

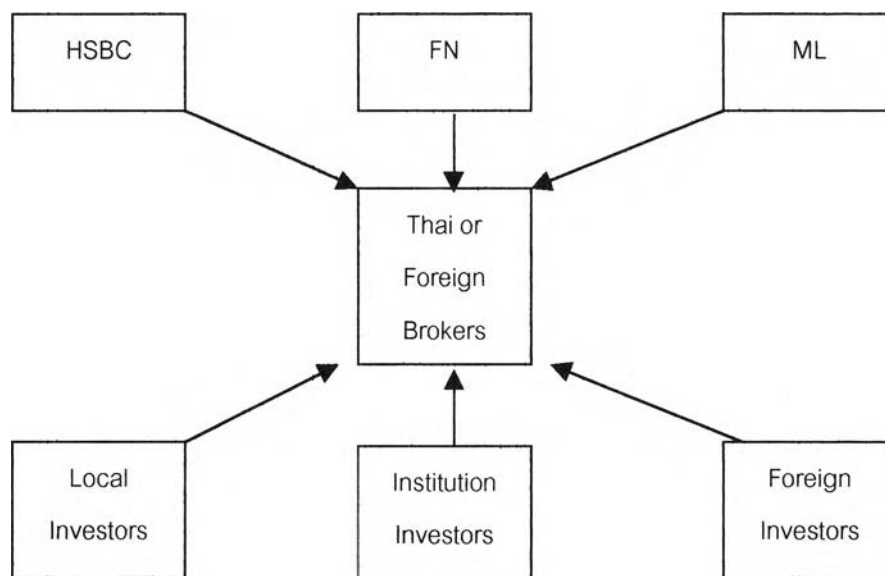


CHAPTER 3

EXECUTED ORDER OF TRADING

3.1 Executed Order in the Stock Exchange of Thailand

In Thailand, international stockbrokers open their branches or set representative for trading Thai stock. Some have broker license from SEC (Securities and Exchange Commission) and some are sub-brokers (who can take the order and send that order to the stockbroker that has license for trading). The trading process is shown as followed:



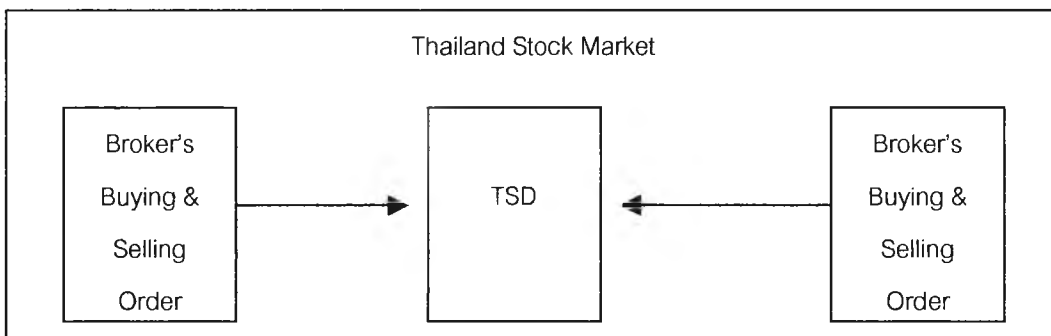
From the above picture, we can see that these investors, i.e. HSBC (Hong Kong and Shang Hai Bank Fund, Finansa Fund, Merrill Lynch, Local Investors, Institution Investors, Foreign Investors, have to send their order to the broker. In case, he or she has a stockbroker's license or has his or her representative in Thailand, he or she can send and trade for that order. Otherwise, he or she who is a sub-broker, must send his or her order to the stockbroker.

Trading is "buying or selling stock." The market that consists of 3 major parties; buyer, seller, and TSD. Foreign investors may buy (or sell) stocks from local investors or institution investors and vice ver-sa. Foreign brokers, sometimes are referred as "house". There are many houses in Thailand, those representatives have broker license and some are sub-broker. Brokers will

send buying order or selling order to SET through “The Thailand Securities Depository Co., Ltd.” (TSD).

