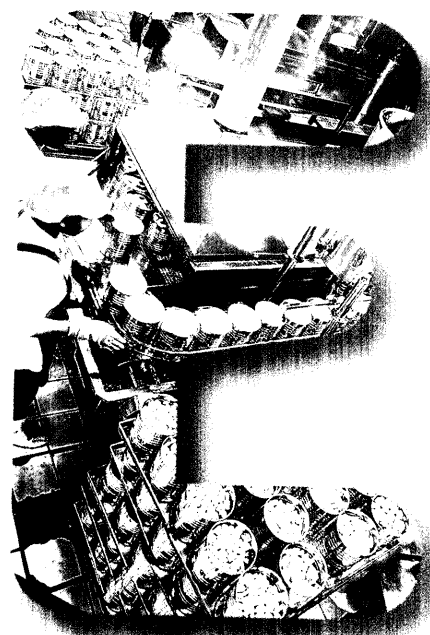
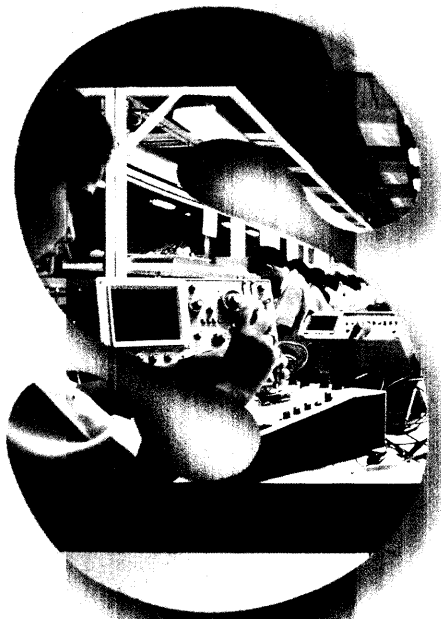


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Supporting



to Invigorate the Thai Economy



The Industrial Finance Corporation of Thailand



The Industrial Finance Corporation of Thailand (IFCT) is a specialised development finance institution established by the Government under the Industrial Finance Corporation of Thailand Act B.E. 2502 with the main objectives of assisting in and promoting private sector industrial investment and domestic capital market development. IFCT has conducted its activities in line with the Government's policies on industrial development for the ultimate goal of economic and social prosperity of the country as a whole.

The Industrial Finance Corporation of Thailand

To achieve such objectives, IFCT provides a wide variety of financial services comprising long-term, medium-term, and working capital loans, equity investment, loan syndication and guarantee. Others services provided include financial advisory services, investment advisory services, joint-venture partner identification, investment banking services and foreign currency transactions services.

IFCT continues to attribute importance to developing the local capital market, which remains a significant funding source for industrialists. In this regard, IFCT has supported the establishment of various institutions which play an important role in the development of the capital market as well as in studying new financial instruments for funding mobilization.

Small and Medium Enterprises



SMEs Support to Invigorate the Thai Economy

The global economic turmoil has shown that SMEs generally proved more flexible than their larger counterparts in adjusting to difficult times. Historically, however, SMEs in Thailand have been slow to develop and possess certain traits which inherently inhibit growth, including a host of constraints with regard to the production process, product development, management, access to capital and resource allocation, marketing expertise, access to information and technology development to improve competitiveness, and a dearth of government support.

Following the economic crisis in Thailand, the development of SMEs is considered as an important factor in strengthening the economy. In this regard, the allocation of a Bt. 5 billion development fund remains a good starting point. In addition, measures to equip SMEs with tools to deal competently with changing conditions include upgrading technology and management, setting up information centers, formation of cooperatives to reduce costs and increase income, development of basic infrastructure, and most importantly, establishing a small and medium enterprise agency in order to provide advice and make recommendations to SMEs in a timely manner. These measures will strengthen SMEs and support the country's continued sustainable economic growth.

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Highlights of Financial Performance

during 1996 - 1998

Bt. million

Financial Statements	1996	1997	1998
Loans and Receivables (<i>Net</i>)	105,151.0	156,926.9	133,455.4
Total Income	12,950.6	16,586.6	15,575.8
Total Expenses	9,990.2	15,975.5	20,270.4
Net Profit	2,960.4	611.1	(4,694.6)
Dividend - Amount	1,225.7	272.4	-
- Dividend Rate (<i>Baht/Share</i>)	2.25	0.50	-
Paid - up Capital	5,447.6	5,447.9	5,447.9
Retained Earnings	7,449.0	6,544.5	1,694.4
Total Assets	142,824.5	206,936.7	185,110.0
Total Liabilities	125,619.8	191,254.7	174,791.7
Shareholders' Equity	17,204.7	15,682.0	10,318.3
Book Value per Share (<i>Bt.</i>)	31.6	28.8	18.9
Net Profit : Total Income (%)	22.9	3.7	(30.1)
Return on Average Total Assets (%)	2.3	0.3	(2.4)
Return on Average Shareholders' Equity (%)	18.1	3.7	(36.1)
Income Increase Rate (%)	19.4	28.1	(6.1)
Net Profit Increase Rate (%)	15.2	(79.4)	(868.2)
Earnings per Share (<i>Bt.</i>)	5.4	1.1	(8.6)
Capital Adequacy Ratio (BIS) (%)	11.9	8.0	9.1

IFCT's Board of Directors



Dr. Aran Thammano

Chairman

Dr. Aran has extensive work experience with the Ministry of Finance. He previously held several prominent positions such as Director General of the Excise Department, the Treasury Department, the Fiscal Policy Office and the Customs Department, and Permanent Secretary of the Ministry of Finance. He is currently Chairman of the Mutual Fund Public Co., Ltd., Chairman of the Board of Rajabhat Institute Songkhla, Vice Chairman of the Board of Trustees of Dhurakijpundit University and Senator.

Mr. Chumpol NaLamlieng

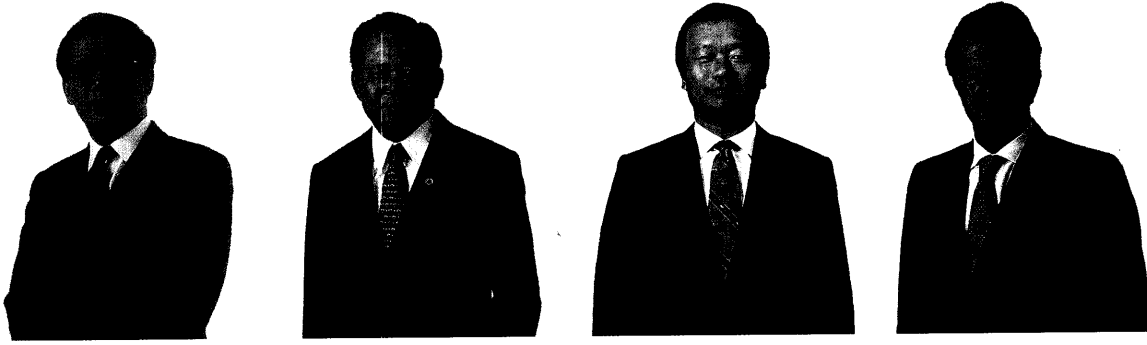
Director

Mr. Chumpol previously worked at the World Bank, the International Finance Corporation and Thai Investment and Securities Co., Ltd. He held several prominent positions at the Siam Cement Group such as Managing Director of Siam Cement Trading Co., Ltd., Siam Iron and Steel Co., Ltd. and Senior Vice President of Finance. Currently, he is President of the Siam Cement Public Co., Ltd. and also holds directorships of many institutions, namely Siam Commercial Bank Public Co., Ltd., Doie Thailand Co., Ltd. and the Board of Investment of Thailand.

Mr. Aswin Kongsiri

Director

Mr. Aswin worked at the Ministry of Finance and the World Bank prior to joining IFCT in 1975. At IFCT, Mr. Aswin held the positions of Research and Planning Department Manager, Senior Vice President (Planning and Finance), Executive Vice President and Senior Executive Vice President. He was appointed President of IFCT in 1990 up to 1998. At present, he is Executive Chairman of the Bangkok Bank of Commerce Public Co., Ltd. He also holds directorships of several financial institutions, industrial enterprises and government organizations.



Mr. Sirin Nimmanahaeminda

Director

Mr. Sirin was formerly Executive Vice President of Bank of Asia Public Co., Ltd., Deputy Governor (Accounting and Finance) of Petroleum Authority of Thailand, and President of Krung Thai Bank Public Co., Ltd. At present, he is Director of Krung Thai Bank Public Co., Ltd., Electricity Generating Public Co., Ltd., Shinawatra Computer and Communication Public Co., Ltd. and Thai Airways International Public Co., Ltd. He is also Adviser to the Board of Dhipaya Insurance Public Co., Ltd.

Mr. Banyong Lamsam

Director

Mr. Banyong is presently Chairman of Thai Farmers Bank Public Co., Ltd., Singer (Thailand) Public Co., Ltd., Thai British Security Printings Public Co., Ltd., Dole Thailand Ltd. In addition, he is a Director of Visa International Asia-Pacific Board of Directors and Adviser to the Board of Directors and the Executive Committee of the Siam Cement Public Co., Ltd.

Mr. Hitoshi Yoshimatsu

Director

Mr. Yoshimatsu joined the Sakura Bank, Ltd. (Japan) (former Mitsui Taiyo Kobe Bank) in 1971 and held various prominent positions at both domestic and overseas branches such as Manager of New York Branch, Deputy General Manager, Senior Vice President of American Division and Deputy General Manager of International Planning Division. Currently, he has been appointed the Bank's General Representative in Thailand and General Manager of Bangkok Branch since June 1997.

Mr. Rolf-Eberhard von Bueren

Director

Mr. Bueren is a German industrialist who has been working in Thailand for the past 35 years. He was Managing Director of Bangkok Glass Co., Ltd. for 14 years. Currently, he is Managing Director of J.V.Control Co., Ltd., a consulting company specializing in joint venture and strategic cooperation planning. He also sits on the Boards of several industrial companies in and outside Thailand and is actively involved in NGO development activities.



Mr. Paiboon Wattanasiritham

Director

Mr. Paiboon worked at the Bank of Thailand for more than ten years. Formerly, he was President of the Stock Exchange of Thailand, Senior Vice President of Thai Danu Bank Public Co., Ltd., President of the Foundation for Thailand Rural Reconstruction Movement Under Royal Patronage, and Managing Director of the Urban Community Development Office. At present, he is Director General of the Government Savings Bank. He is also a Member of the Senate and holds directorships of many institutions, namely Thailand Development Research Institute Foundation, Asia Pacific Philanthropy Consortium, The Small Industry Finance Corporation and the GS Asset Management Co., Ltd.

Mrs. Manimai Vudthitornetiraks

Director

(Up to November 30, 1998)

Mrs. Manimai is currently Deputy Permanent Secretary of the Ministry of Finance. In addition, she is a Director of Ratanasin Bank Co., Ltd., the Mutual Fund Public Co., Ltd., the National Fertilizer Public Co., Ltd., and also a Member of the Bang Pa-in Paper Mill Factory Co., Ltd. Committee and the University Civil Service Committee.

Dr. Somchai Richupan

Director

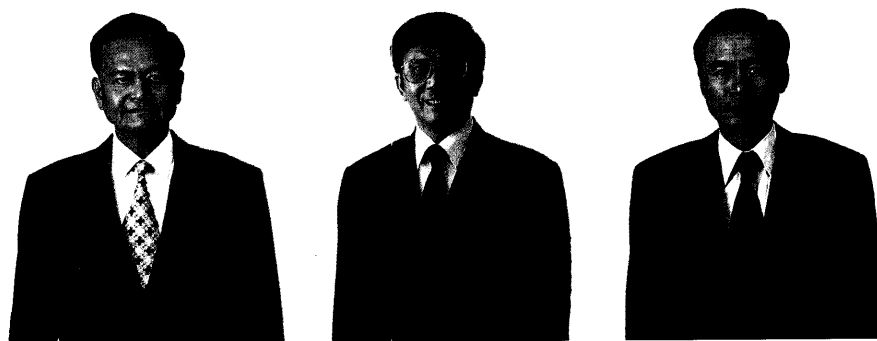
(Beginning December 17, 1998)

Dr. Somchai previously worked at the international Monetary Fund (IMF). He held several prominent positions such as Director-General of Fiscal Policy Office, Chairman of Small Industry Credit Guarantee Corporation and Thai Securities Finance Corporation. Currently, he is Director-General of the Excise Department. He is also Chairman of the Government Housing Bank and Bangchak Petroleum Public Co., Ltd. and member of the Rating Committee of the Thai Rating and Information Services Co., Ltd.

Mr. Anothai Techamontrikul

President

Mr. Anothai has over 30 years of experience working at IFCT. He held the positions of Vice President of Operations Department in 1981, Executive Vice President (Loan Operations) in 1984, Senior Executive Vice President in 1990 and was appointed President of IFCT since March 1, 1998. At present, he also holds chairmanships and directorships of several industrial enterprises in the IFCT group and other institutions.



Mr. Pricha Attavipach

Adviser to the Board of Directors

Mr. Pricha has extensive work experience with the Ministry of Industry. He previously held several prominent positions including Deputy Permanent Secretary of the Ministry of Industry, Director-General of Department of Industrial Works and Director-General of Department of Mineral Resources. He is currently Permanent Secretary of the Ministry of Industry and Director of several state enterprises and private sector entities, namely the Petroleum Authority of Thailand, PTT Exploration and Production Public Co., Ltd., Podaeng Industry Public Co., Ltd. and Tongkah Harbour Public Co., Ltd.

Dr. Siri Ganjarendeek

Adviser to the Board of Directors

(Up to June 7, 1998)

At present, Dr. Siri is Adviser to the Board of Executive Committee of the Thai Securities Finance Corporation. He has extensive work experience with the Bank of Thailand, previously holding various key positions, namely Director of the Office of the Governor, Senior Director of the Economic Research Department, Senior Assistant Governor, etc. He was formerly Adviser to the Executive Director of the International Monetary Fund, the Exchange Equalization Fund and Acting Manager of Financial Institutions and Development Fund Department.

Mr. Kiettsak Meecharoen

Adviser to the Board of Directors

(Beginning June 30, 1998)

Mr. Kiettsak has extensive work experience with the Bank of Thailand. He previously held several prominent positions including Deputy Director of the Bank Supervision & Examination Department, Manager of the Financial Institutions Development Fund Department, Chief of New York Representative Office and Director of Accounting Department. He is currently Assistant Governor of the Bank of Thailand in charge of Monetary Policy.

Statement from the Chairman of the Board of Directors

The IFCT Board of Directors is pleased to take this opportunity to report IFCT's operational performance in 1998 and our business outlook for 1999.

During the past year the Thai economy faced a continued downturn as well as severe volatility due to the baht crisis, the foreign currency capital flight, and strict fiscal policy measures. These factors tightened liquidity in the system during the first half of the year, resulting in a liquidity contraction which forced many businesses to close-down, increased unemployment, and decreased purchasing power. Relaxed fiscal policy measures during the second half of the year failed to adequately stimulate the economy in 1998. The adverse impacts of Thailand's economic downturn and the country's fiscal crisis therefore resulted in a gradual slow-down of IFCT's operations in 1998.

Although IFCT, much the same as other financial institutions, is not insulated from the effects of the economic crisis, the Corporation continues to focus on providing financial support to industries in the real sector. As a mechanism of the Government in supporting investment in private industry, IFCT continues to play a role in solving the liquidity problem of the industrial sector, particularly sectors important to national economic development such as export industries, small and medium-sized industries (SMLs) and industries located in provincial areas.

In 1998, IFCT's loan approvals and equity investment totaled Bt. 15,017 million, representing a decrease of 49 per cent from loan approvals in 1997. The sectors receiving the largest amount of loan approvals in 1998 were food products & beverages (18%), electrical and office machinery (16%), and chemical and chemical products (11%). Of total new projects approved in 1998, 79 per cent were projects located in provincial areas. SMLs accounted for 87 per cent of new project approvals while 80 per cent of the amount approved in 1998 was approved to export industries. With regard to funding mobilization to support continued expansion of credit provision as well as other services, during the past year IFCT mobilized medium-term and long-term funds totaling Bt. 57,943 million of which approximately 50 per cent consisted of baht funding.

