program for volunteers to help with Children’s work Project

### **The Office of National Bureau of Primary Education Commission (ONPEC)**

- \* Occupation and finance projects contest in primary schools throughout Thailand under the theme ‘Thai Children and Local Economic Development’

### **The Bangkok Metropolitan Administration (BMA)**

- \* Competition of cooperative activities in the primary schools under the Bangkok Metropolitan

### **Young Buddhist Association of Thailand**

- \* **Meditation** training for wisdom and peace

### **World Vision Foundation**

- \* ‘Bicycles for children from Kiatnakin’ project

## **List of Information required for the Form 56-2 in Annual Report 2001**

### **1. General Information**

- 1.1 The company
- 1.2 Juristic Entity in which the company hold 10% or more equity
- 1.3 Other References

### **2. Financial Highlights**

### **3. Nature of Business**

- 3.1 Business Operation
- 3.2 Revenue Structure
- 3.3 Significant changes in the previous year

### **4. Risk Factors**

### **5. Shareholding and Management Structure**

- 5.1 Shareholders
- 5.2 Management
  - Management Structure
  - Director and Management Selection Process
  - Management Compensation
  - Business Administration
  - Company Policy and Disclosure
  - Internal Control

**Related**

**Management Discussion and Analysis**

**Financial Statement (See attached)**