(Note: TSD is a subsidiary of the Stock Exchange of Thailand (SET), was established on November 16, 1994, and officially began operation on January 1, 1995. TSD’s main function is to develop and promote back-office systems for the after-trade services for all types of equities and debt instruments in Thailand. The objective is to attain the highest efficiency and meet international standards. This function is considered to be an important role that helps support related institutions in the Thai capital market to be competitive in the international market. As for services provided by the TSD for its member companies (brokers), they are divided into three main services; namely, Securities Depository, Securities Clearing and Settlement, and Securities Registration. At present, the TSD acts as the only Clearing House and Securities Depository Center (SDC) in Thailand, implementing a multilateral netting system for clearing and settlement of securities traded on the Stock Exchange of Thailand.)

Recently, the TSD has implemented Delivery versus Payment (DvP) to its clearing and settlement system in order to reduce risks to the Clearing House, as well as to increase liquidity in the stock market. With this new development, the payment method has been changed from the use of checks to electronic fund transfers through the Settlement Banks and the Bahtnet system of the Bank of Thailand as a clearinghouse. Please see the picture.



Now we may want to know where do the foreign orders come from? Foreign orders come from any place around the world and that order may come from any funds (Investment Company), brokers, or corporation.

3.1.1 Fund: there are many type of funds:

3.1.1.1 Hedge Fund: Hedge fund is a private investment portfolio, usually structured as limited partnership, open to accredited investors, charging an incentive based fee, and managed by a general partner with every financial tool imaginable at his disposal. The general partner also invests his own capital. Hedge fund managers in general try to control risk rather than simply maximize returns. Most tend to stick to a tightly focused investing strategy, such as short selling, risk arbitrage, or playing equities with both long and short positions. Sometime hedge fund was called speculator and money for investing was called hot money.

3.1.1.2 Mutual Fund: Mutual fund is Investment Company that pools money from its shareholders in stocks, bonds, government securities, and short-term money market instrument. Mutual funds can also invest in other marketable assets, such as futures, options, and collectibles. A mutual fund is also known as an open-end investment company, meaning that there is a continuous offering of new shares and redemption of outstanding shares.

When shares are sold, the fund's capitalization increases; it decreases when investors redeem shares. (Unlike a closed-end fund, shares are not traded on organized exchanges). The owners of mutual fund own proportional shares in the entire pool of securities in which the fund invests, and pay taxes on distributions from the fund. Most mutual fund shares are redeemable at current net asset value, although some have a back-end load or redemption charge when shares are liquidated. In any mutual fund, the value of shares owned depends on current market value of the portfolio, which is generally repriced daily. Sometime mutual fund can be called Investment Company. There are two types of mutual fund;

3.1.1.2.1 Open-End Fund Company: is a type of investment company that sells new shares to the public and stands ready to buy back (redeem) its shares at the market price when investors wish to sell. Open-end investment companies are better known to public as mutual fund, and are so named because these companies are continually creating new shares when they sell securities. Consequently the NAV (Net Asset Value) of mutual funds increased or decreases as investors buy shares or redeem them. Funds typically invest in a variety of financial instruments, including common stocks, corporate bonds, tax-exempt bonds, and short-term money market instruments.

3.1.1.2.2 Closed-End Fund Company: is an investment trust that pools the assets of investors and issues a fixed number of shares. In contrast, an open-end fund or mutual fund that continuously offers new shares to public or offers to repurchase shares at NAV (Net Asset

Value). Shares of closed-end fund are traded over-the-counter or stock exchanges and may trade at premium or discount from the net asset value per share.

3.1.1.3 Pension Fund: Pension funds are the fund that set up to collect regular contributions from a corporation, government agency, or organization to provide post-retirement income for eligible employees. Employer contributions are set-aside in tax-free investments, under authority granted by the internal revenue code. These institutional invest in mortgage-backed securities, and to a lesser extent, real estate and venture capital limited partnerships. Pension funds are exempt from capital gains taxes and thus any holding period provisions securities regulations. Pension funds managers are required to follow investment rule, as fiduciaries for pension fund assets held in interest.

Those funds have to send the order to the broker, no a matter he or she is foreign funds or local funds. This is the rule of every SEC (Securities Exchange Commission) of every country.