The effects of the depressed economy was manifested in the performance of Thai financial institutions, resulting in the downgrade of both sovereign and financial institutions' credit ratings, which severely restricted capital market funding opportunities as well as increased funding costs. The Government has endeavored to remedy the situation by channeling concessional loans to specialized financial institutions (including IFCT) for on-lending in order to alleviate the liquidity problem. In addition to concessional sources received from the Government, in 1998 IFCT was also the recipient of concessional loans from foreign development finance institutions, which included the World Bank, the Asian Development Bank, the Export-Import Bank of Japan, and development finance institutions from Germany, the Netherlands, and the United Kingdom. IFCT has also issued debentures and promissory notes to domestic financial institutions.

IFCT has, in the past, emphasized expansion of client services and has therefore participated in equity investment in various businesses in order to provide a more comprehensive range of services. However, the continued depressed economy, as well as problems in both the real and financial sectors, have severely affected the performances of both of IFCT's subsidiaries; namely, IFCT Finance and Securities Plc. (IFCTF) and First City Investment Plc. (FCI). On 14 August 1998, the Government announced financial sector restructuring measures which included the capital write-down of the two subsidiaries followed by a capital increase with all new shares to be offered to the Financial Institutions Development Fund (FIDF), following which the two companies will merge with Krung Thai Tanakit Finance and Securities Plc. (KTT). These measures resulted in a substantial reduction of IFCT's shareholding in the two companies to the effect that their financial results will no longer be consolidated with IFCT's.

However, losses of equity investment in the two companies have already been fully realized in IFCT's financial performance under the equity accounting method.

In addition, as a result of the Government announcement requiring the Bangkok Bank of Commerce Plc. (BBC) to cease operations as a commercial bank, the FIDF's contract with IFCT for the management of BBC was terminated in August, 1998. With regard to the BBC shares held by IFCT for the FIDF, IFCT has sold the shares back to the FIDF, in December 1998, at the purchase price plus interest, in line with the terms of the Memorandum of Understanding. The shutdown of BBC therefore does not have any financial impact upon IFCT.

With regard to IFCT's results on an equity accounting basis, total revenues amounted to Bt. 15,575 million, while total expenses amounted to Bt. 20,270 million. Net losses totaled Bt. 4,695 million, resulting from increased provisioning in line with Bank of Thailand criteria and recognition of losses from subsidiary and associated companies, while net profit in 1997 totaled 611 million baht. Total assets as of 31 December 1998, were 185,110 million baht, representing an 11 per cent decrease from the previous year.

In order to play a role in propelling economic recovery, IFCT has devised five business strategies for 1999. First of all, IFCT will emphasize enhanced financial support to SMEs, particularly manufacturing export industries. In this regard, IFCT has received assistance from funding sources which stem from both the Government and foreign financial institutions. IFCT, via the Corporation's 23 provincial and regional offices throughout the country, has both the capacity and readiness to disperse such funding to target industrialists. At the same time, IFCT will also continue to emphasize fee-based income from services where the Corporation's expertise and professionalism are widely accepted and respected, particularly in the role of financial advisor in areas such as the undertaking of feasibility studies, and state enterprise privatization.

The second strategy, which follows upon last year's, addresses the continued monitoring and development of asset quality. IFCT has formulated special teams with expertise in debt follow-up and the timely resolution of problem loans, by means of such measures as debt restructuring in line with Bank of Thailand criteria, seeking joint-venture partners and providing financial support. In addition, IFCT will actively carry-out measures regarding the maintenance of good projects through continued close client relationships, provision of working capital to enhance liquidity, and continuous advisory support, as well as through the hosting of seminars and training sessions on useful topics of interest. IFCT's third strategy aims to enhance the Corporation's support of national development through networking and collaboration with key Government and other agencies, particularly with industrial and financial sectors. This will serve to enhance IFCT's role as a development finance institution as well as build relationships with other agencies, which will contribute to supporting IFCT's further business development.

The fourth strategy aims at enhancing efficiency in risk management, in order to control and reduce risks which may impact performance in today's volatile environment. The last strategy addresses the improvement of organizational management and control in order to be in line with international standards of good governance, and contribute towards the strengthening, efficiency and growth of the organization.

On this occasion, the Board would also like to take the opportunity to thank Mrs. Manimai Vudthitornetiraks, former IFCT Board Director and Dr. Siri Ganjarerndee, former Adviser to the Board, for the valuable sacrifice of their time as well as the kind contribution of their knowledge, experiences, advice and useful ideas throughout their terms with the Board. The Board would also like to introduce the new IFCT Board Director, Dr. Somchai Richupan, Director-General of the Excise Department and the new Adviser to the IFCT Board, Mr. Kiattisak Meecharoen, Assistant Governor of the Bank of Thailand.

In conclusion, the Board would like to thank all the staff for their hard work and dedication in carrying out their responsibilities to the best of their ability amidst the economic crisis and its adverse impacts upon IFCT, as well as thank the shareholders and clients for their continued trust in and support of the Corporation.

Report of the Board of Directors


The IFCT Board of Directors is responsible for governing and overseeing IFCT's business management and operations as well as empowered to carry out various actions as permitted by the Corporation's business. These include assisting in the establishment, expansion, and modernization of industrial enterprises in the private sector, encouraging the investment of domestic and foreign private capital in such enterprises, participating in equity investment, and developing the capital market.

Report of the Audit Committee

Dear Shareholders,

In 1998, the Audit Committee, comprising three Directors who are not IFCT staff nor employees, held four meetings each on a quarterly basis. The objectives of the meetings are to approve auditing targets, plans and scope, acknowledge report of audit results, consider and decide on specific auditing plans, and give advices to the Internal Audit Department, as well as coordinating with the IFCT Management to ensure the efficiency and effectiveness of the internal control system.

The Audit Committee has given recommendation to the IFCT Board of Directors in proposing the name of IFCT's Auditor for the Shareholders Meeting's appointment. In addition, there have been straightforward discussions and exchange of viewpoints with the Auditor and the Internal Auditor on the issues of the financial statements and adequacy of the internal control system.



Mr. Banyong Lamsam
Chairman of the Audit Committee

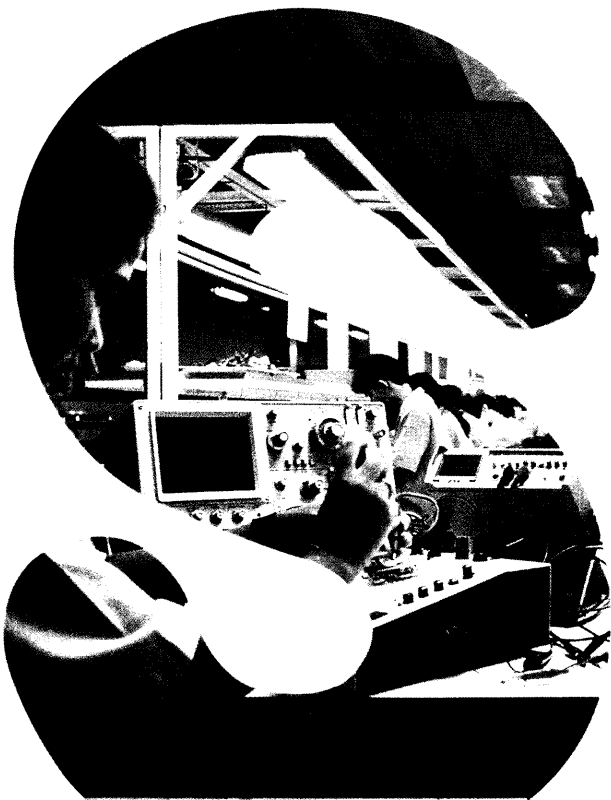
February 18, 1999



Small and Medium Enterprises

SMEs Support to Invigorate the Thai Economy

After years of emphasis on promoting large-scale businesses at the expense of small and medium enterprises (SMEs) to put Thailand on the road to industrialization, critics are voicing questions and doubts whether the development direction is correct and sustainable. Lessons of Thailand's deep economic crisis are illuminating: large companies are less agile than SMEs in adjusting to the crisis, hence are more afflicted by the severe slump. Troubles at large companies have aggravated the social aftermath of the crisis particularly the unemployment problem. Though the hardships have not left SMEs unscathed, a good many of them have proved surprisingly resilient and emerged stronger from the crisis. The experience has prompted the people involved to look at SMEs in a new light, try to clearly understand their setups, needs and substance of SMEs development. A systematic evaluation of SMEs is needed for the formulation of SMEs development plan to enable all groups to move forward together.



SMEs remain a vital engine of economic development, as a result of their role in employment, income generation and increasing the economic value added. Strong SMEs may also earn a relatively high proportion of foreign exchange, secure links with large producers as subcontractors, and thereby contribute to productivity gains of the manufacturing system.

During the economic downturn, SMEs have proved more flexible than their large-scale counterparts in adjusting to difficult times and play a key role in mitigating the risks of a systemic collapse.

SMEs... A Force for Sustainable Growth

The experience of countries which achieved stable economic growth or those relatively immune from the global economic turmoil suggests that they attach a good deal of importance to giving SMEs continuous promotion and support. They recognize SMEs' significant role in employment and income generation and increasing economic value added. Strong SMEs also earn a relatively high proportion of foreign exchange, secure links with large producers as subcontractors, and thereby contribute to productivity gains of the manufacturing system. During economic downturns, SMEs have proved more flexible than their large-scale counterparts in adjusting to the difficult times and played a key role in mitigating risks of a systemic collapse. The American experience shows that after the severe recession of 1989, SMEs contributed significantly to the country's economic recovery by creating 20 million new jobs over a period of 15 years. SMEs are thus a breeding ground for budding entrepreneurs and a building force for the country's future development.

As in other countries, Thai SMEs are born and grow under similar structures and environment. SMEs make up 95 per cent of Thai industrial enterprises and employ 85-90 per cent of the labour force. Nevertheless, over the span of 30 years of development plans and policies to put Thailand on the road to industrialisation, Thai SMEs have been slow to develop and the gap between them and large businesses has widened. As a group, SMEs have certain traits that inherently inhibit growth. First, their small size leads to a host of constraints with regard to production process, product development, management including access to capital and resource allocation, marketing expertise, access to information and technology development to improve competitiveness, and lastly a dearth of government support. On the other hand, we find SMEs thriving in countries whose governments recognize their potential, act to reduce business hindrances, and lend them appropriate assistance to foster their sustained growth.

Development Experience of Foreign SMEs

Among countries that seriously promote SMEs, **Japan** has successfully nurtured SMEs growth alongside big businesses. From the start, Japan's SME development was conceived systematically in principle and translated into reality by the Small and Medium Enterprise Agency, which acts as planner, policy formulator, and monitors SMEs development results. A Basic Law was enacted as framework for SMEs development in conjunction with the passage of related laws to remove obstacles and improve SMEs prospects such as subcontracting promotion laws, SME technology development, and bankruptcy prevention. With extensive government support empowered by the law, government financial support is rendered through the establishment of financial institutions to directly channel funds into SMEs, and indirect assistance through a credit guarantee system which is 5,000 times larger than Thailand's own and the Credit Insurance Corporation providing reinsurance, partially funded by public money, to reduce the risks of problem projects. Each year, Japanese SMEs receive an enormous amount of government financial assistance. This must have been a key factor behind their expansion up to the present.

Additional public measures to raise SMEs standards are provided : upgrading of SMEs technology and management through R&D, training, advice on production, marketing, finance and management. Human resource development focuses on quality of service as well as quantity. There are training for trainers, registration of trainers and consultants, and setups such as information centers to enable SMEs to access information pertinent to their operations, credit bureaus for financial institutions to check SMEs' financial status, and modern testing equipment. Importantly, these service facilities are not confined to big cities but are accessible all over the country. Help is also

solicited from non-government bodies : for instance, help from universities and colleges in R&D, consulting and training. To motivate enterprise self-reliance, SMEs are encouraged to form cooperatives or subcontract from large producers through government tax incentives, financial support and favors such as joint guarantee for borrowing from cooperatives. The comprehensive and continuous elements of SMEs development programs combined with entrepreneurial self-improvement and private-public sector cooperation have proved a vital ingredient for Japanese SMEs growth. The Japanese model has been emulated by nations such as Taiwan, South Korea, and Asean for their own national development. With regard to **America**, American SMEs are significant contributors to the country's leading-edge innovations and technological advances. SMEs make up 99 per cent of American business enterprises, 53 per cent of the nation's workforce, and over 50 per cent of GDP. Myriad American products which are in high demand all over the world are the results of SMEs' innovations. American SMEs' ability to access capital markets is a key factor behind their fast growth and fame. Examples of the American success stories are : Bill Gates, founder of Microsoft Corporation, Yahoo, a popular Internet Web site and brainchild of Jerry Young, who became one of the top entrepreneurs at the age of 21, or fast growing Manhattan Bagel bakery franchise. Two American public institutions can claim to have a hand in aiding SMEs success : first, the Securities and Exchange Commission (SEC), which creates a window of opportunity for capital mobilization by overseeing a suitable development of the capital markets, legal and regulatory transparency, and allowing SMEs to tap capital market funds under less stringent rules, such as exemption on application for public offerings of up to US\$ 5 million a year, and the establishment of networks to effectively reach SMEs. Second, the Small Business Administration (SBA), which provides integrated programs of capital, credit, technical and, educational assistance to SMEs as well as represents



What SME success stories in various countries have in common are the role played by their public sectors as development catalyst, providing comprehensive financial and infrastructure assistance such as improvement of technology, skills, and information.

them in policy negotiation with the government. In the previous year, the American SBA advised more than 100,000 SMEs, provided US\$ 10.9 billion in loan guarantees, and US\$ 2.4 billion in risk capital. The agency focused attention on previously overlooked SMEs with promising future prospects such as women enterprises, and assistance for Y2K solutions. Before taking advantage of capital market mechanisms to gain quick fame and fortune, what these American entrepreneurs did in the first place was to develop quality products which satisfied consumer needs. This combined with advantageous capital market conditions and government support are integral to their rapid expansion and success.

Taiwan is another country with a successful SMEs development record. The Taiwan model is an interesting one that may be adapted for use by Thai government agencies. Taiwan's SMEs have gained strength and prospered through government support and its entrepreneurs' keen self-development efforts. A good many Taiwanese SMEs such as ACER, ASUSTEK and TATUNG have blossomed into big businesses and gained world renown. As a group, they form a vital part of the country's engine of growth and are important contributors to the country's avoidance of the economic crisis to which its neighbours succumbed. Taiwan's GDP is expected to grow by a high 5 per cent in 1998. At the heart of this success story is its government's determination to build SMEs into a strong and efficient production base. Each year, the government spends heavily on R&D and other measures to improve SMEs' production and marketing capabilities and their local and international competitiveness. The government has ploughed money into R&D and innovations, education and training of human resources, development of specialists such as software engineers. It provides supportive but non-protective measures, removes business obstacles,

liberalizes markets, and steps up assistance in areas that are most needed and core to SMEs, particularly in fostering an environment conducive to innovations and technological advances. One of the important and highly successful strategies is the establishment of Nankang Park, an environment-friendly software park and center of high-value added software innovations and knowledge advancements that complement its proven success in hardware development. The core strength of Taiwan's joint private-public efforts lies in the vision of people charged with SMEs development who foresaw the importance and dynamism of innovations, and worked to push Taiwan into becoming the world's third largest exporter of information technology and "Infotech Island".

The Public Sector-Appropriate Role in SMEs Development

What SMEs success stories in various countries have in common are the role played by their public sectors as development catalyst, providing comprehensive financial and infrastructure assistance such as improvement of technology, skills, and information. In the case of Thailand, the allocation of Bt 5,000 million development fund is a good starting point, but amidst the current economic crisis and budget limitations, SMEs assistance measures need to be chosen carefully, relying on the market mechanism to allocate resources most efficiently for the highest benefits. The funds should best be allocated to make SMEs growth sustainable in the long term. Besides equitably sharing out the benefits to SMEs, infrastructure improvements will equip them with tools to deal competently with changing conditions.

