

## MANAGEMENT REPORT FOR 2002

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### I. CURRENT INVESTMENTS

The Company's principal activity of investing in Thai securities is through a special investment vehicle, the Thai Asset Fund (the "Fund"). The Fund was established in 1989 under the terms of an investment plan authorized by the Bank of Thailand and the Company is the sole unitholder in the Fund. All investments of the Fund are considered as investments held by the Company.

As at December 31, 2002, the ten largest investments held by the Company through its investments in the Fund were: —

	Company	Cost US\$	Market value US\$	% of NAV of the Company	% of Investee company owned	% Weighting in SET Index	Dividends received US\$	Dividends cover (times)
1.	Siam Cement	468,631	832,394	9.52	0.03	7.55	5,463	14.74
2.	PTT Exploration & Production	873,358	754,006	8.63	0.04	4.97	34,872	2.99
3.	Bangkok Bank	839,647	743,408	8.51	0.04	3.90	—	—
4.	Thai Farmers Bank	866,012	728,247	8.34	0.05	3.28	—	—
5.	Land & Houses	184,364	554,101	6.35	0.05	2.69	5,186	8.79
6.	Siam City Cement	423,917	513,922	5.89	0.04	2.82	17,879	1.24
7.	Advance Info Service	329,133	457,387	5.24	0.02	5.59	6,640	6.96
8.	PTT	323,885	379,635	4.35	0.01	6.35	11,368	4.48
9.	BEC World	344,025	314,911	3.61	0.03	2.19	13,093	0.94
10.	Shin Corporation	447,311	281,792	3.23	0.04	1.59	—	—

*Exchange rate as at December 31, 2002 and used in these financial statements: US\$1.00 = Baht 43.014*

*The companies numbered 1 and 6 are in the Building and Furnishing sector, numbered 2 and 8 are in the Energy sector, numbered 3 and 4 are in the Banking sector, numbered 5 is in the Property Development sector, numbered 7 and 10 are in the Communication sector, and numbered 9 is in the Entertainment and Recreation sector.*

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An analysis by industry of the equity investments held by the Company, together with a comparison with the composition of the Stock Exchange of Thailand (“SET”), is as follows: —

Industry	No. of Stocks in		Sector Weightings (%)	
	Company	SET	Company	SET Index
1. Agribusiness	0	20	0.00	2.13
2. Banking	5	14	19.52	17.19
3. Building & Furnishing	3	19	16.01	12.76
4. Chemicals & Plastics	1	12	1.75	2.39
5. Commerce	1	14	1.00	2.64
6. Communication	4	12	9.37	9.20
7. Electrical Products & Computer	0	10	0.00	1.01
8. Electronics Components	3	8	1.77	3.03
9. Energy	5	9	19.09	14.52
10. Entertainment & Recreation	2	10	4.39	4.44
11. Finance & Securities	8	26	10.49	4.90
12. Food & Beverages	1	22	0.79	2.30
13. Health Care Services	0	10	0.00	0.35
14. Hotel & Travel Services	0	10	0.00	1.50
15. Household Goods	0	7	0.00	0.53
16. Insurance	0	21	0.00	1.41
17. Jewelry & Ornaments	0	2	0.00	0.07
18. Machinery & Equipment	0	3	0.00	0.08
19. Mining	0	1	0.00	0.15
20. Packaging	0	13	0.00	0.51
21. Pharmaceutical Products	0	2	0.00	0.04
22. Printing & Publishing	0	8	0.00	0.47
23. Professional Services	0	2	0.00	0.05
24. Property Development	6	29	10.59	7.44
25. Pulp & Paper	0	4	0.00	2.48
26. Textiles, Clothing & Footwear	0	24	0.00	1.34
27. Transportation	1	8	2.20	3.47
28. Vehicles & Parts	0	9	0.00	0.92
29. Warehouse & Silo	0	4	0.00	0.08
30. Others	2	5	1.32	0.27
31. Companies under Rehabilitation	0	51	0.00	2.33
32. Unlisted Securities	7	0	0.00	0.00
33. Debentures & Convertibles	0	0	0.00	0.00
	49	389	98.29	100.00
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### II. ACTIVITIES

For the year ended December 31, 2002, total listed investments purchased by the Company amounted to US\$2.07 million, while total sales amounted to US\$2.16 million. The net realized loss for the year amounted to US\$0.43 million.