3.1.2 Broker: is a firm that acts as intermediary between buyer and seller by charging a commission or fee. A stockbroker also called a registered representative, account executive, or more recently, a financial planner, specializes in stocks, bonds, and tax-sheltered investments, and is registered with Securities and Exchange Commission (SEC). There are two types of stockbrokers;

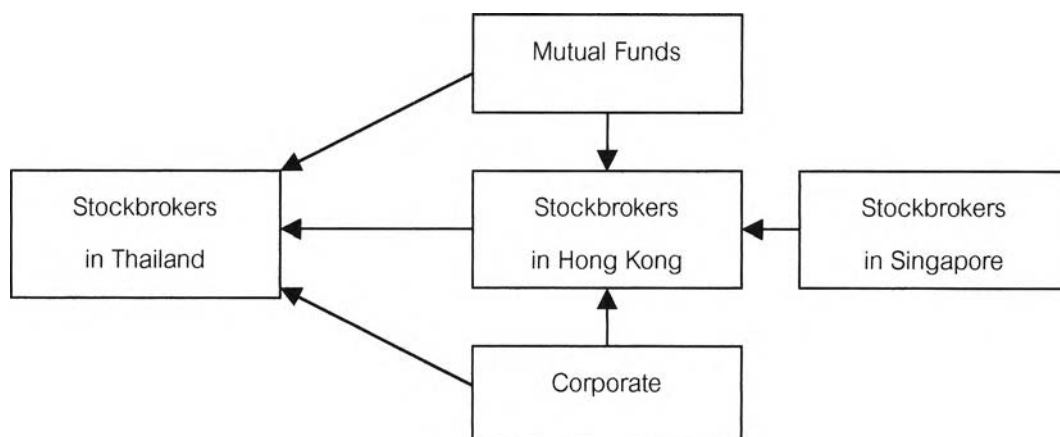
3.1.2.1 Full Service Broker: brokerage firm offers investors a full line of brokerage services, asset management services, as well as investment advices. Full-service brokerage firms generally have a research department that furnishes reports. The research department prepares stock analysis with a buy or sells recommended list for all clients such as institutional clients and retail clients. Most foreign funds or institutional funds prefer this type of broker; actually fund manager prefers this one.

3.1.2.2 Discounts Broker: is a cut-rate brokerage service, involving execution of securities buy or sell orders, without giving investment advice. Trades executed by a discount broker are cleared through a securities exchange, normally by a clearing broker. Without giving any advice (or trading strategy) will save the discounts brokers for research department. Thus, the discount brokers charge to the clients less than the full-service brokers do. Hedge fund prefers these kinds of brokers, as a commission fee is cheap, and minimizes the transaction cost.

Some broker has its own account, so he or she can trade for his or her account to making a profit the portfolio. Some brokerage firm has its IB (Investment Banking) department for managing IPO (Initial Public Offering). So the brokerage firm can be a market maker to provide the liquidity, to maintain the stock price. Broker occasionally takes the orders from the other brokers and sends that order to execute in any country. For example; broker A in Hong Kong sends the orders to broker B in Singapore then broker B will send the orders to broker C to buy or sell stock in Thailand stock market.

3.1.3 Corporation: can be firms, trust companies, and insurance companies. These companies have provident fund for their employee, or have excess cash-flow for investing. So they may invest in common stocks, corporate bonds, government bonds, or in short-term money market to make a profit from capital gain, dividend payment or interest income.

Now let see the picture:



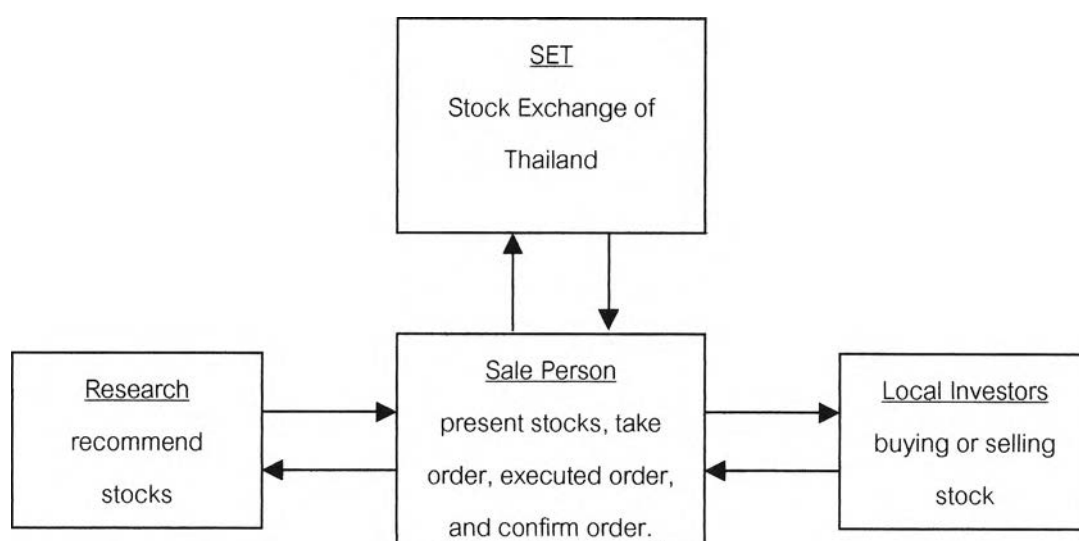
3.2 Department of Trading

There are two types of trading. One is trading for retail investors and the another is trading for foreign or institution investors. Many people see that both perform the same activities, but actually they act differently. The detail activities are explained in Retail trading and Institute (or Foreign) trading.

3.2.1 Retail Trading: is part of trading floor for retail or local investors. There are two key functions that support the retail investors; marketing, and research department. Research

department will analyze the stocks and economic situation, then analyst will provide stock recommendation by using fundamental analysis and technical analysis. The research papers will come before the trading hour, released to the sale person (in Thailand we call this person is marketing). Analyst will also answer question regarding to stock he or she covers to the marketing.

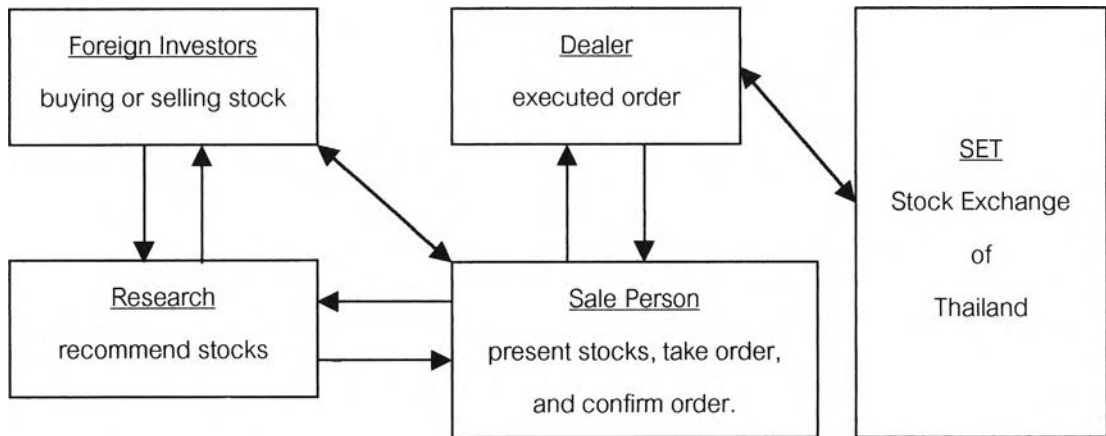
Then the sale person (or marketing) present stocks that recommended by analyst to the investors. If local investors are interested in those stocks, then local investors send orders to the marketing. After that order being executed, the sale person will confirm that orders to the local investors, and will inform how much local investors have to pay or receive in the next three working day. This is the entire jobs that retail department trading do.