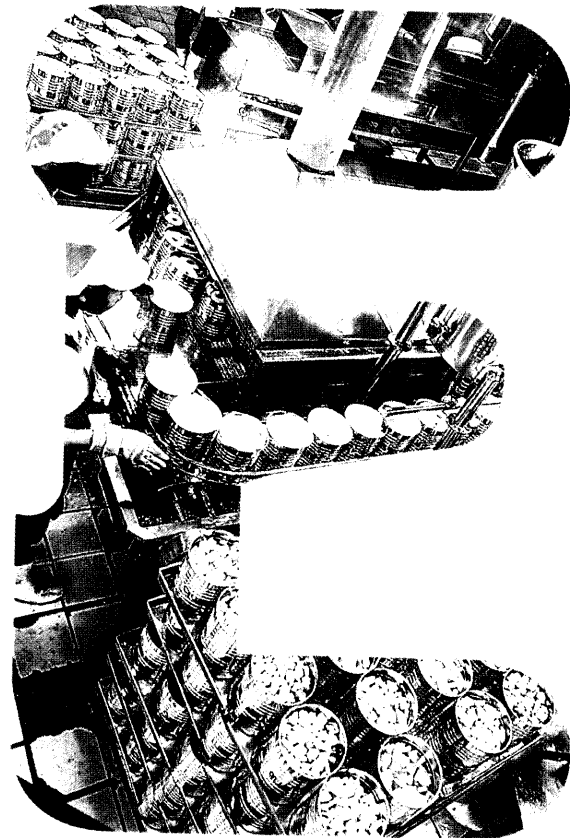
M e d i u m

Technology and Management Upgrade

SMEs' most fundamental weaknesses are in areas of production and management. Obsolete technology and low worker skills cause production inefficiency, quality and cost problems as well as troubles arising from deficient management quality. While uncomplicated operations and one-man shows allow SMEs to act quickly, decision-making based on accumulated wisdom and skills, rather than modern operational knowledge, such as good accounting practice, accurate and timely information analysis, becomes a matter of trial and error. Convincing SMEs to realize the importance of technology and management upgrade is a priority for government action in areas of training, advisory services, R&D and management. What the government needs to bear in mind is that the technology and management needs of SMEs are entirely different from those of large companies. SMEs need up-to-date but not too sophisticated technologies that they can improve on themselves. In matters of management, their needs are pretty basic and do not require much investment, for example inventory management, accounting system, planning and performance evaluation.

At present, several government agencies are responsible for technology and management improvement such as Industrial Promotion Department, Labor Skill Development Department, and Thai-German Institute. Functioning independently of each other, their operations sometimes overlap. The benefits are not systematic and spread out to reach SMEs that are scattered all over the country. A possible solution is to set up a new public agency or upgrade existing ones to be directly in charge of technology and management improvement. Still, the new organization's success will depend on many factors, of which the most important is extensive service networks. As universities and colleges in the regions have the best potential in terms of staff, knowledge to adapt and apply technolo-

There is a compelling case for government actions to promote and strengthen SME efficiency, but these measures must allow the market mechanisms to work, as well as be widely accessible, comprehensive and consistent, in order to ensure development continuity.



gies appropriate for local conditions, their participation will benefit not only SMEs but also gain practical experience for the academic staff and students. However, network building must be done hand in hand with enhancing quality of advisers and trainers. At the beginning, the government should provide a program of training potential trainers on technology, management, and teaching methods that are coherent with SMEs needs, in combination with setting up an examination system for trainers' licensing and registration. Putting these groundworks in place will take some time but is indispensable for the conception and continuity of an organization in charge of technology and management improvement.

Setting up Information Centers

With advances in information technology, access to information is a vital factor for exploiting business opportunities and competitiveness. In addition to limited information, entrepreneurs' conservatism hinders the absorption of new information and resource for improvement of business efficiency. Motivating them to appreciate modern management practices will also take time. However, upgrading the quality of information needs a lot of investment and close collaboration of private and public sector bodies. Therefore, the government's role in setting up information centers to disseminate information relating to production technology, marketing and management is a vital starting point that will enable SMEs to access it for self-improvement and seeking new opportunities for product development and markets. The most important element of an information system is that the information must be accurate, up-to-date, easily and extensively accessible, and able to satisfy the needs of SMEs in all the regions so that there is a level playing field for SMEs in big cities and rural areas.

Besides SMEs information centers, government action to establish a credit bureau is also a matter of urgency. While a credit bureau does not directly serve SMEs development objectives, it is an instrument to alleviate

SMEs' capital problem. Financial institutions can use services provided by a credit bureau to check credit worthiness, loan and payment history, credit lines and conditions, and speed up the process of checking entrepreneurs' credit from other banks and business associates. A credit bureau also helps pressure SMEs to improve their operations to prevent loan servicing troubles which will affect credit ratings, and hence their future fund mobilization and business expansion. However, a horde of constraints exists for building up a comprehensive system of SMEs' financial profiles, for example, the accuracy of financial information is doubtful as a result of falsifications, transparency of information, and accounting systems are found wanting. These deficiencies need to be addressed by the government to make a credit bureau a success and an instrument for alleviating SMEs' capital problems.

Formation of Cooperatives

Capital, technology, and personnel constraints are key factors underscoring a business organization's relative competitiveness. A pragmatic solution used in many countries to improve SMEs' bargaining power is the formation of cooperative groups. The benefits of such action are wide-ranging - resource sharing, economy of scale which reduces unit cost, or meeting large and diverse sales orders, enabling SMEs to compete with their bigger rivals. Thai entrepreneurs have a scanty record of success in this regard as most still have a narrow-minded attitude, a superficial understanding of group action, and a mistaken notion that the practice is not resource-sharing but giving rivals business secrets. While these attitudes can be changed by improving management knowledge, the government may create an environment to encourage group action through giving preferential rights to group members, tax incentives, preferential credit arrangement and investment promotion.

4.2.2.2 Formation of Business Cooperatives

Besides, the government should encourage entrepreneurs to form cooperatives as these will not only help increase SMEs' bargaining power but also reduce costs and increase revenues. Initially, the government should focus on persuading people in the same business to form cooperatives, and SMEs savings cooperatives as both have the best chance of success. Services provided by business cooperatives, such as procurement and transport will benefit members a great deal and will be examples for other groups to emulate. SMEs savings cooperatives, on the other hand, serve as a tool for alleviating funding shortage, reducing the risk of working capital shortfalls and promoting self-reliance.

Establishment of Small and Medium Enterprise Agency

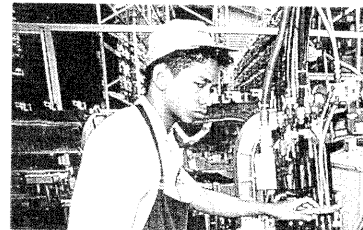
SMEs development success stories in countries such as Japan, America and Taiwan illuminate the interrelationships and diversity of obstacles in which a good many agencies must be involved. A planning process is therefore vital in the early stage. Specialized outfits such as Japan's Small and Medium Enterprise Agency, and America's Small Business Administration have a common objective of acting as a core organization for presenting systematic SMEs development policy and guiding related agencies to follow the same direction, eliminate overlaps and inconsistencies. A similar setup should be established in Thailand. The new agency, besides being the core organization for planning, drawing the development framework and direction, will be responsible for the continuity of SMEs development. As such its role in monitoring and evaluating performances of various agencies also needs to be fashioned in conjunction with the planning aspect to enable reviews and, if necessary, appropriate SMEs policy adjustment. Another function of the SMEs agency will be the preparation of "White Papers" for the public and agencies concerned on SMEs conditions and problems, and recommendations of measures for private sector

adjustment. The Japanese SMEs Agency publishes its white paper annually to spell out the vision and direction of measures to be taken by concerned organizations in response to the underlying national vision and circumstances.

IFCT and SMEs Development

IFCT ranks among financial institutions which have consistently supported SMEs. Over the first 10 months of 1998, loan approvals for SMEs made up 41 per cent of IFCT's total loan approvals. In line with the current national agenda of transforming SMEs into the country's strong production base, IFCT plans to step up its efforts in promoting SMEs development. These will be done directly through increasing SMEs loan approval target to Bt 12,000 million in 1999, the funds for which have been obtained from the government and foreign institutions. IFCT plans to increase its organizational and loan appraisal efficiency by making organizational changes to suit different customer groups and needs. The responsibility of each division will be more clearly defined : the branch division will be responsible for small-sized customers all over the country; a division for medium-sized customers, and one for large customers and a separate unit for SMEs financing assistance. In addition, loan processing will be improved to increase flexibility, speed of services, and reduce operation cost. A credit-risk rating system will be developed, and loan decision delegated more to Regional and Branch Managers. To increase SMEs customers, IFCT plans to open more provincial branches. An Internet loan application system has been developed. Potential customers will in 1999, be able to apply for loans by dialing into IFCT's Web site. Recognizing the importance of networks and information access, IFCT will cooperate

IFCT ranks among financial institutions which have consistently supported SMEs both directly and indirectly through policies such as increasing SME loan approval targets to Bt. 12,000 million in 1999 as well as enhancing cooperation with other institutions and organizations involved in SME development.



with other institutions such as the Government Savings Bank, the Thai Chamber of Commerce, and specialized agencies to organize seminars, entrepreneur meetings, information exchange, and coordination with universities in the regions to assist in entrepreneur training. Lastly, IFCT aims to improve its staff's knowledge of SMEs through training and seminars, to be conducted by SMEs experts, for example, those from Japan Finance Corporation for Small Business (JFS), and Japan Small Business Corporation (JSBC). IFCT's Business Promotion Office's mandate for 1999 is geared to SMEs activities. These are aimed at the long-term development of SMEs, bearing in mind that the most vital ingredient for SMEs' success is their self-capability in assessing and reducing business risks, and operating efficiency in an increasingly competitive environment.

The economic slump over the past 1-2 years has prompted a rethinking of Thailand's past development model. The private and public sectors are now pointing to SMEs development as a vital engine of the nation's economic recovery. Even though SMEs form the real foundation of the country's production and services, the fact remains that Thai SMEs face a horde of short and long term hindrances that need to be rectified, especially the scarcity of personnel, technology, information and entrepreneurs' will to succeed. There is a compelling case for government actions to promote and strengthen SMEs efficiency, but these measures must allow market mechanisms to work, be widely accessible, comprehensive and consistent, to ensure development continuity, and help pull SMEs out of the current crisis onto a sustained growth path. The road is long and takes a lot of experience and perseverance, but the ultimate reward of strong SMEs is a firm economic foundation for the country's sustainable growth and future progress.

Economic & Industrial Conditions, Trends & Competition

The Thai economy in 1998 severely contracted by 8.0 per cent as a result of the baht crisis and foreign capital flight. The authority had to peg high interest rates for a long time to retain baht stability, leading the economy into recession in the first half of the year. Funds in the private sector were spent for settlement of short-term offshore debts, hence less money supply in the system. Financial institutions suspended credit extension to prevent an increase of non-performing loans. Therefore, the business sector suffered tight liquidity with a huge number of entities closed down. Goods and service prices soared up while unemployment problem worsened. Domestic consumption shrank, thus creating an oversupply. The capacity utilization of the manufacturing sector was as low as 50 per cent. Exports failed to perform as a major income earner from the baht depreciation as expected due to concurrent weakening of other Asian currencies, resulting in a 10 per cent drop in export prices of Thai goods. Moreover, Thailand's important export markets, particularly Japan and the ASEAN countries, also encountered economic hardship. Thai exports in dollar terms were estimated to slide by 6.7 per cent for 1998 while imports dropped even more heavily, expected at 34 per cent.

The government's attempts to ameliorate the effects of the economic downfall turned out successful with the economy beginning to stabilize in the second half of 1998. The baht gradually appreciated, standing at 36-37 against the US dollar in the last quarter. Although the economic crisis widely spread into other regions, the inflationary pressure had softened since the middle of the year. Inflation rate for the whole year stayed at 8.1 per cent, considerably lower than the estimation. The current account surplus enabled Thailand to settle short-term offshore debts, which remained at around US\$ 25 billion as of the end of 1998, down by about US\$ 10 billion from year-end 1997. This reflects that the Thai economy has become much stronger.

Economic Forecasts for 1998-1999

	1997	1998f	1999f
GDP at 1988 price (Bt. billion)	3,085	2,836	2,808
% change	-0.4%	-8.0%	-1.0%
Inflation Rate (%)	5.6%	8.1%	2.9%
Exports : US\$ million	56,728	52,922	54,667
% change	3.8%	-6.7%	3.3%
: Bt. billion	1,790	2,198	2,132
% change	29.8%	22.8%	-3.0%
Imports : US\$ million	61,410	40,486	43,692
% change	-13.4%	-34.0%	7.9%
: Bt. billion	1,875	1,684	1,704
% change	4.3%	-10.2%	1.2%
Trade Balance : US\$ million	-4,682	12,436	10,975
Current Account Balance : US\$ million	-3,145	13,636	12,175
% of GDP	-2.0%	11.8%	9%

Note: f = Forecast by IFCT Research Department

Economic Outlook for 1999

It is not an easy task to forecast the Thai economy in 1999 due to many risk factors and uncertain conditions both at home and overseas, i.e., the passage of crucial business laws, namely the bankruptcy law, security enforcement law and alien property ownership law; recapitalization and debt restructuring of commercial banks; political uncertainty caused by unemployment and social problems; the economic slowdown of the US; and possibilities of Japan's economic recovery and China's devaluation of the yuan. However, a sharp drop in domestic interest rates will contribute to the economic revival. The recession is hoped to end in the second half of 1999. The IMF's relaxation of measures on government spending, allowing a wider budget deficit, will help stimulate the economy. It is predicted that the overall economy will shrink by 1 per cent in 1999, contracting 5 per cent in the first half and growing above zero by 3.3 per cent in the second half of the year. Exports in dollar term will expand by 3.3 per cent and imports by 7.9 per cent. The trade and current account balance will be in surplus of US\$ 10.975 billion and US\$ 12.175 billion respectively.

Industrial Situation

In 1998, Thai commercial banking operations remained in the doldrums as a result of the prolonged financial crisis since 1997. With the Bank of Thailand (BoT)'s stringent measures on non-performing loan (NPL) calculation, commercial banks tended to burden rising NPLs. The business sector also suffered liquidity shortfall so severely that a large number of business enterprises had to be closed down. Many new investment and expansion projects had to be suspended while commercial banks slowed down their credit provision. This has squeezed banks' income generation against the mounting expenses as resulted from loan loss provisioning. Commercial banks have consequently operated at loss with narrowing capital base and hence diminishing capital adequacy ratio. They thus needed massive recapitalization. However, due to unfavorable funding conditions both onshore and offshore, the authorities on August 14, 1998 announced a financial sector reform package to provide state assistance for commercial banks in their tier-1 and tier-2 recapitalization, restructuring of the financial sector through mergers of banks and finance companies and conversion of a bank to an asset management company, and passage of relevant measures and laws. This was aimed at helping solve prevailing problems and strengthening the financial sector's capital base which will lead to active credit expansion to the real sectors. Commercial banks' financial position and operational performance in the first nine months of 1998 can be summed up as follows:

Financial Position and Operational Performance

Assets

Bt. million

Type of Assets	Sep. 30, 1998		1997		1996	
	IFCT	Banks	IFCT	Banks	IFCT	Banks
Short-term investment ^{1/}	36,120	841,289	29,889	657,597	17,144	39,180
Investment in securities	8,731	297,590	11,560	246,399	13,561	298,819
Loans	134,587	4,696,624	155,260	4,917,692	104,093	4,329,141
Total assets	190,007	5,795,446	206,937	5,969,708	142,825	5,064,380

Source : Audited financial statements of IFCT and Thai commercial banks

Note : 1/ IFCT's short-term investment means the total investment in short-term promissory notes and securities purchased under resale agreement.

Commercial banks' short-term investment means the total transactions between banks and money markets and securities purchased under resale agreement.

● Total assets of the commercial banking sector in the first nine months of 1998 dropped by 3 per cent to Bt. 5,795,446 million from Bt. 5,969,708 million in 1997.

