

## **DISCUSSION AND ANALYSIS OF PERFORMANCE**

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### **RESULTS**

During 2001, the Company achieved a profit after tax of US\$825,428 (compared with a loss of US\$5,769,457 during the previous corresponding year), attributable largely to the unrealised appreciation from revaluation of investments in securities and to dividends from such investments.

The net asset value of the Company, as at December 31, 2001, was US\$8,617,896. The net asset value per share was US\$0.17, compared with US\$0.16 as at December 31, 2000, an increase over the year of 6.25% in US\$ terms. Over the same period, the SET Index increased by 9.71% in US\$ terms (and by 12.88% in Baht terms), making the Thai stock market relatively strong when compared with the other markets in Southeast Asia. The Company, in turn, underperformed the market by 3.46%.

During the year under review, the Thai market's outperformance relative to elsewhere in Southeast Asia is attributable to (i) the political stability established by the Thaksin government, (ii) the Thai stock market's non-vulnerability to the decline in the technology sector, (iii) resilient domestic consumer spending, which helped stimulate the economy, and (iv) the Thai stock market's low valuations, which provided support against further decline. The Company's underperformance of the SET Index is attributable to the strong rally of small market-capitalization stocks, in which The Thai-Asia Fund took an underweight position due to their low liquidity.

As at December 31, 2001, the Company was 98.32% invested in Thai equities, with the balance being held in the form of bank deposits, net of other miscellaneous assets and liabilities.

The Company's underlying investments are denominated in Baht and the Company is therefore exposed to fluctuations in Baht/US\$ exchange rates. During the year, the Baht depreciated by 2.77% against the US dollar, which detracted from performance.

### **OUTLOOK**

#### **Economic and Market Outlook**

We view 2002 with cautious optimism. The Thai economy should improve when external demand picks up along with the expected recovery in the global economy. We do not expect significant change to the established trend, at least not within the first half. Interest rates need to and will likely remain low in order to stimulate the economy. Excess liquidity should remain, as demand for money is very low. Inflation should remain a non-concern. The country should continue to enjoy a current account surplus, a large part of which will go towards reducing external debt. We are encouraged by accelerating growth in broad money indicators like M2A and M3, an indicator that the economy is regaining strength.

We expect the SET Index to deliver a satisfactory absolute return in 2002. The Thai market's low valuations and an improving economic environment should provide support for the market. We also expect a portion of local money that is now invested in fixed income instruments to be diverted to equities. A probable large new supply of government bonds, needed to finance the budget deficit, and the Thaksin government's efforts to persuade the Government Pension Fund and Social Security Fund, both of which are currently heavily invested in fixed income instruments, to increase their exposure to equities, should favour the equity market.

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### **Company**

A public announcement to the following effect was made by the Company's Board of Directors on February 1, 2002.

The Company, established and listed on the Hong Kong Stock Exchange in 1989, is a closed end investment company. It invests in Thai securities through The Thai-Asia Fund (the "Fund"), a closed end investment vehicle established under the laws of Thailand and currently regulated by the Thai Securities and Exchange Commission (the "Thai SEC"). The Company is the sole unitholder of the Fund. The Company's underlying portfolio in the Fund is managed by MFC Asset Management Public Company Limited and advised by INVESCO Asia Limited, both of which are independent of the Company.

The Company had, in its placing memorandum dated November 2, 1989 for the issue of shares in the Company prior to its initial listing on the Hong Kong Stock Exchange in 1989, foreshadowed that the Company might become 'open ended' after ten years of the Company's establishment. Indeed, shareholders had already passed a special resolution at the Company's Annual General Meeting on June 10, 1999 to 'open end' the Company, subject to obtaining any necessary regulatory consents. The opening up of the Fund is a prerequisite for opening up of the Company.

The Company reports that it has been in communication with the Thai SEC for authorisation to open-end the Fund, through which the Company invests in Thai securities, so that units in the Fund may be redeemed by the Company at prices based on their net asset value.

In this regard, the Company was advised by the Thai SEC in writing on January 16, 2002 that they have no objection in principle to the phased open-ending of the Fund over a period of three years with the redemption of the Fund's initial units (5,000,000 units) as follows:

Year 1: A maximum of 20% of the initial units in the Fund may be redeemed.

Year 2: A maximum of 30% of the initial units in the Fund may be redeemed plus any entitlement not used from the previous year.

Year 3: The remaining initial units in the Fund may be redeemed.

The Company intends shortly to submit a formal request for approval of the phased open-ending to the Thai SEC, through the offices of MFC Asset Management Public Company Limited, the Fund's Investment Manager, with a view to returning value of the Fund to the Company and, ultimately, to shareholders of the Company.

For some time, the Company's shares have traded on the Stock Exchange of Hong Kong at a large discount to the Company's net asset value. At the same time, the Company's shares have been relatively illiquid, with very low turnover.

This possible change in the Thai SEC's policy to allow the Fund to open up over a period of three years will allow the Company to redeem its units in the Fund at or around their net asset value. Such redemption has not been, and will not be, possible until this change in regulatory policy. By redeeming units in the Fund, the Company will be able to ultimately return the proceeds of the redemption to its shareholders, thereby allowing them to realise their investment in the Company at or around net asset value. The Company has not yet determined the mechanism by which value to shareholders will be returned.

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A further announcement will be made in due course, following formal approval granted by the Thai SEC and consideration by the board of directors of the Company as to the Company's proposal to return value to shareholders. Following formal approval from the Thai SEC to open up the Fund, the Company intends to deal in the units in the Fund in a manner consistent with such proposal to return value to the Company's shareholders.

**Shareholders and potential investors are advised that in any event the opening up proposal will be made subject to obtaining any necessary regulatory approvals. Accordingly, they should exercise due care in their dealings in the shares of the Company.**

On behalf of the Board

**Chesada Loha-unchit**  
*Director*

**Andrew Lo Tak Shing**  
*Director*

April 22, 2002