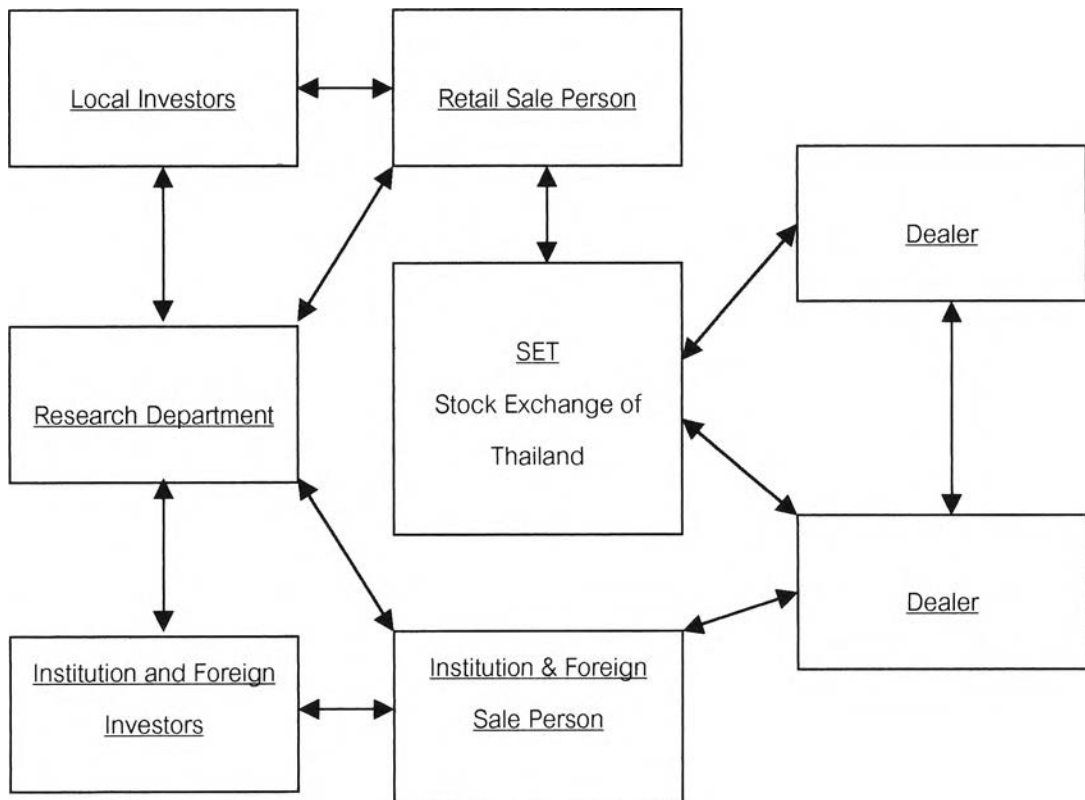
3.2.2 Institution and Foreign Trading: for this trading floor is difference from retail trading floor. All of institution investors and foreign investors have a fund manager(s) who takes care for his or her portfolio. He or she will care about beating the market instead of making capital gain. As a result, NAV should be positive as much as it can. Analyst of research department will recommend the stocks to institution sale person and fund managers.

Sale persons also present the stock to fund managers. If fund managers are interested in some stocks then fund managers will send the order to the sale person. After sale person got that order, then he or she would classified the type of that fund manager prefers (we will explain type of order in the next sector), and sent that order to dealer. Dealers executed the order by using his or

her experience. When the order was completed, sale person would confirmed that order to fund manager. These we entire jobs that institution or foreign department trading did.



In addition, the sale person in institution and foreign investors can be classified in two groups; sale person who deals with fund managers and another is the sale trade person who deal with the other sale persons or other stockbrokers. Finally we will see the whole of picture for executed order in SET (Stock Exchange of Thailand).



3.3 Type of Order

There are many types of order that come from the investors.

3.3.1 Limit Order: is an order to buy or sell a specified amount of securities at a given price. These kinds of order used by local, institution, and foreign investors. For example, the order will be "buying American Standard stock for 1000 shares at 140 Baht."

3.3.2 Market Price Order: is an order to buy or sell securities at the best available price - at the market - the most common way of executing trades. For example, BAFS has an offering price at 115 Baht so the investors will buy it now at 115 Baht. These kinds of order used by all kinds of investors.

3.3.3 One-Third Volume Order: is an order that institution and foreign investors want to buy or sell securities at one-third of whole securities volume that was traded at no specified price. For example, Everyday BBL stock was traded about 1,000,000 shares so the order will be "buying BBL stock at any price for 300,000 shares". Institution and foreign investors preferred this order. Many local investors do not know these kind of orders exist.

3.3.4 CD (Carefully Discretion) Order: is an order that fund manager will inform sale person to buy or sell at specified amount of securities, but require the price to close to the average price of that stock. For example, BBL stock has average price at 50 Baht then the fund manager will tell the sale person to buy BBL stock at the price no too high from 50 Baht or selling order will not too low from 50 Baht.

3.3.5 VWAP (Volume Weighted Average Price): is an order that foreign or institution investors tell sale person to buy or sell at specified amount of securities and send up at average price of that stock. If sale person can buy or sell those securities lower or higher than the average price of that stock then the sale person will send up that order at average price and getting profit from the spread between the execute price and average price.

3.3.6 GTC (Good till Cancel): is the order that specifies a time period but it may have an indefinite expiration.