● Short-term investment : As of the end of the third quarter of 1998, the outstanding short-term investment of the whole banking sector rose from Bt. 657,597 million to Bt. 841,289 million as the banks which had excess liquidity reserved a portion of their funds for debt settlement and used the other portion for credit provision in the money market.

● Investment in securities : Commercial banks' total investment in securities, namely government bonds, registered securities and other securities, was 21 per cent higher in value as of the end of 1998 third quarter.

● Loans : Thailand's severe economic downfall since 1997 and the stiffer loan loss provisioning measures prompted commercial banks to be more prudent in credit extension to the business sectors, particularly those of less economic significance to safeguard against the rising bad debts. Coupled with slowing demand for new investment and credits, the total outstanding loans of the commercial banking sector as of the third quarter of 1998 amounted to Bt. 4,696,624 million, down 4.5 per cent from the figure of last year.

Liabilities and Shareholders' Equity

Bt. million

Type of Liabilities and Shareholders' Equity	Sep. 30, 1998		1997		1996	
	IFCT	Banks	IFCT	Banks	IFCT	Banks
Deposits	-	4,372,145	-	4,083,236	-	3,857,091
Borrowings	174,904	879,220	186,743	1,345,027	122,765	585,037
Total Liabilities	178,839	5,426,148	191,255	5,661,708	125,620	4,643,137
Shareholders' equity	11,168	369,298	15,682	308,000	17,205	421,243

Source : Audited financial statements of IFCT and Thai commercial banks

● Total liabilities of the banking sector as of the end of the third quarter of 1998 fell by 4.2 per cent. Deposits remained a main source of funds growing by 7.1 per cent while borrowings slipped by 34.6 per cent as a result of strict measures and slowdown in credit extension. Moreover, the downgrading of banks' creditworthiness was a major factor hindering their fund mobilization from foreign money markets.

● Shareholders' equity of the banking sector as of the end of the third quarter of 1998 rose by 20 per cent from Bt. 308,000 million in 1997 year-end to Bt. 369,298 million, since some banks incurred net loss due to higher cost of loan loss provisioning, while some accomplished their recapitalization scheme, resulting in the increase in shareholders' equity.

**Comparison of IFCT's and Commercial Banks' Financial Position and Operational Performance
as of September 30, 1998**

Bt.million

Items	IFCT	Commercial banks
Loans	134,587	4,696,624
Total assets	190,007	5,795,446
Total liabilities	178,839	5,426,148
Shareholders' equity	11,168	369,298
Total income	12,390	476,695
Net profit	(3,666)	(263,706)

Source : Audited financial statements of IFCT and Thai commercial banks

Competition

The country's drastic financial crisis has plunged the whole banking sector into a crucial turning point. Through the shrinkage and downsizing process, the number of commercial banks was reduced from 15 to 13 over half of which have become state-run banks. The banking sector's activities in 1998 thus focused on the solution of NPL problems and bolstering of capital base. However, competition remained a major factor for the outcome of banks' operations as detailed below:

1. Price competition : In the first half of 1998, the liquidity squeeze and massive funding requirement amid the slump in public income and purchasing power prompted commercial banks to compete in mobilizing funds by luring customers with high interest rates for all types of deposits, i.e. savings account, fixed account or even negotiable certificate of deposit (NCD) and bill of exchange (B/E). However, in the latter half of the year, the Bank of Thailand (BoT) imposed interest rate cap on fixed and savings deposits as well as NCD. The BoT tackled the problems of the Financial Institutions Development Fund (FIDF) through restructuring of the FIDF's debts more into long-term debts and signaled interest rate cuts through the repurchase market (R/P), thus relieving competition among commercial banks for public deposits. Several banks gradually cut down their deposit rates so much that the reference rates of fixed deposits was reduced to about 8-9 per cent only. Lending interest rates in the first half of 1998 stayed high in line with deposit rates. However, after the authorities' implementation of the above measures, many banks, especially large ones, reduced their lending rates following their lower financial cost, being in a range of 12-13 per cent at the end of 1998.

2. Competition in other activities : Competition among banks to render technological retail banking services has become keener, with more diversified retail banking services and products. Many bank services with adoption of high technology, e.g. ATM card, credit card, telebanking, POS service, etc. have become increasingly popular among customers. The use of technology helps boost competitiveness in term of cost reduction due to economy of scale. Therefore, the banks with a larger number of branches have more advantages.

Nature of Business Operation

1. Income Structure

IFCT's Income Structure

Bt.million

	1997	1998
Interest and Dividend Income on		
- Loans	13,692.6	12,566.9
- Investments in short-term promissory notes	3,006.3	2,571.9
- Securities	741.2	2,432.6
Total Interest and Dividend Income	17,440.1	17,571.4
Non-interest Income		
- Gains (losses) on securities trading	(13.6)	478.9
- Provision for decline in value of long-term investments in securities	(445.8)	(1,441.6)
- Fees and services income	542.1	531.0
- Equity in income (loss) of subsidiaries and associated companies	(1,039.5)	(2,350.8)
- Other income	103.4	787.0
Total Non-interest Income	(853.4)	(1,995.5)
Total Income	16,586.7	15,575.9

Income Structure of Associated Companies

Bt.million

Product/ Service	Provided by	Share holding (%)	Income	1997		1998	
				Amount	%	Amount	%
Financial advisory services	IFCT Advisory Co., Ltd.	49.00	Income from operation	2.6	96	11.4	97
			Other income	0.1	4	0.3	3
			Total	2.7*	100	11.7	100
Leasing and hire- purchase business	Thai Orix Leasing Co., Ltd.	45.45	Income from operation	334.0	86	355.0	76
			Other income	55.0	14	114.0	24
			Total	389.0	100	469.0**	100
Development of property for sale or lease	Thai Factory Development Plc.	34.42	Income from operation	294.0	99	301.0	70
			Other income	3.0	1	126.0	30
			Total	297.0	100	427.0	100
Finance business and securities business	Thai Sakura Finance and Securities Co., Ltd.	25.00	Interest and dividend income	583.0	95	839.0	95
			Non-interest income	31.0	5	43.0	5
			Total	614.0	100	882.0	100
Securities and mutual fund management business	The Mutual Fund Plc.	24.23	Income from operation	335.0	99	297.0	99
			Other income	2.0	1	2.0	1
			Total	337.0	100	299.0	100
Production of zippers	Y.K.K. Zipper (Thailand) Co., Ltd.	20.90	Income from operation	790.0	96	798.0	99
			Other income	32.0	4	7.0	1
			Total	822.0	100	805.0	100

** Unaudited Financial Statements

2. Changes during the Past Year

● IFCT Board of Directors appointed Mr. Paiboon Watanasiritham, Director-General of the Government Savings Bank, and Dr. Somchai Richupan, Director-General of the Excise Department, as IFCT Directors to replace Mr. Sunai Saubhayana and Mrs. Manimai Vudthitornetiraks respectively. In addition, Mr. Kiettisak Meecharoen, Assistant Governor of the Bank of Thailand, was appointed to replace Dr. Siri Ganjarerndee as IFCT Board's Adviser.

● IFCT Board of Directors appointed the Audit Committee in line with the Stock Exchange of Thailand's notification dated January 19, 1998 regarding the qualifications and functioning scope of audit committees, comprising Mr. Banyong Lamsam as Chairman, and Mr. Sirin Nimmanahaeminda and Mr. Chumpol NaLamlieng as Committee members.

● Mr. Anothai Techamontrikul was appointed IFCT President on March 1, 1998 to succeed Mr. Aswin Kongsiri whose term in office ended on February 28, 1998.

- IFCT implemented a business process redesign scheme to enhance efficiency of the back office and correspond to the redesigned operation systems of the credit line completed earlier in 1997. This aims at reducing IFCT's operating expenses and accommodating its future growth. The scheme is expected to be completed and ready for operation in early 1999.

- IFCT Board of Directors on February 20, 1998 gave an approval for IFCT to increase its capital by Bt. 5,000 million, from Bt. 7,000 million to Bt. 12,000 million, by offering the new share issue wholly to the existing shareholders at the price of Bt. 14 per share and the ratio of two existing shares to one new share. However, due to the unfavorable domestic capital market amid the economic crisis in Thailand and other Asian countries which led to the slump in IFCT share prices, the Board later approved a postponement of the subscription and payment period of the new share issue to a more appropriate time as may be allowed by the market. Moreover, IFCT had no urgent need for the capital increase at the moment as its capital adequacy ratio remained higher than the rate prescribed by the Bank of Thailand and the Corporation had sufficient liquidity to serve its current business operations.

- Due to the prevailing economic recession and financial crisis in the country, Moody's Investors Service has downgraded Thailand's sovereign rating and ratings of Thai financial institutions including IFCT. The Corporation's foreign long-term debts have been downgraded to Ba3. However, Standard & Poor's Ratings Group (S&P) has rated IFCT at the investment grade of BBB-.

- The Bank of Thailand's financial sector reform package announced on August 14, 1998 has affected several financial institutions including IFCT's subsidiaries, namely First City Investment Plc. (FCI) and IFCT Finance and Securities Plc. (IFCTF) as well as the Bangkok Bank of Commerce Plc. (BBC) for which IFCT had entered into a management agreement with the Financial Institutions Development Fund (FIDF). FCI and IFCTF have been ordered by the authorities to write down capital and recapitalize with share sales to the FIDF and to be merged with Krungthai Thanakit Plc. As a result, IFCT's shareholding in FCI and IFCTF has been reduced to 0.043 per cent and 0.021 per cent respectively. IFCT has gradually recognized losses of both companies based on the equity method and received all their P/N and loan repayments. For BBC, operations have been suspended, resulting in termination of the management agreement. BBC shares held by IFCT in lieu of the FIDF have been sold back to the FIDF for which IFCT received the whole payment in December 1998 according to the agreement.

- The Ministry of Finance has assigned the Bank of Thailand as its representative to examine financial documents and operations of seven special-purpose financial institutions including IFCT since October 1, 1998 so that the rules and regulations set out will have the same standards as those of other financial institutions. IFCT has consistently followed the BoT's rules and regulations even during the past years when it was not yet under the BoT's control.

- IFCT has reduced its shareholding in IFCT Advisory Co., Ltd. from 99.99 per cent to 49 per cent for operational flexibility.

- IFCT additionally purchased 1,976,000 shares of Thai Orix Leasing Co., Ltd. at Bt. 8.50 per share. Therefore, IFCT's shareholding in the company has increased from 35.57 per cent to 45.45 per cent. The share transfer to IFCT was made on December 23, 1998.

3. Overall Performance

Loan Approval and Equity Investment

In the past year, the Thai economy remained in the doldrums. Investment was suspended. Financial institutions were prudent in credit approval to avoid the rise in non-performing loans, resulting in the credit crunch of the whole system. In 1998, IFCT approved loans for 274 projects in the total amount of Bt. 14,929.2 million, a 47 per cent drop from 1997. These included Bt. 6,142.7 million in long-term loans for 64 projects, Bt. 1,009.0 million in medium-term loans for three projects and Bt. 7,777.5 million in working capital loans for 207 projects. Moreover, IFCT invested in four industrial projects in the amount of Bt. 87.7 million. Classified by project size, Bt. 9,074.7 million was granted to 37 large-scale projects and Bt. 5,942.2 million to 241 medium-scale and small-scale projects.

Investment Banking

The overall stock market in 1998 remained bearish due to the prevailing economic contraction. The companies preparing to enter the stock market had to shelve their plans. Interest rates in the first half of the year were considerably high, thus affecting issues of debt instruments. However, in the second half of the year, interest rates dropped sharply, particularly in the last quarter. This has increasingly stimulated financial firms and other business entities to launch debt instruments.

In 1998, IFCT and IFCT advisory Co., Ltd. performed as financial advisor for issuance of financial instruments and fund raising in the stock market, and provided advisory services for companies in preparation of tender offers of securities holding for business takeovers, acquisition of assets and connected transactions, project feasibility studies and securities valuation, and for state enterprises, totaling 26 with total fee income of about Bt. 13.87 million.

Fund Mobilization

With the prevailing financial crisis in 1998, interest and foreign exchange rates fluctuated throughout the year. In the first half of the year, there was liquidity crunch in the system and interest rates were high. Financial firms then tried to expedite loan repayments rather than approving loans. In the latter half, as the financial situation and liquidity improved, domestic interest rates declined. Fund mobilization in 1998 focused on concessional sources of loans for on-lending to the industrial sector, particularly export industries and SMEs, to relieve their liquidity shortage problems. IFCT raised funds via issuance of subordinated debenture for the first time to enlarge its capital base to commensurate with business volume and the increase in loan loss provisioning. The total amount of Bt. 57,943 million of medium-term and long-term funds were mobilized for on-lending and provision of other services. This comprised baht funds of Bt. 29,011 million and foreign currency funds of about Bt. 28,932 million. IFCT also mobilized short-term funds of not over one year maturity to satisfy customers' working capital needs.

Baht Fund Mobilization

In 1998, IFCT mobilized medium-term and long-term baht funds of Bt. 29,011 million from various sources. The Corporation issued debentures and other financial instruments to financial firms, funds and business enterprises with fixed interest rates totaling Bt. 8,111 million. It was allocated by the Bank of Thailand a loan of Bt. 7,200 million with 5-year maturity to support lendings to SMEs, a loan for economic restructuring of Bt. 12,000 million with 7-year maturity, a Bt. 200 million loan with 5-year maturity from the Netherlands Development Finance Company (FMO), a development finance institution of the Netherlands, and so on.

Foreign Currency Fund Mobilization

In 1998, IFCT raised medium-term and long-term foreign currency funds in the amount of about Bt. 28,932 million, mostly from concessional sources. The Export-Import Bank of Japan granted a loan of Yen 40,000 million with 5-year maturity to support export industries. The Kreditanstalt für Wiederaufbau (KfW) provided a 10-year term loan of US\$ 45 million for on-lending to medium and small-size industries and general industries. Other loans were provided by the Netherlands Development Finance Company (FMO) in the amount of US\$ 10 million with 8-year maturity and the Overseas Economic Cooperation Fund of Japan (OECF) of Yen 12,094 million with 25-40 year maturity. In addition, IFCT received subordinated loans from KfW, DEG, CDC, FMO and the Sakura Bank in the total amount of US\$ 90 million and export credit from Sweden, Italy and Germany in the total amount equivalent to US\$ 165 million.

Foreign Liabilities Management

In 1998, IFCT made cross currency swaps of liabilities from concessional sources in Yen currency of about Yen 14,460 million into US dollar of approximately US\$ 111 million with a swap period of 5-10 years. This will be used for on-lending to customers requiring US dollar.

Role in Social and Industrial Development

IFCT adheres to its policy of providing financial assistance for private industrial entities, focusing on industries which contribute to the country's development and those in line with the government's policies. These cover projects in both central and regional areas, projects which bring in foreign currency income and those which create job opportunities. They are, for example, export-oriented industries, import substitution industries, public utility and infrastructure industries, medium- and small-scale enterprises, environmental protection industries, industries eligible for the industrial restructuring program and machinery replacement industries. Since its inception up till 1998, IFCT has given support to 890 export-oriented projects worth Bt. 47,422 million. At year end 1998, IFCT's outstanding loans and equity investment in public utility and infrastructure projects, including electric power, gas, steam and water supply industries, totaled Bt. 4,540.1 million; mining and quarrying industries Bt. 7,931.4 million; and transport, storage and communication industries Bt. 12,056.7 million.

IFCT served as manager for several funds. As of the end of 1998, Bt. 197.0 million was invested in 22 projects by the Fund for Distribution of Production and Employment Opportunities to the Regional Areas or the Equity Fund, Bt. 679.2 million in 39 projects by the Ozone Project Trust Fund for minimizing and eliminating the consumption of ozone depleting substances, and Bt. 206.7 million by the Environmental Fund in projects investing in pollution control systems. The Corporation also invested Bt. 76.8 million in the Thai Rural Equity Fund and has been appointed manager for the Industrial Development Fund.