A summary of purchases and sales by the Company during the year ended December 31, 2002 is as follows:—

Month	(US\$ Millions)		Capital Gains/ (Losses)
	Purchases	Sales	
JANUARY	0.20	0.46	(0.06)
FEBRUARY	0.15	0.12	(0.07)
MARCH	0.24	0.17	(0.01)
APRIL	0.07	0.02	(0.05)
MAY	0.15	0.12	(0.19)
JUNE	0.42	0.30	0.03
JULY	0.00	0.00	0.00
AUGUST	0.09	0.07	0.02
SEPTEMBER	0.33	0.31	0.05
OCTOBER	0.12	0.34	(0.07)
NOVEMBER	0.20	0.14	(0.06)
DECEMBER	0.10	0.11	(0.02)
TOTAL	2.07 =====	2.16 =====	(0.43) =====

Using an exchange rate average at the end of each month during 2002: US\$1.00 = Baht 42.967

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### III. PERFORMANCE

	DEC 31, 2002	DEC 31, 2001	% CHANGE
NAV/Share (US\$)	1.75	1.38	26.81%
Baht/US\$ Exchange Rate	43.014	44.092	2.51%
SET Index (Baht)	356.48	303.85	17.32%
(US\$)	8.29	6.89	20.32%
Performance to SET Index			6.49%

During the year ended December 31, 2002, the net asset value per share of the Company increased by 26.81% in US\$ terms. Over the same period, the SET Index increased by 20.32% in US\$ terms. The Company outperformed the market by 6.49%.

	DEC 31, 2002	DEC 1, 1989	% CHANGE Since Inception
NAV/Share (US\$)	10.82*	10.00	8.20%
Baht/US\$ Exchange Rate	43.014	25.765	-40.10%
SET Index (Baht)	356.48	769.14	-53.65%
(US\$)	8.29	29.85	-72.23%
Performance to SET Index			80.43%

\* After adjusting for dividend of US\$9.07 per share paid to shareholders since inception.

After adjusting for the dividend, the net asset value per share of the Company since inception increased by 8.20% in US\$ terms. Over the same period, the SET Index decreased by 72.23% in US\$ terms. The Company outperformed the market by 80.43%.

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### IV. STATEMENT OF CHANGES IN INVESTMENTS

(For the year ended December 31, 2002)

	Number of shares				As at Dec 31, 2002	
	Holding			Holding	Fair	Percentage of
LISTED SECURITIES	at 01/01/02	Purchases	Sales	at 31/12/02	Value	Net Assets
					US\$	%
AGRIBUSINESS						
Charoen Pokphand Food	365,000	—	365,000	—	—	—
BANKING						
Bangkok Bank	760,800	—	114,800	646,000	743,408	8.51
Krung Thai Bank	511,400	48,600	559,100	900	140	—
Siam Commercial Bank	—	286,600	—	286,600	188,228	2.16
Thai Farmers Bank	1,079,600	125,200	—	1,204,800	728,247	8.34
Thai Farmers Bank — F	—	64,000	—	64,000	44,637	0.51
					1,704,660	19.52
BUILDING AND FURNISHING						
Siam Cement	29,900	7,050	6,400	30,550	832,394	9.52
Siam City Cement	109,866	—	4,600	105,266	513,922	5.89
Tipco Asphalt	—	94,800	—	94,800	52,454	0.60
					1,398,770	16.01
CHEMICALS AND PLASTICS						
National Petrochemical	140,100	—	—	140,100	153,083	1.75
COMMERCE						
Big C Supercentre	228,000	—	—	228,000	87,460	1.00
COMMUNICATION						
Advanced Info Service	731,500	58,400	235,700	554,200	457,387	5.24
Shina Satellite	226,125	—	23,700	202,425	78,591	0.90
Shin Corporation	1,581,100	—	381,000	1,200,100	281,792	3.23
Shin Corporation — F	97,000	—	97,000	—	—	—
Telecom Asia Corporation	442,900	—	441,100	1,800	192	—
					817,962	9.37

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LISTED SECURITIES	Holding at 01/01/02	Number of shares		Holding at 31/12/02	As at Dec 31, 2002	
		Purchases	Sales		Fair Value US\$	Percentage of Net Assets %
<b>ELECTRONIC COMPONENTS</b>						
Cal-Comp Electronics (Thailand)	104,400	28,000	—	132,400	101,576	1.16
Delta Electronic	1,500	—	—	1,500	950	0.01
Hana Microelectronics	51,300	—	17,000	34,300	52,629	0.60
					155,155	1.77
<b>ENERGY</b>						
Banpu	357,800	—	149,400	208,400	159,883	1.83
Electricity Generating	244,800	—	—	244,800	211,996	2.43
PTT	63,000	323,500	—	386,500	379,635	4.35
PTT Exploration & Production	250,000	—	21,600	228,400	754,006	8.63
Ratchaburi Electricity Generating	485,600	—	101,700	383,900	161,543	1.85
					1,667,063	19.09
<b>ENTERTAINMENT &amp; RECREATION</b>						
BEC World	70,400	—	4,000	66,400	314,911	3.61
Major Cineplex Group	—	36,400	—	36,400	68,545	0.78
					383,456	4.39
<b>FINANCE &amp; SECURITIES</b>						
ABN AMRO Asia	32,200	54,800	19,400	67,600	60,113	0.69
Capital Nomura	—	48,700	—	48,700	42,740	0.49
Kiatnakin Finance	287,400	54,980	161,100	181,280	136,969	1.57
Krungthai Card	—	139,200	—	139,200	42,394	0.49
National Finance	407,800	136,500	26,800	517,500	160,012	1.83
National Finance — F	136,000	—	136,000	—	—	—
Siam Sanwa Industrial Credit	—	965,400	39,800	925,600	142,023	1.63
Siam Panich Leasing	213,100	—	44,600	168,500	153,755	1.76
Thai Investment	—	156,200	156,200	—	—	—
Tisco Finance	—	341,000	—	341,000	177,579	2.03
					915,585	10.49
<b>FOODS &amp; BEVERAGES</b>						
Thai Union Frozen Products	373,000	—	199,200	173,800	68,689	0.79

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		Number of shares			As at Dec 31, 2002	
	Holding			Holding	Fair	Percentage of
LISTED SECURITIES	at 01/01/02	Purchases	Sales	at 31/12/02	Value	Net Assets
					US\$	%
PROPERTY DEVELOPMENT						
Amata Corp	—	281,300	—	281,300	124,255	1.42
Asian Property Development *1	100,000	—	—	100,000	97,643	1.12
Central Patana	—	19,000	—	19,000	23,853	0.27
Golden Land	302,700	139,000	441,700	—	—	—
Land and Houses	318,700	—	18,900	299,800	554,101	6.35
Noble Development	—	149,200	—	149,200	31,218	0.36
Quality Houses	—	573,700	—	573,700	93,363	1.07
Ticon Industrial Connection	—	11,200	11,200	—	—	—
					924,433	10.59
TRANSPORTATION						
Bangkok Expressway	770,300	—	215,600	554,700	192,147	2.20
Thai Airways International	108,900	—	108,900	—	—	—
					192,147	2.20
OTHERS						
Eastern Water Resources Devel. & Mgt	100,500	—	100,500	—	—	—
General Environment Conservation	870,000	—	870,000	—	—	—
					—	—
PREFERRED SHARES						
Siam Commercial Bank — P	206,300	—	206,300	—	—	—
WARRANTS AND DEBENTURES						
Asian Property Development — W1	—	51,000	—	51,000	33,791	0.39
Kiatnakin — W3	—	48,500	48,500	—	—	—
Kiatnakin — W4	87,700	150,800	238,500	—	—	—
LH - W2	84,600	—	11,600	73,000	81,038	0.93
Ticon Industrial Connection — W1	—	2,800	2,800	—	—	—
					114,829	1.32
TOTAL LISTED SECURITIES					8,583,292	98.29