Apart from financial assistance, IFCT has consistently paid visits to entrepreneurs in central and regional areas to introduce new credit financing services as well as offer investment advisory services to prospective entrepreneurs. The Corporation also arranged training sessions and seminars on various topics such as "Foreign Exchange Risk Management",



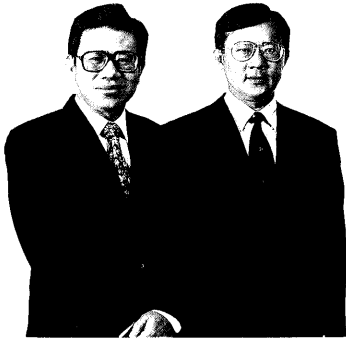
Since its inception up till 1998, IFCT has provided support to 890 export-oriented projects worth Bt. 47,422 million.

"Business Administration Strategy to Survive Economic Recession", "Role of the Euro Currency in International Trade", etc. The Corporation also disseminated to its clients useful information about business operations, e.g., preparation for the achievement of industrial standards, guidelines for waste control in production process, cost management, strategies for survival, clean technology, etc.

Another development role of IFCT is its cooperation with external organizations involving both governmental and private entities to promote the country's economic and industrial development. IFCT participated in the Bol Unit Industrial Linkage Development project (BUILD) set up by the Office of the Board of Investment to provide financial assistance and knowledge for entrepreneurs. IFCT joined the Small- and Medium-Scale Enterprises (SMEs) Committee of the Chamber of Commerce to promote and support SMEs, collaborated with the National Science and Technology Development Agency (NCTD), the Ministry of Science, Technology and Environment in providing credit facilities for the private sector's research and development projects, and joined in the Industrial Restructuring Subcommittee of the National Industrial Development Committee. Moreover, the Corporation participated in the study of the restructuring of small- and medium-sized state enterprises and joined a working group set up by the government to map out assistance guidelines for SMEs.

With regard to social development, IFCT held various activities and cooperated with several organizations to promote social development. The Corporation collaborated with the Business Group for Thai Society of the Department of Public Welfare to set up guidelines for promoting and supporting the business sector in arranging social activities. The Young Investors Training Program has been organized two times a year in both central and regional areas to give fundamental knowledge of investment and implant business operation morality and concern about environmental conservation among undergraduate students. To date, there have been 1,400 participants passing the program.

Senior Management



Mr. Anothai Techamontrikul

President

Obtained a Bachelor's degree in Accounting from Chulalongkorn University and a Diploma in advanced vocational training from Germany; began his career at IFCT in 1966.

Mr. Sirichai Sakornratanakul

Senior Executive Vice President

Obtained a Master's degree in Economics from University of Saarland, Germany; worked for the Bank of Thailand for 17 years before joining IFCT in 1994.



Mr. Visit Vongruamlarp

Executive Vice President

Obtained a Bachelor's degree in Accounting from Thammasat University; began his career at IFCT in 1971.

Mrs. Suthira Ngandee

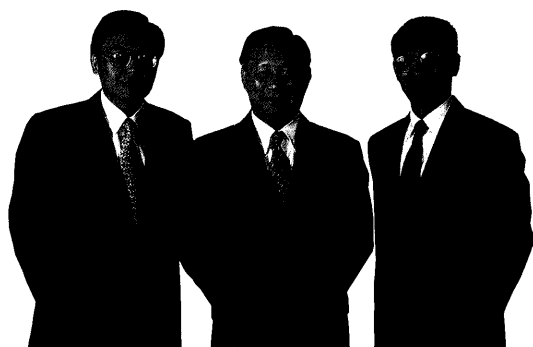
Executive Vice President

Obtained a Bachelor's degree in Economics from Chulalongkorn University; commenced her career at IFCT in 1967.

Mr. Vim Tayaputch

Executive Vice President

Obtained a Master's degree in Biological and Agricultural Engineering from North Carolina State University, U.S.A.; joined IFCT in 1973.



Mr. Apisak Tantivorawong

Executive Vice President

Obtained a Master's degree in Business Administration from Tennessee University, U.S.A.; joined IFCT in 1979; and was appointed President of the Bangkok Bank of Commerce Public Co.,Ltd. recently.

Mr. Kavee Tovijit

Executive Vice President

Obtained a Bachelor's degree in Mechanical Engineering from Chulalongkorn University, Certificate of Higher Vocational Diploma in Industrial Engineering from Germany and Certificate of Advanced Management Program from Harvard Business School, U.S.A.; joined IFCT in 1967.

Mr. Kraithip Krairiksh

Executive Vice President

Obtained a Master's degree in Economics from Northeastern University, U.S.A.; began his career at IFCT in 1978; and was appointed Adviser of the Bangkok Bank of Commerce Public Co.,Ltd. recently.



Mrs. Ing-orn Prakrittiwes

Executive Vice President
(Retired on January 1, 1999)

Obtained a Bachelor's degree in Accounting from Chulalongkorn University; joined IFCT in 1974.

Mrs. Pensri Thaiprasithporn

Executive Vice President

Obtained a Master's degree in Economics from Roosevelt University, U.S.A.; joined IFCT in 1976.

Mr. Thiva Inthaseni

Executive Vice President

Obtained a Master's degree in Comparative Law from Southern Methodist University, U.S.A.; used to work with the Bank of Thailand before joining IFCT in 1984.

Mrs. Yada Prapinmongkolkarn

Executive Vice President

Obtained a Master's degree in Commerce from Hitotsubashi University, Japan; used to work with some brokerage houses and fund management firms before joining IFCT in 1978.



Mr. Jaroonsak Hengtragul

Senior Vice President, Corporate Finance Department 3

Obtained a Master's degree in Business Administration from Thammasat University; began his career at IFCT in 1979.

Mrs. Amornrat Leevarapakul

Senior Vice President, Corporate Finance Department 1

Obtained a Bachelor's degree (Hons.) in Economics from Chulalongkorn University; began her career at IFCT in 1974.

Mr. Vorayuth Charoenloet

Senior Vice President, Corporate Finance Department 2

Obtained a Master's degree in Economics from Pittsburg State University, U.S.A.; commenced his career at IFCT in 1975.



Mrs. Vallapa Posyanond

Vice President, Project Financing Department 1

Obtained a Bachelor's degree in Business Administration from American University, U.S.A.; joined IFCT in 1979.

Mr. Suvit Vithayasai

Vice President, Project Financing Department 3

Obtained a Master's degree in Business Administration from Kasetsart University; joined IFCT in 1979.

Mrs. Prangtong Sigkhabhand

Vice President, Project Financing Department 2

Obtained a Bachelor's degree in Economics from Chulalongkorn University; joined IFCT in 1975.

Mrs. Jaree Wuthisanti

Vice President, Project Financing Department 4

Obtained a Bachelor's degree (Hons.) in Accounting from Chiang Mai University; joined IFCT in 1979.



Mrs. Thanomsri Suvannaratana

Senior Vice President, Branch Business Department, North Eastern Region

Obtained a Bachelor's degree in Accounting from Thammasat University; began her career at IFCT in 1974.

Mr. Pichai Chirungsaprasuk

Senior Vice President, Branch Business Department, Southern Region

Obtained a Bachelor's degree in Accounting from Thammasat University; joined IFCT in 1978.

Mr. Kitti Kukpol

Vice President, Branch Business Department, Central Region

Obtained a Master's degree in Accounting from Thammasat University; joined IFCT in 1979.

Mrs. Wanida Tananate

Vice President, Branch Business Department, Northern Region

Obtained a Bachelor's degree in Accounting from Assumption University; joined IFCT in 1979.



Miss Poonsin Anantakul

Senior Vice President, Information Technology Department

Obtained a Master's degree in Computer Science from National Institute of Development Administration (NIDA); used to work with the Petroleum Authority of Thailand before joining IFCT in 1992.

Mrs. Pimonpan Chaiswataree

Senior Vice President, Credit Approval Unit

Obtained a Bachelor's degree (Hons.) in Accounting from Chulalongkorn University; began her career at IFCT in 1970.

Mrs. Tanya Rukvanichpongs

Senior Vice President, Credit Approval Unit

Obtained Bachelor's degrees in Accounting and in Commerce from Thammasat University; began her career at IFCT in 1967.

Mrs. Ladda Siriwattanakosol

Senior Vice President, Credit Policy Department

Obtained a Master's degree in Business Administration from Thammasat University; joined IFCT in 1979.



Mrs. Thanita Vongruamlarp

Senior Vice President

Obtained Bachelor's degrees in Finance from Chulalongkorn University and in Law from Ramkamhaeng University; joined IFCT in 1975.

Mrs. Narumol Noi-am

Senior Vice President, Investment Banking Department

Obtained a Master's degree in Business Administration from North Texas State University, U.S.A.; joined IFCT in 1981.

Mr. Visut Sattabudsutthi

Senior Vice President, Treasury Department

Obtained a Master's degree in Accounting from Thammasat University; joined IFCT in 1981.

Mrs. Nutta Ratanachaichan

Senior Vice President, Finance Department

Obtained a Master's degree in Economics from Pennsylvania State University, U.S.A.; joined IFCT in 1981.



Mr. Supat Natathanapat

Senior Vice President, Administrative Services Department

Obtained a Bachelor's degree in Engineering from Chulalongkorn University; used to work with Kurita (Thailand) Co.,Ltd. before joining IFCT in 1978.

Mr. Pornchai Saengaroon

Senior Vice President, Human Resource & Organization Department

Obtained a Bachelor's degree (Hons.) in Political Science from Chulalongkorn University; previously with the Siam Cement group of companies; and joined IFCT in 1995.

Mrs. Duangchai Mittakarin

Senior Vice President, Accounting Department

Obtained a Bachelor's degree in Accounting from Chulalongkorn University; joined IFCT in 1974.

Mr. Boonlert Nithi-uthai

Senior Vice President, Portfolio Management Office

Obtained a Bachelor's degree in Accounting from Thammasat University; joined IFCT in 1977.



Miss Achara Sirikhandha

Senior Vice President, Secretariat Office

Obtained a Bachelor's degree (Hons.) in Commerce from Chulalongkorn University; began her career at IFCT in 1972.

Mr. Sornchai Pongsuwan

Senior Vice President, Special Projects Office

Obtained Bachelor's degrees in Accounting and Law from Thammasat University; began his career at IFCT in 1978.

Miss Abhiradee Sukhajoti

Vice President, Human Resource Development Office

Obtained a Master's degree in Business Administration from Abilene Christian University, U.S.A.; began her career at IFCT in 1985.

Mr. Sethasak Srisuchai

Senior Vice President, Internal Audit Department

Obtained a Master's degree in Business Administration from Kasetsart University; previously worked at the National Petrochemical Public Co.,Ltd.; and joined IFCT in 1995.



Mrs. Chutima Natathanapat

Senior Vice President, Policy and Planning Department

Obtained a Master's degree in Business Administration from Radford University, U.S.A.; began her career at IFCT in 1976.

Mrs. Patara Vasantasingh

Vice President, Business Promotion Office

Obtained a Master's degree in Economics from Western Michigan University, U.S.A.; joined IFCT in 1974.

Dr. Teera Ashakul

Senior Vice President, Research Department

Obtained a Ph. D. in Economics from the University of Colorado (Boulder), U.S.A.; used to work with the Office of the National Economic and Social Development Board and Thailand Development Research Institute before joining IFCT in 1991.

Regional and Provincial office Managers As of December 31, 1998

Mr. Wongsorn Pitupan

Regional Manager, Northern Regional Office - Chiang Mai

Mr. Songvut Vejaanuruk

Regional Manager, Northern Regional Office - Lampang

Mr. Jesadha Jomjakra

Regional Manager, Northern Regional Office - Phitsanulok

Mr. Thanawat Sriharuthai

Manager, Provincial Office - Chiang Rai

Mr. Samart Yuttawong

Manager, Provincial Office - Phrae

Miss Lumpaey Homsa-ard

Manager, Provincial Office - Nakhon Sawan

Mr. Preecha Phannikul

Vice President, Northeastern Regional Office - Khon Kaen

Mr. Adisak Chongsirikul

Regional Manager, Northeastern Regional Office - Nakhon Ratchasima

Mr. Kasem Chutimarungson

Regional Manager, Northeastern Regional Office - Ubon Ratchathani

Mr. Pairoj Kumjonmenukul

Manager, Provincial Office - Udon Thani

Mr. Worapol Wekinwatanased

Manager, Provincial Office - Surin

Mr. Apichat Srisawat

Manager, Provincial Office - Mukdahan

Mr. Triwut Piyajariyakul

Vice President, Southern Regional Office - Hat Yai

Mr. Somchai Piyajariyakul

Regional Manager, Southern Regional Office - Surat Thani

Mr. Phadet Moonla

Regional Manager, Southern Regional Office - Trang

Mr. Chamnan Sinsuptawee

Manager, Provincial Office - Chumphon

Mr. Ruangsri Suwanmanee

Manager, Provincial Office - Pattani

Mr. Supharker Amornpitayapong

Manager, Provincial Office - Nakhon Si Thammarat

Mr. Sutad Dansriboon

Regional Manager, Eastern Regional Office - Rayong

Mr. Piyoros Jitt-o-pas

Manager, Provincial Office - Chantha Buri

Mr. Somnuk Thavornchaichoke

Manager, Provincial Office - Saraburi

Mr. Yuttapong Meekaew

Manager, Provincial Office - Ratchaburi

Remuneration for Management

Monetary Remuneration

Total remuneration and bonus for 1998	86.99	Bt.million
Directors 12 persons	6.23	Bt.million
Senior Management 42 persons	80.76	Bt.million
 Total remuneration for top 15 Management	 35.85	 Bt.million

Change in Shareholding in IFCT and Associated Companies As of December 31, 1998

Name	Change in No. of Shares Increase (decrease) from 1997	
	IFCT	Associated Co.
1. Mr. Sirin Nimmanahaeminda	(20,000)	1/
2. Mr. Rolf-Eberhard von Bueren	No change	1/
3. Mr. Banyong Lamsam	No change	1/
4. Mr. Chumpol NaLamlieng	No change	1/
5. Mr. Paiboon Wattanasiritham	1,140	1/
6. Mr. Aswin Kongsiri	No change	1/
7. Dr. Somchai Richupan	1,000	1/
8. Mr. Anothai Techamontrikul	No change	1/
9. Mr. Sirichai Sakornratanakul	No change	1/
10. Mr. Kavee Tovijit	No change	1/
11. Mrs. Suthira Ngandee	(6,000)	1/
12. Mr. Visit Vongruamlarp	No change	1/
13. Mr. Vim Tayaputch	No change	1/
14. Mrs. Yada Prapinmongkolkarn	No change	No change ^{2/}
15. Mr. Apisak Tantivorawong	No change	1/
16. Mrs. Pensri Thaiprasithiporn	No change	1/

Name	Change in No. of Shares	
	IFCT	Associated Co.
17. Mr. Kraithip Krairiksh	No change	1/
18. Mr. Thiva Inthaseni	No change	1/
19. Mrs. Amornrat Leevarapakul	(5,000)	1/
20. Mr. Jaroonsak Hengtragul	No change	1/
21. Mrs. Narumol Noi-am	No change	No change ^{3/}
22. Mr. Boonlert Nithi-uthai	No change	1/
23. Mrs. Vallapa Posyanond	(2,000)	1/
24. Mr. Suvit Vithayasai	(6,000)	1/
25. Mrs. Jaree Wuthisanti	No change	1/
26. Mr. Sornchai Pongsuwan	No change	1/
27. Mrs. Wanida Tananate	No change	1/
28. Mrs. Thanomsri Suvannaratana	(2,500)	1/
29. Mr. Pichai Chirungsaprasuk	No change	1/
30. Mr. Kitti Kukpol	(4,000)	1/
31. Mrs. Patara Vasantasingh	(5,000)	1/
32. Mrs. Tanya Rukvanichpongs	(5,000)	1/
33. Mrs. Pimonpan Chaiswataree	(5,000)	1/
34. Mrs. Ladda Siriwattanakosol	No change	1/
35. Mrs. Chutima Natathanapat	(5,000)	1/
36. Mrs. Nutta Ratanachaichan	No change	1/
37. Mr. Visut Sattabudsutthi	(5,000)	1/
38. Mrs. Thanita Vongruamlarp	No change	1/
39. Dr. Teera Ashakul	No change	1/
40. Miss Poonsin Anantakul	No change	1/
41. Mrs. Duangchai Mittakarin	(5,000)	1/
42. Miss Abhiradee Sukhajoti	No change	1/
43. Mr. Supat Natathanapat	(5,000)	1/
44. Miss Achara Sirikhandha	(5,000)	1/

Note : 1/ No shareholding in any associated companies
2/ Shareholding in the Mutual Fund Public Co., Ltd.
3/ Shareholding in IFCT Advisory Co., Ltd.