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		Number of shares			As at Dec 31, 2002	
	Holding			Holding	Fair	Percentage of
UNLISTED SECURITIES	at 01/01/02	Purchases	Sales	at 31/12/02	Value	Net Assets
					US\$	%
ELECTRICAL EQUIPMENT						
SPEC Thai	105,000	—	—	105,000	1	—
HEALTH CARE SERVICES						
Piyavate Hospital	330,000	—	—	330,000	1	—
HOTELS						
Paitoon Hotel & Resort	110,000	—	—	110,000	1	—
United Resort Service	10,000	—	—	10,000	1	—
					2	—
INSURANCE						
Rattanakosin Insurance	50,850	—	—	50,850	1	—
PROPERTY DEVELOPMENT						
Alpine Real Estate	2,055,000	—	—	2,055,000	1	—
WARRANTS						
KfW - TA	191,747	—	—	191,747	—	—
Charoen Pokphand Food — W2	—	36,500	36,500	—	—	—
Ticon Industrial Connection — W	—	2,800	2,800	—	—	—
					—	—
TOTAL UNLISTED SECURITIES					6	—
TOTAL LISTED AND UNLISTED SECURITIES					8,583,298	98.29
Net current assets					148,885	1.71
TOTAL NET ASSETS					8,732,183	100.00

\*1 Asian Property Development was reclassified from Building and Furnishing Sector to Property Development Sector on 25 February 2002 by SET Index



### V. THE YEAR 2002 IN REVIEW

The Thai economy expanded satisfactorily in 2002, driven by strong domestic demand. Low interest rates and the availability of consumer credit played important roles in strong consumer spending. Private consumption grew 3.7% for the year. Private investment also showed significant growth, rising 23.4% during the year vs. 0.2% in 2001. As well as a notable contribution from commercial vehicle sales, cement sales were also strong due to brisk demand in the residential property sector. With regard to external demand, exports returned to positive growth of 3.4% in the second quarter of 2002 and seemed to gain momentum, growing at 11.3% and 15.1% for the third quarter of 2002 and the fourth quarter of 2002 respectively. Consequently, the manufacturing production index grew 10.6% in the second half, against 6.1% growth for the first half of 2002. After recording 3.9% and 5.1% year-on-year growth in the first quarter and the second quarter of 2002 respectively, the Thai economy showed 5.8% year-on-year growth for the third quarter of 2002. These quarterly GDP reports consistently came out better than expectation. We have subsequently seen several forecast upgrades, including the National Economic and Social Development Board (NESDB), which twice revised up its GDP forecast for 2002 from 2.0-3.0% to 4.0-4.5%. Inflation remained low at only 0.6% in 2002.

The Thai stock market recorded a gain of 17.32% (in Thai Baht terms) for 2002, despite the dull equity investment environment globally. However, the SET index witnessed rather a different movement between the first half and the second half of the year.

From the beginning of the year, the SET index outperformed the regional bourses with impressive rallies. The index rose from 303.85 points at the end of 2001 to reach a year-to-date high of 426.45 on June 13, a 40.35% gain.

The sharp run-up in the first half of 2002 was supported by the following:—

- (1) Improved market sentiment towards equity investment due to signs of a faster and stronger economy in the United State.
- (2) High excess liquidity both domestically and overseas.
- (3) Low interest rate policy, as witnessed by the Bank of Thailand lowering the repurchase rate by 50 basis points within a span of 30 days.
- (4) Favorably low market valuations in both absolute and relative terms.