IFCT's Shareholding Structure

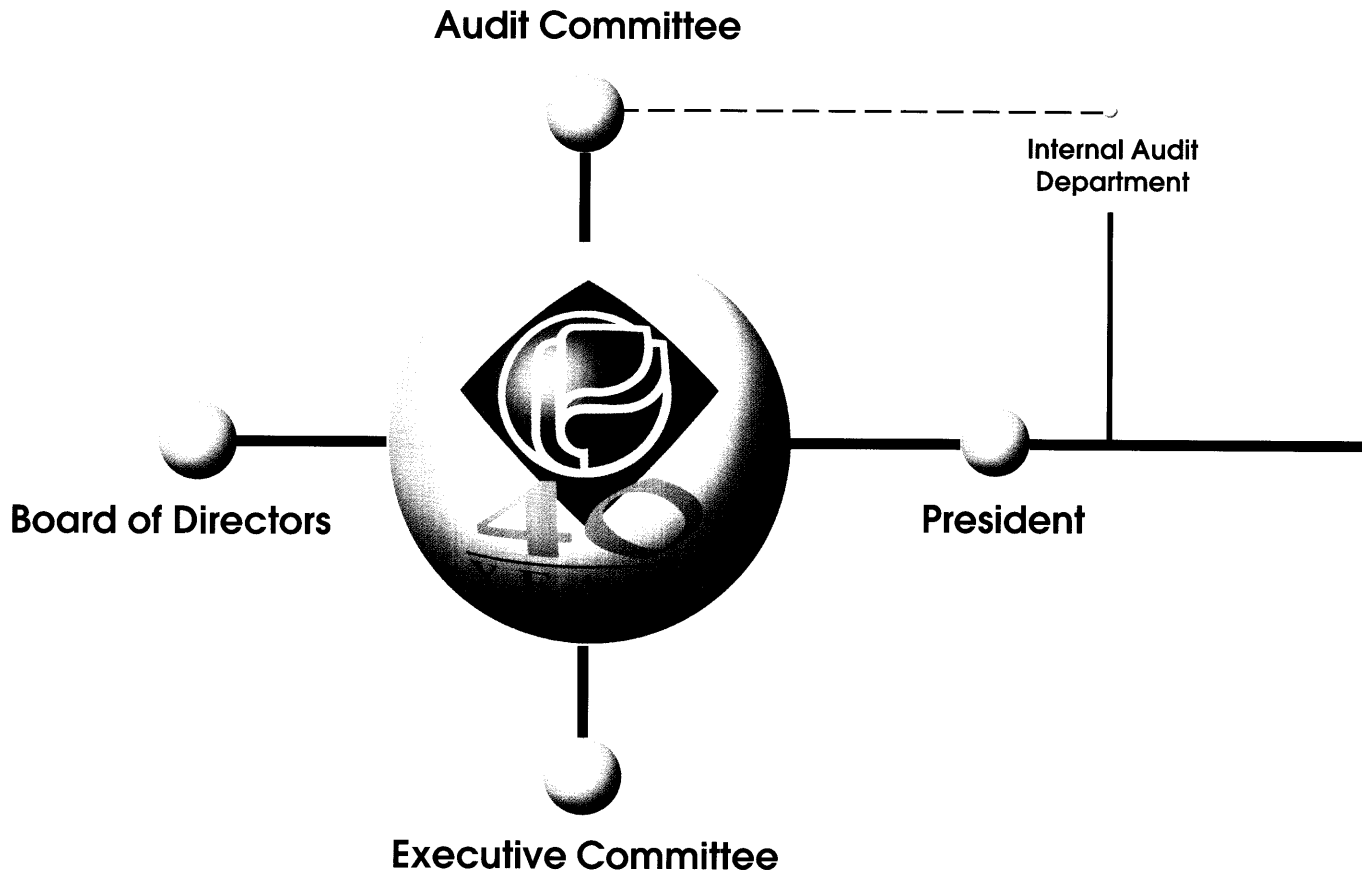
As of 21 May 1998, the most recent date for IFCT's closing of shareholders' register book and prior to the end of the accounting year 1998, IFCT's paid-up registered capital stood at Bt. 5,447.94 million or 544.79 million shares. The total number of shareholders was 6,595, composed of 6,409 Thai shareholders or 51.53 per cent of the total paid-up shares and 186 foreign shareholders or 48.47 per cent. Of the total shareholders, the top 10 major ones are as follows:

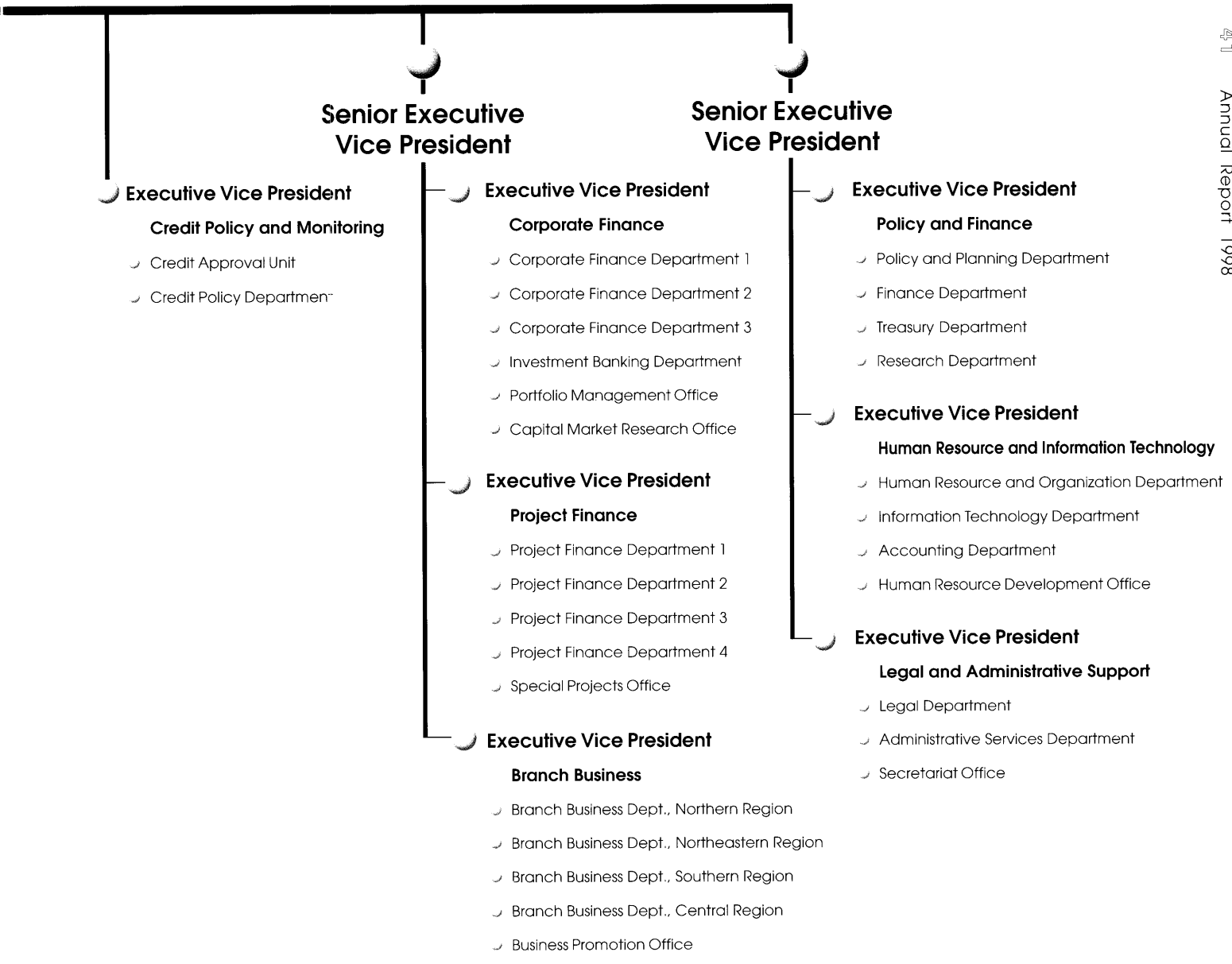
Name	Percentage of Total Paid up Ordinary Shares
1. The Ministry of Finance *	13.42
2. The Government Savings Bank *	11.78
3. Chase Nominees Limited 1	6.51
4. Krung Thai Bank Public Co., Ltd. *	5.43
5. The Sakura Bank, Limited	5.25
6. State Street Bank & Trust Company, Boston	4.89
7. Littledown Nominees Limited	4.50
8. The Bank of New York (Nominees) Limited	3.09
9. HSBC (Singapore) Nominees Pte Ltd.	2.89
10. Morgan Stanley Trust Company (MSTC)	2.49

* The Government held 30.63 per cent of IFCT's total paid-up shares.

Organization Chart

The Industrial Finance Corporation of Thailand





Risk Factors

Business Operation

IFCT focuses its operation on assisting and supporting entrepreneurs in the industrial sector which is a real economic sector. The Corporation's risks in credit provision are thus lower than other financial institutions' due to their large proportions of credit financing to trade, business and real estate sectors, etc. IFCT also puts emphasis on project viability and debt service capability of the clients, with contingent risks taken into account and thus mitigating risks to a certain extent. However, as the economic recession in 1998 has affected project operations and debt service capability of entrepreneurs, IFCT has mapped out measures to hedge risks which may arise comprising close follow-up and rendering of consultancy and assistance to potential clients so that they can resume their operations as well as additional credit provision and technical support. For new clients, strict consideration of projects is made focusing on financial support to export industries and small- and medium-scale industries (SMLs) in potential sectors which will be production bases according to the government's policies.

Foreign Exchange Risk Management

IFCT has borrowed a large amount of foreign currency loans both via fund mobilization from foreign money markets and concessional loans from the government for long-term on-lending to industrial entrepreneurs. As domestic financial sources are limited and IFCT is prohibited by the IFCT Act from acceptance of deposits as commercial banks do, the Corporation's debt management has therefore been made by various methods in line with international risk management guidelines such as currency swap and lending in the same foreign currency as borrowing. Besides prudent consideration, IFCT allocates foreign currency loans to projects which generate foreign currency income and entrepreneurs who have knowledge and experience in foreign exchange risk management at a certain level. IFCT also regularly organizes training courses and seminars to give entrepreneurs knowledge on foreign currency debt management.

Preparation for the Year 2000 (Y2K)

IFCT has been aware of the Y2K problems. It began in mid 1997 to examine and estimate impacts on all computer systems and programs. The proceedings are in two parts:

1. Core business system - which directly affects IFCT's main business operation - implementation was completed in December 1998.
2. None-core business system - which does not affect IFCT's main business operation such as human resource, payroll and building automation systems - implementation is underway and will be completed by September 1999.

This requires an estimated budget of Bt. 1.8 million. Details of impacts on hardware, software and peripherals as well as summary of solution plans are shown here:

Items	Problems	Effects on Operation			Solutions	Concerned Parties	Completion Deadline	Estimated Budget	
		High	Low	None					
1. Computer <ul style="list-style-type: none"> ● PC Server ● Unix Server (Sun) ● PC purchased before July 1997 	<ul style="list-style-type: none"> ● Unable to roll over from Dec. 31, 1999 to Jan. 1, 2000 	✓			<ul style="list-style-type: none"> ● Program available to solve the problem 	<ul style="list-style-type: none"> ● IFCT 	<ul style="list-style-type: none"> ● Completed in Dec. 1998 	-	
	<ul style="list-style-type: none"> ● None 			✓		<ul style="list-style-type: none"> ● Upgrade of non-compliant PC Servers ● The vendor promptly available to fix any trivial bugs arising 	<ul style="list-style-type: none"> ● IFCT 	-	
	<ul style="list-style-type: none"> ● Unable to roll over from Dec. 31, 1999 to Jan. 1, 2000 	✓			<ul style="list-style-type: none"> ● Program available to solve the problem ● Upgrade of non-compliant PCs 	<ul style="list-style-type: none"> ● IFCT 	<ul style="list-style-type: none"> ● Completed in Dec. 1998 	Bt. 400,000	
2. Operating System <ul style="list-style-type: none"> ● Sun Solaris Version ● Netware Version 3.11 ● Windows Version 3.11, 95 ● DOS Version 6.22 	<ul style="list-style-type: none"> ● Version 2.4, 2.5 may not be fully compliant in 2000 	✓			<ul style="list-style-type: none"> ● Upgrade Solaris to Version 2.6 upwards 	<ul style="list-style-type: none"> ● IFCT and Logic Co., Ltd. 	<ul style="list-style-type: none"> ● Completed in Dec. 1998 	Bt. 200,000	
	<ul style="list-style-type: none"> ● Version 3.11 may not be fully compliant in 2000 * Some library cannot support the Y2K * Netware Console cannot support the Y2K. 	✓			<ul style="list-style-type: none"> ● Upgrade Netware to Version 3.2 	<ul style="list-style-type: none"> ● IFCT 	<ul style="list-style-type: none"> ● Completed in Dec. 1998 	Bt. 400,000	
	<ul style="list-style-type: none"> ● Compliant with minor issue, but still functional. * Program winfile.exe cannot support the Y2K 			✓		<ul style="list-style-type: none"> ● The vendor provides Y2K compliance program. ● Upgrade Winfile.exe 	<ul style="list-style-type: none"> ● IFCT 	<ul style="list-style-type: none"> ● Completed in Dec. 1998 	-
	<ul style="list-style-type: none"> ● Compliant with minor issue, but still functional. * Dos Prompt date setting needs to use year in four digits. 	✓		✓		<ul style="list-style-type: none"> ● The vendor provides Y2K compliance program. ● Upgrade Patch 	<ul style="list-style-type: none"> ● IFCT 	<ul style="list-style-type: none"> ● Completed in Dec. 1998 	-

Items	Problems	Effects on Operation			Solutions	Concerned Parties	Completion Deadline	Estimated Budget
		High	Low	None				
3. Application Software Core System <ul style="list-style-type: none"> G/L 	<ul style="list-style-type: none"> The system cannot comply with the Millennium, with the year recorded in two digits. 	✓			<ul style="list-style-type: none"> Upgrade software to a new version. 	<ul style="list-style-type: none"> IFCT and ORACLE 	<ul style="list-style-type: none"> Completed in May 1998 	Bt. 450,000
<ul style="list-style-type: none"> Debt calculation, customer information, equity investment, receipt and payment, fund allocation, securities trading system Foreign exchange system 	<ul style="list-style-type: none"> Conversion of A.D. to B.E. in some programs cannot comply with the Millennium and the range of timing has not covered the year 2000. The vendor informed that the database and operating system are not compliant. 	✓	✓		<ul style="list-style-type: none"> Compliance is finished. Integrated testing will be done again. 	<ul style="list-style-type: none"> IFCT 	<ul style="list-style-type: none"> Completed In Dec. 1998 	-
Non Core System <ul style="list-style-type: none"> Budgeting, supplies and merit rating system Human resource and payroll system 	<ul style="list-style-type: none"> Programs using the two-digit year are not compliant. Programs using the two-digit year are not compliant. 		✓	✓	<ul style="list-style-type: none"> The existing systems will be replaced by newly-purchased "SYMBOL" software. The existing system will be upgraded in case of delay in implementation of new operating system. (It takes about 2 months to upgrade the system.) 	<ul style="list-style-type: none"> IFCT and System Access 	<ul style="list-style-type: none"> Replaced by new system in Sep. 1999 Upgrade the existing system in Apr. 1999 	-
4. Building & Utilities Management System <ul style="list-style-type: none"> Building automation system, alarm system and telephone billing system 	<ul style="list-style-type: none"> Part of hardware and software not compliant with the Y2K Existing PC not compliant with the Y2K 			✓	<ul style="list-style-type: none"> Upgrade of hardware, software and change of PC 	<ul style="list-style-type: none"> IFCT, Honey Well and Loxley 	<ul style="list-style-type: none"> Completed in Sep. 1998 	Under annual plan

Other Factors Which May Affect Investment Decision

IFCT's Share Issue Obligation

IFCT has an obligation to reserve 25,220,000 ordinary shares at par value of Bt. 10 to accommodate the exercise of warrants issued to Deutsche Investitions und Entwicklungsgesellschaft mbH (DEG), Commonwealth Development Corporation (CDC) and the Netherlands Development Finance Company (FMO). On February 20, 1998, IFCT borrowed from DEG and CDC a subordinated loan in the amount of US\$ 40 million together with 15.70 million units of warrants to buy IFCT's new ordinary shares at the exercise price of Bt. 18.25 for one ordinary share and the exercise ratio of one warrant to one ordinary share with warrant maturity of five years and exercise date on every 20th day of February, May, August and November starting from May 20, 1998 and ending on February 20, 2003. On July 20, 1998, IFCT issued warrants to FMO in the amount of 9.52 million units at the exercise price of Bt. 10 for one ordinary share and the exercise ratio of one warrant to one ordinary share with warrant maturity of five years and exercise date on every 20th day of January, April, July and October starting from October 20, 1998 and ending on July 20, 2003.

At the 1st/1998 and 2nd/1998 Extraordinary General Shareholders Meetings held on January 23, 1998 and February 20, 1998, an approval was given in principle for IFCT to increase capital by Bt. 5,000 million, from Bt. 7,000 million to Bt. 12,000 million, by issuing 500 million ordinary shares each of Bt. 10 par value to be offered in the form of ordinary shares and/or convertible debentures and/or warrants, and the Board of Directors was authorized to decide on allocation, pricing, timing and offering methods of each issue of the ordinary shares and/or convertible debentures and/or warrants, as well as to manage the unsubscribed portion of each issue.

The Board at its 443rd Meeting on April 22, 1998 gave an approval for IFCT to issue 272,397,232 new ordinary shares each of Bt. 10 par value to its shareholders whose names appear in the share register as of May 21, 1998. The share subscription and payment period of such issue was later at the 444th Board Meeting on May 21, 1998 resolved to be postponed due to inappropriate market situation at that time.

At its 452nd Meeting on January 21, 1999, the Board approved for IFCT to call for the increased share capital in the total amount of 544,794,464 shares divided into two portions, i.e. a portion of 272,397,232 ordinary shares to be called from the shareholders whose names appear in the share register as of May 21, 1998 as earlier resolved and later postponed at the ratio of two existing shares for one new share at Bt. 14 per share and with entitlement for the shareholders to excess rights subscription, and the other portion of 272,397,232 new ordinary shares to be issued to the shareholders whose names appear in the share register as of February 5, 1999 at the ratio of two existing shares for one new share at Bt. 10 per share, and with entitlement for the shareholders to excess rights subscription. The share subscription and payment period for both portions was scheduled for March 2-8, 1999.

The new share issue will lower IFCT's earning per share. However, it will have no impact on the control or management authority of IFCT.

Debentures and Notes Payable as of December 31, 1998

Type of Debt Instrument	Maturity Date	Shares not yet Redeemed (million shares)	Value of Shares not yet Redeemed (million baht)	Credit Rating	Conditions of Issue (put option/call option)
1. Debentures					
● Local	1999	13	13,133	-	-
	2000	13	12,752	-	-
	2001	8	7,650	-	-
	2002	6	6,220	-	-
	2003	4	3,854	-	-
	2004	2	1,756	-	-
	2005	2	2,196	-	-
	2006	0.6	572	-	-
	2007	0.4	362	-	-
	2008	0.1	52	-	-
	2009	0.1	52	-	-
	2010	0.04	40	-	-
● Foreign	1999	-	570	-	-
	2000	-	5,035	-	-
	2001	-	4,101	-	-
	2002	-	4,606	-	-
	2003	-	7,292	-	● Debentures with maturity in 2003 hold a call option of 432 million baht redeemable in 2001.
	2004	-	-	-	-
	2005	-	500	-	-
	2007	-	9,427	-	-
2. Notes Payable	at call		3,940	-	-
	1999	-	19,039	-	-
	2000	-	1,422	-	-
	2001	-	1,031	-	-
	2002	-	1,632	-	-
	2003	-	150	-	-
3. Bill of Exchange	1999	-	12,367	-	-
	2000	-	300	-	-
	2001	-	255	-	-

Management's Discussion and Analysis

Operational Performance and Financial Position

At year-end 1998, there were no companies in which IFCT held more than a 50 per cent stake, which requires the preparation of a consolidated financial statement. This resulted from the Bank of Thailand (BoT)'s order of two IFCT subsidiaries, First City Investment Public Co., Ltd. (FCI) and IFCT Finance and Securities Public Co., Ltd. (IFCTF), to write down and then increase capital by selling all common shares to the Financial Institutions Development Fund (FIDF). IFCT's equity in these two companies therefore reduced from 55.02 and 55.01 per cent to 0.04 and 0.02 per cent respectively. Moreover, IFCT decreased its holding in another subsidiary, IFCT Advisory Co., Ltd., from 100 per cent to 49 per cent. A consolidated financial statement therefore does not have to be prepared.

The Financial Sector Condition and Trend

The economic recession in the first half of 1998 and credit squeeze by financial institutions drove businesses to face a severe liquidity shortage and non-performing loans to grow sharply. The authorities' rigid rules on loan-loss provisioning further dampened financial institutions' strength. Despite several commercial banks' recapitalization through share sales to foreign investors, it was not yet adequate to compensate their losses. As a result, nearly all financial firms operated at loss with a drop in capital funds and capital adequacy ratio. On August 14, 1998, the authorities announced a financial sector reform package to assist in increase of both tier 1 and tier 2 capital. The measure also included the financial sector restructuring via merger and acquisition or transformation into an asset management company.

Overall Performance

In 1998, the overall banking sector suffered total losses of Bt. 330,000 million caused by a massive loan loss provision, expected to be set aside at over 20 per cent by most banks in line with the BoT's eased criteria. IFCT itself recorded a net loss of Bt. 4,694.6 million, turning around from a net profit of Bt. 611.1 million in 1997. This resulted principally from loan-loss provisioning to comply with the BoT's rules in an amount as high as Bt. 3,141.1 million although these rules are not enforceable on IFCT. Such loss also came from equity in net loss of subsidiary and associated companies, namely FCI and IFCTF, in a total amount of Bt. 2,350.8 million. However, taking into account net interest income deducted by operating expenses, IFCT still earned from its core business a profit before doubtful accounts of Bt. 442 million.

Operational Performance

Credit Operations IFCT placed importance on financial support to the industrial sector, which is the real economic sector, to help expedite the economic revival out of the crisis erupting since 1997 in line with government policy. The main goal was to help ease the liquidity crunch of the industrial sector, especially export-oriented industries, small- and medium-scale industries and regional industries. Funds were obtained from the public sector and many foreign sources, such as the Bank of Thailand, the Export-Import Bank of Japan, loan for economic reform and loans from various development finance institutions. In 1998, IFCT's credit provision shrank by 15.2 per cent, caused by delay of new and expansion projects, large-scale projects in

particular, and also by conversion of foreign loan currencies into baht which had strengthened. However, without taking into account the exchange rate factor, credit shrinkage was only 4.9 per cent.

Equity Participation and Securities Investment As a development finance institution, IFCT has also made equity investments in new projects with contribution to the country to promote emergence of prospective industries. IFCT will gradually divest its equity when these businesses become stronger and will reinvest the funds in other new industrial projects. In 1998, IFCT made total securities investment of Bt. 26,405.9 million, of which 93.9 per cent was securities for investment. Despite a decline in value of investments in securities from equity in net loss of subsidiary and associated companies of Bt. 2,350.8 million, investments in government securities increased by Bt. 14,932.4 million, almost all of which came from loan repayment from FCI and IFCTF. Therefore, overall investments in securities rose by Bt. 13,556.4 million or 105.5 per cent. Allowances for decline in value of securities mounted by Bt. 1,772.3 million to Bt. 3,367.6 million due to the ongoing slump in the stock exchange and debt instrument market.

IFCT's operational performance in 1998 can be summarized as follows:

Net Interest and Dividend Income amounted to Bt. 1,106.9 million, decreasing Bt. 3,158.3 million or 74.0 per cent from 1997, comprising:

- Interest and dividend income totaled Bt. 17,571.3 million which was close to the previous year. Income from loans fell Bt. 1,125.7 million or 8.2 per cent owing to a drop in loans and receivables and increase in non-performing loans. Income from investments in short-term promissory notes and deposits went down By. 434.4 million or 14.4 per cent due to a quick drop in interest rates in the money market in the second half of the year resulting from Government policy to relax fiscal measures in order to revive the economy. This led to IFCT's strategy to decrease idle funds in order to reduce funding costs. In addition, the decrease in income from investments in short-term promissory notes and deposits is also due to conversion from investments in promissory notes to investments in securities. Meanwhile, income from securities soared Bt. 1,691.4 million or 228.2 per cent, coming chiefly from securities purchased under resale agreement of which investment amount was high in the first half of the year due to liquidity contraction as financial institutions primarily kept funds for debt repayment as well as securities purchased under resale agreement are low risk with high return.

- Expenses on borrowings totaled Bt. 16,464.4 million, a rise of Bt. 3,289.6 million or 25.0 per cent due mainly to the mobilization of funds while interest rates were high. Such funding costs cannot be reduced rapidly like commercial banks but will gradually drop.

Interest spread accordingly decreased from 2.5 per cent in 1997 to 0.5 per cent in 1998 due to the above factors.

Possible Loan Losses amounted to Bt. 3,141.1 million, up by Bt. 1,191.0 million or 61.1 per cent, comprising possible losses on loans of Bt. 2,487.6 million and on short-term promissory note investments of Bt. 653.5 million. From provision for such possible losses on loans, IFCT's allowances for doubtful accounts as of year-end 1998 amounted to 56.8 per cent of the provisioning requirements according to the BoT's criteria, still higher than the minimum requirement of 20 per cent set by the BoT.

Non-interest Income totaled minus Bt. 1,995.5 million, representing a rise of minus Bt. 1,142.1 million or 133.8 per cent. This was chiefly due to increased allowance for decline in long-term investment in securities and equity in net loss of subsidiaries. Meanwhile, other non-interest income moved up, consisting of:

- Net gain on securities trading amounted to Bt. 478.9 million, rising from losses of Bt. 13.6 million recorded in 1997 by Bt. 492.5 million. Such earnings principally stemmed from divestment of shares in companies in which IFCT made equity participation and selling of debt instruments. Allowances for decline in value of investment in securities for trading stood at Bt. 196.2 million.
- Allowances for decline in long-term investment in securities totaled Bt. 1,441.6 million, an increase of Bt. 995.8 million or 223.4 per cent including debt instruments and common shares whose decline in value was considered permanent in line with accounting standards.
- Fees and services income was Bt. 530.9 million, down by Bt. 11.2 million from the foregoing year. The fall in fees and charges on lending resulted from slowdown in credit financing in order to limit risk. Concurrently in 1998, the authorities ordered Bangkok Bank of Commerce Public Co., Ltd. to cease its operations. This led to termination of the Management Takeover and Rehabilitation Agreement made with IFCT. IFCT has consequently not received the monthly management fee of Bt. 3.0 million since September 1998.
- Equity in net loss of subsidiary and associated companies accounted for Bt. 2,350.8 million, which represented an increase of Bt. 1,311.3 million in loss or 126.4 per cent. Such losses mostly came from FCI and IFCTF. Following the authorities' order of their capital writedown, IFCT's shareholding proportion became merely 0.04 per cent and 0.02 per cent respectively. IFCT needed not to recognize equity in such companies since September 1998.
- Other income totaled Bt. 787.1 million, a jump of Bt. 683.7 million or 661.2 per cent. The rise stemmed mainly from profit from cancellation of the foreign currency liabilities swap agreement and repurchase of IFCT's debt instruments.

Operating Expenses were Bt. 664.9 million, dropping by Bt. 185.6 million or 21.8 per cent. Such decrease was seen in all items as a result of IFCT's policies on stringent cost control, budget control, operational efficiency improvement and saving campaign.

Net Income IFCT registered net loss of Bt. 4,694.6 million with loss per share of Bt. 8.62, return on average assets of minus 2.4 per cent and return on average equity of minus 36.1 per cent.

In comparison with the statements of cash flows, IFCT's net cash used in operations totaled Bt. 349.8 million, while net loss amounted to Bt. 4,964.6 million. This was because there was a greater number of non-cash items in the statements of income, i.e. doubtful accounts, allowances for decline in value of investment in securities, equity in net loss of subsidiary and associated companies, etc.

Profit Appropriation

In 1998, IFCT did not make profit appropriation for dividend payment due to its operating at loss. In addition, IFCT has transferred retained earnings which have been appropriated as reserves in the amount totaling Bt. 3,627.6 million excepting the amount appropriated as legal reserves, to unappropriated deficit.

Financial Position

As of December 31, 1998, IFCT's total assets amounted to Bt. 185,110.0 million, a fall of Bt. 21,826.7 million or 10.5 per cent from 1997. Such drop stemmed from contraction of credit provision and substantial strengthening of the baht from 1997 year-end.

IFCT's financial position is summarized as follows:

Loans, Receivables and Accrued Interest Receivables - net totaled Bt. 133,455.4 million or 72.1 per cent of total assets, representing a drop of 15.2 per cent from 1997. As a result of prolonged economic stagnation, the credit approval became more prudent. Moreover, with the stronger baht, the foreign currency loans were in a smaller amount when converted into baht. Based on the same exchange rate applied in 1997, the credit would shrink only 4.9 per cent.

IFCT's non-performing loans amounted to Bt. 46,387.8 million or 35.2 per cent of total loans extended, soaring from 9.1 per cent registered at 1997 year-end. The lingering economic decline has weakened the business sectors' debt service capability. Besides, the BoT revised the criteria on classification of non-performing loans by shortening the period of missing payments from over 6 months to 3 months. However, IFCT mapped out plans to maintain credit quality by various means, namely rehabilitation of problem loans and debt restructuring which are expected to bring down the non-performing loans in 1999.

IFCT set aside allowances for doubtful accounts at Bt. 4,714.2 million, representing 56.8 per cent of total provisioning required under the BoT's criteria and 3.6 per cent of total loans and receivables.

Investment in Promissory Notes and Securities Purchased under Resale Agreement accounted to Bt. 19,366.5 million and Bt. 78.0 million respectively, decreasing by Bt. 5,086.9 million and Bt. 5,801.0 million, respectively. Such drop was due to IFCT's strategy to diminish investment in a volatile interest rate environment. In addition, IFCT already invested in government bonds worth approximately Bt. 15,000 million, which are regarded as liquid assets with high stability, hence IFCT did not therefore need to make further large investments.

Investments in Securities were recorded at Bt. 23,038.3 million, a rise of Bt. 11,784.1 million or 104.7 per cent, principally arising from the acceptance of debts settlement in the form of bonds from the FIDF.

Total Liabilities amounted to Bt. 174,791.7 million, or 94.4 per cent of total assets, representing a drop of Bt. 16,463 million or 8.6 per cent from the end of 1997. This included notes payable, borrowings and debentures totaling Bt. 170,766.2 million, down by Bt. 15,976.7 million or 8.5 per cent as a result of loan prepayment to relieve interest burden and a drop in foreign liabilities due to stronger baht.

Shareholders' Equity was Bt. 10,318.3 million, down Bt. 5,363.7 million or 34.2 per cent, consisting of:

- Paid-up registered capital of Bt. 5,447.9 million and a paid-in surplus of Bt. 3,824.7 million;
- Revaluation increment in property of Bt. 612.1 million;
- Unrealized losses on securities for investment of Bt. 1,260.9 million due to slowdown in the stock market;
- Appropriated retained earnings of Bt. 4,405.6 million, up by Bt. 90.2 million due to allocation to legal reserve from profit in 1997;
- Unappropriated retained losses of Bt. 2,711.1 million, while unappropriated retained earnings amounted to Bt. 4,940.2 million as at the end of 1997 because of losses from allowances for doubtful accounts and allowances for decline in value of investment in securities as well as considerable equity in net loss of subsidiary and associated companies.