Another important supporting factor was the marked improvement in the first half results of listed companies as well as the upward revision of the 2002 GDP forecast after the better-than-expected first quarter 2002 GDP figure announcement.

In the second half of 2002, the Thai stock market also followed negative movements in global equity markets, given rising tension in the Middle East, a series of negative news from US corporates as well as fear of another terrorist attack. Domestically, the plan for Financial Institutions Development Fund's bond issuance dampened expectations for another interest rate cut and negative market sentiment set in. As we entered the third quarter, despite a series of positive domestic fundamental news, i.e. ongoing strong economic figures, better-than-expected corporate results and the ratings upgrade for Thailand by Standard & Poors, the market remained heavily influenced by negative external developments. The SET index drifted to a low of 323.86 on October 14, immediately after the tragic bomb blast in Bali.

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The market then took a turn, following the strong rebound in the US market amidst expectation of an interest rate cut by the Federal Reserve. Domestic developments remained positive, including a credit rating upgrade by Fitch Rating Agency, continued favorable corporate earnings momentum and another upward revision of the GDP forecast due to a series of strong economic figures. Local interest rate cuts by commercial banks also yielded support. As year-end approached, the positives of the extension of tax incentives for the property sector and a better-than-expected 2002 third quarter GDP figure were weighed down by the rising uncertainty of the US-Iraq situation. The SET index finished the year at 356.48.

With regard to the Company, at the end of this reporting period equity exposure was 98.29%, a slight increase from 96.98% at the end of 2001. Some changes in sector allocation were implemented to position the Fund for a domestic demand driven economic recovery. Exposures in the finance & securities sector and the property sector were increased. To fund those increases, exposure in the telecommunication sector was reduced due to uncertainties over the industry's liberalization, as well as expectation for increased competition within the industry. Exposure in the banking sector was slightly increased. The Fund accumulated Siam Commercial Bank. The bank's decision to bring its provision coverage to the same level as other major banks would result in the narrowing of the valuation gap. Some holdings of Bangkok Bank and Krung Thai Bank were reduced in favor of Thai Farmers Bank. Thai Farmers Bank was preferred for its pro-active management track record as well as less concern regarding the need for capital raising.

Over the period, net asset value per share, in US\$ terms, rose 26.81%. This performance compared positively to the benchmark SET index which rose 20.32%, in US\$ terms, during the same period. The aforementioned sector allocation, in favor of beneficiaries of domestic demand recovery, contributed positively.

### **VI. OUTLOOK FOR 2003**

Looking into 2003, we are cautiously optimistic for continued recovery. The low interest rate environment, which has been the underlying driver of the Thai economy, is likely to remain. Inflation remains low and liquidity in the banking system remains abundant. We are seeing a forecast for 4 to 4.5% GDP growth for Thailand in 2003.

For the stock market, we are optimistic for favorable returns for the year. In addition to growth in corporate earnings, Thai companies are also showing a better capability to generate returns for shareholders, as indicated by a rising trend in return on equity. The market is also trading at the lower end of its own historical range. Risk factors would be external developments, including the geopolitical uncertainties due to the US-Iraq conflict. Besides negative investment sentiment, high oil prices resulting from this tension will be negative for the current weak global growth.

Regarding portfolio allocation, while we are currently overweight both the defensive energy sector and the high beta finance and property sectors, we foresee a downward shift in exposure to the defensive energy sector, barring a scenario of a prolonged Middle East war. Once the geopolitical uncertainty is settled, a significant gain in the Thai market can be expected, given the strong domestic economy, improving corporate profits and attractive valuations as aforementioned. To benefit best from such a market environment, we plan to reduce exposure in the defensive segment. Increased exposure is likely in the banking sector, namely major private banks (vs. state-owned banks). We have seen Thai banks ending the period of huge provisions. As a result, we expect earnings of Thai banks to be able to show normal operational cycles. We are seeing Thai banks recording growth in their lending again after the financial crisis, although still to a small degree. The overweighting towards domestic plays, finance, property and building materials, is likely to continue.