As of the end of 1998, IFCT's book value was Bt. 18.94 per share. Capital adequacy ratio was 9.1 per cent which was higher than the rate specified by the BoT.

Implementation of Actions Plans for 1998

The Thai economy in 1998 remained in the doldrums. Investment in new and expansion projects was scarce. Credit extension of commercial banks slowed down due to rising non-performing loans (NPLs) and lowered capital adequacy. Like other financial institutions, IFCT was also affected by the economic recession. The Corporation however still focused on providing financial supports to the industrial sector which is the real sector. Of its total loan and equity investment of Bt. 15,017 million, 79 per cent was approved for projects in the regional areas while 87 per cent of the total number of projects approved were small- and medium-scale enterprises. For export promotion, 80 per cent of the total loan approvals was granted to export-oriented projects, with financial supports from the government sector and development finance institutions overseas.

As for maintenance of credit quality, IFCT expedited problem loan rehabilitation through project officer teams which provide assistance and advice to clients on a close basis, as well as carry out debt restructuring and introduction of joint venture partners to clients to enable them to continue their business. As of December 31, 1998, NPLs of the Corporation amounted to 35 per cent of outstanding loans.

In addition, the Corporation continued to implement its business process improvement scheme for other working systems besides the main system of credit operations already fulfilled in 1997. This will help reduce operational expenses by over 10 per cent as well as respond to business expansion in the future.

Operational Guidelines for 1999

The Thai economy in 1999 tends to improve, reflected by key economic indicators and better financial stability in the last quarter of 1998. The government has seriously attempted to expedite corporate debt restructuring and financial sector reform which is a major plan under the economic reform package, and to concurrently adopt measures to rehabilitate the real sector. To

achieve this, commercial banks are encouraged to increase their credit extension by 7-8 per cent to boost liquidity of the business sector. Therefore, to enhance efficiency and be ready in all aspects for the economic recovery, IFCT has formulated operational strategies for 1999 as summarized below:

1. Expansion of business opportunities - IFCT's main business will still be the provision of financial facilities for promising industries and those in line with the government policy to enable industrial enterprises to continue the operations. The public sector has a policy to fully support and strengthen SMEs as a key to hasten the economic recovery. IFCT has targeted its loan approval in 1999 at Bt. 37,000 million of which Bt. 12,000 million will be granted to SME projects. Therefore, the Corporation's total credit extension will grow by 9 per cent. Moreover, IFCT will continue to create income apart from the main income source. This includes fee-based income and other income from services in which IFCT has expertise and which are acceptable and promising so as to strengthen the core business operation i.e. financial advisory service on various aspects such as debt restructuring, privatization of state enterprises, project feasibility study and research study.

2. Maintenance of asset quality/resolution of NPLs - This has been pursued from last year to resolve the problems of NPLs. Apart from a close follow-up of clients by credit financing departments and resolution and rehabilitation of problem projects by Special Project Office, additional measures will be taken in 1999 to speed up reduction of NPLs i.e.:

- To set up an ad hoc working group with expertise in loan follow-up and correction of problem loans for debt restructuring in line with guidelines of the Bank of Thailand and existing methods adopted by IFCT so as to enable clients' businesses to survive and give long-term advantage of turning into good loans in the future.
- To procure concessional loans without restrictions on utilization for projects undergoing debt restructuring and determine a suitable financial package for each project.
- To provide additional loans to boost customers' liquidity and adopt special measures as deemed proper to retain good loans as a future customer base.

3. Risks management and funding - To enable IFCT to monitor and minimize potential risks from the current fluctuated circumstances, a risk monitoring and management system will be developed consistently and rapidly with a database created to ensure better system efficiency. Funding channels will also be diversified to investors and institutions.

4. Expansion of roles in cooperating with public agencies and other concerned agencies in national development, particularly in industrial and financial sectors - IFCT will boost its role as a development finance institution and create good relationship with both public and private agencies by participating in activities, membership and training as well as performing as advisor to help develop and strengthen industrial projects.

5. **Enhancement of operating efficiency** - This will be continued from the completion of business process improvement scheme of both credit and support lines. The Corporation will improve its supervision pattern to enhance efficiency and meet international standards of good corporate governance.

Preparation for the Year 2000

As regards the Year 2000 bug (Y2K), IFCT began testing and evaluating the effect on IFCT's computer systems since mid-1997. The main computer systems whose operations would directly affect IFCT's core business are already Y2K compliant while the non-core computer system, such as personnel and payroll system, etc. are being upgraded so as to be Y2K compliant and expected to be completed by September 1999. IFCT's improvement and test of computer systems are expected to be finished according to plan. The Corporation will be able to make adjustments to comply with the Y2K without any effects on its operations and with a small budget. This is because IFCT's software and hardware technology is in line with computer industry with client/server system as guideline in system development. In addition, over 90 per cent of peripherals and working systems were procured and developed in 1994, thus allowing improvement for further use. Risk may be incur in case other companies dealing with IFCT are unable to improve their systems by 2000. However, no material impacts on IFCT's operations are anticipated.

Other Relevant Persons

- A. Registrar (Ordinary Shares)** : Thailand Securities Depository Co., Ltd.
62 Stock Exchange of Thailand Building
Ratchadaphisek Road, Khlong Toei, Bangkok 10110
Tel. 359-1200 - 49
- B. Registrar (Debentures)** : The Industrial Finance Corporation of Thailand
1770 New Petchburi Road, Bangkok 10320
Tel. 253-7111, 253-9666
- C. Auditors** : Professor Thavach Phusitphoykai
C.P. A. (Thailand) - Registration No. 1724
Mr. Somckid Tiatragul
C.P. A. (Thailand) - Registration No. 2785
Mr. Chanin Veerarakasjit
C.P. A. (Thailand) - Registration No. 2423
SGV-Na Thalang & Co., Ltd.
989 Siam Tower Building, 20th-22th Floors
Rama I Road, Pathum Wan, Bangkok 10330
Tel. 658-0658

IFCT's Associated Companies as of December 31, 1998

- IFCT Advisory Co., Ltd. : IFCT Building 2, 3rd Floor,
1770 New Petchburi Road, Huai Khwang, Bangkok 10320
- Thai Orix Leasing Co., Ltd. : C.P. Tower Building, 24th Floor
313 Silom Road, Bang Rak, Bangkok 10500
- Thai Factory Development Public Co., Ltd. : FCI Building 2, 5th Floor
2884/1 New Petchburi Road, Huai Khwang, Bangkok 10320
- Thai Sakura Finance and Securities Co., Ltd. : Ramaland Building, 12th Floor
952 Rama IV Road, Bang Rak, Bangkok 10500
- The Mutual Fund Public Co., Ltd. : Lake Ratchada Building, 30th-32nd Floors
193 - 195 Ratchadaphisek Road, Khlong Toei, Bangkok 10110
- Y.K.K Zipper (Thailand) Co., Ltd. : FCI Building 2, 9th Floor
2884/1 New Petchburi Road, Huai Khwang, Bangkok 10320

Companies Which IFCT Invested in 10 Per Cent Upward as of December 31, 1998

Name	Main Business	Location	Paid-up Registered Capital (Bt.million)
IFCT Advisory Co., Ltd.	Financial Advisory Services	Bangkok	10
Thai Orix Leasing Co., Ltd.	Leasing & Hire-purchase Business	Bangkok	200
Thai Factory Development Public Co., Ltd.	Development of Properties for Sales or Lease	Bangkok	320
Thai Sakura Finance and Securities Co., Ltd.	Finance and Securities Business	Bangkok	150
The Mutual Fund Public Co., Ltd.	Securities Business and Fund Management	Bangkok	120
Y.K.K. Zipper (Thailand) Co., Ltd.	Zippers	Bangkok	80
The Industrial Management Co., Ltd.	Management & Investment Advisory Services	Bangkok	10
Asean Potash Holding Co., Ltd.	Holding Company	Bangkok	914
Bangkok Visypak Co., Ltd.	Packaging Material	Pathum Thani	70
Strongpack Public Co., Ltd.	Packaging Material	Samut Prakan	330
Rural Capital Partner Co., Ltd.	Joint Venture	Bangkok	10
Bara Finance & Securities Public Co., Ltd.*	Finance & Securities Business	Bangkok	320
Thai Castor Oil Industry Co., Ltd.	Castor Oil	Bangkok	70
Sanwa Inter Food Co., Ltd.	Instant Noodles	Bangkok	100
General Agro Co., Ltd.	Canned Vegetable & Fruit	Bangkok	40
Piboon Concrete Co., Ltd.	Concrete Product	Chiang Mai	80
IFCT Nomura/Jafco Holdings Co., Ltd.	Holding Company	Bangkok	250
IFCT Nomura/Jafco Capital Co., Ltd.	Holding Company	Bangkok	250
Nam Seng Insurance Public Co., Ltd.	Insurance Business	Bangkok	139
National Fertilizer Public Co., Ltd.	Fertilizer	Bangkok	4,746
Asset Development Co., Ltd.	Leasing & Hire-purchase Services	Bangkok	60
Siam City Factoring Co., Ltd.	Factoring	Bangkok	180
Island Resort Hotel Co., Ltd.	Hotel	Bangkok	400
Small Industry Credit Guarantee Corporation	Financial Services	Bangkok	400
Usha Siam Steel Industries Co., Ltd.	PC Wire & Strand	Bangkok	90
Antara Holiday Park Co., Ltd.	Hotel	Bangkok	130
Bangkok Casting Co., Ltd.	Cast Iron	Pathum Thani	10
Bangkok Mould Co., Ltd.	Mould	Samut Prakan	5
Petpak Co., Ltd.	Plastic Bottles	Bangkok	80
BNH Medical Centre Ltd.	Hospital	Bangkok	889
Thumrin Hotel Co., Ltd.	Hotel	Trang	400
Thai Container System Co., Ltd.	Container Boxes	Bangkok	268
Small Industrial Finance Corporation	Financial Services	Bangkok	300
Sunprene (Thailand) Co., Ltd.	PVC Resin & PVC Compounds	Samut Sakhon	146
Siam Buyck Co., Ltd.	Steel Fabrication & Erection	Chonburi	90
Sima Thani Co., Ltd.	Hotel	Bangkok	270
Modular Samko Co., Ltd.	Furniture	Bangkok	35
Rivon Foods (Thailand) Co., Ltd.	Instant Soup	Nakhon Pathom	150
Lanna Agro Industry Co., Ltd.	Frozen Vegetable & Fruit	Chiang Mai	70
IFCT Capital Management Co., Ltd.	Holding Company	Bangkok	25
Eastern Sea Laem Chabang Terminal Co., Ltd.	Port	Bangkok	200
Ferry Line Public Co., Ltd.	Hydrofoil Ferry Services	Nonthaburi	190

* Suspended by the Bank of Thailand since 5 August 1997; in the liquidation process at present.

IFCT's Operation : Statistical Tables

Approved Loans Classified by Type of Loans

Bt.million

Loan Type	1998			1960-1998		
	No. of Projects	Amount	%	No. of Projects	Amount	%
Long-term Loans	64	6,142.7	41.1	3,782	136,231.8	53.1
Medium-term Loans	3	1,009.0	6.8	474	62,714.5	24.5
Working Capital Loans	207	7,777.5	52.1	3,925	57,478.6	22.4
Total	274	14,929.2	100.0	8,181	256,424.9	100.0

Note : Long-term Loans Service Since 1960
 Medium-term Loans Service Since 1986
 Working Capital Loans Service Since 1982

Approved Loans Classified by Size and Region

Bt.million

Size	1998			1960-1998		
	No. of Projects	Amount	%	No. of Projects	Amount	%
Bt. 0 - 5 million	95	292.1	2.0	4,232	11,213.2	4.4
Bt. 5.1 - 10 million	44	378.7	2.5	1,289	10,857.0	4.2
Bt. 10.1 - 20 million	28	479.2	3.2	835	13,625.5	5.3
Bt. 20.1 - 50 million	47	1,818.7	12.2	885	31,525.7	12.3
Bt. 50.1 - 100 million	28	2,218.7	14.9	480	36,411.4	14.2
Bt. Over 100 million	32	9,741.8	65.2	460	152,792.1	59.6
Total	274	14,929.2	100.0	8,181	256,424.9	100.0
Geographical Region						
(A) Bangkok*	54	3,825.8	25.6	2,376	94,469.3	36.8
(B) Regions Outside Bangkok	220	11,103.4	74.4	5,805	161,955.6	63.2
Divided into :						
Central Region	22	1,957.9	13.1	662	43,774.9	17.1
Eastern Region	34	4,932.1	33.1	684	64,483.3	25.1
Northeastern Region	35	1,346.9	9.0	1,420	16,572.0	6.5
Northern Region	28	659.8	4.4	1,555	15,297.3	6.0
Southern Region	101	2,206.7	14.8	1,484	21,828.1	8.5
Total	274	14,929.2	100.0	8,181	256,424.9	100.0

* Including Nonthaburi, Samut Prakan, Pathum Thani, Samut Sakhon and Nakhon Pathom.

Outstanding Loans Classified by Type of Loans (As of December 31)

Bt.million

Loan Type	1998			1997			% Change
	No. of Projects	Amount	%	No. of Projects	Amount	%	
Long-term Loans	1,630	65,634.4	49.8	1,686	70,663.2	45.5	(3.3)
Medium-term Loans	178	29,360.9	22.3	237	39,023.0	25.1	(6.2)
Working Capital Loans	1,496	36,724.1	27.9	1,487	45,573.6	29.4	(5.7)
Total	3,304	131,719.4	100.0	3,410	155,259.8	100.0	(15.2)

Outstanding Loans Classified by Region (As of December 31)

Bt.million

Geographical Region	1998			1997			% Change
	No. of Projects	Amount	%	No. of Projects	Amount	%	
(A) Bangkok*	639	56,284.4	42.7	697	59,908.6	38.6	(2.4)
(B) Regions Outside Bangkok	2,665	75,435.0	57.3	2,713	95,351.2	61.4	(12.8)
Divided into :							
Central Region	272	12,945.9	9.8	280	15,740.5	10.2	(1.8)
Eastern Region	342	28,374.5	21.5	332	41,286.0	26.6	(8.3)
Northeastern Region	595	9,065.8	6.9	623	11,378.4	7.3	(1.5)
Northern Region	745	9,055.8	6.9	779	10,294.6	6.6	(0.8)
Southern Region	711	15,993.0	12.2	699	16,651.7	10.7	(0.4)
Total	3,304	131,719.4	100.0	3,410	155,259.8	100.0	(15.2)

* Including Nonthaburi, Samut Prakan, Pathum Thani, Samut Sakhon and Nakhon Pathom.

Approved Loans & Outstanding Loans Classified by Type of Industry

Bt.million

Type of Industry	Approved Loans 1998			Outstanding Loans as of December 31, 1998			
	No. of Projects	Amount	%	No. of Projects	Amount	%	% Change from 1997
1. Agriculture, Livestock and Fishing	21	804.5	5.4	265	3,407.1	2.6	(1.0)
2. Mining and Quarrying	8	100.8	0.7	239	7,931.4	6.0	(1.3)
3. Food Products and Beverages	70	2,686.0	18.0	534	13,010.6	9.9	(1.6)
4. Textile, Wearing Apparel and Leather	10	347.1	2.3	144	4,071.1	3.1	(0.2)
5. Wood and Paper	14	684.6	4.6	215	6,262.8	4.8	(0.9)
6. Publishing and Printing	1	5.0	0.0	55	852.1	0.6	(0.0)
7. Refined Petroleum Products	0	0.0	0.0	2	12.4	0.0	0.0
8. Chemicals and Chemical Products	12	1,596.9	10.7	93	6,658.3	5.1	0.3
9. Rubber and Plastic Products	22	963.6	6.4	208	4,523.7	3.4	(0.5)
10. Cement, Lime, Plaster and Concrete Products	17	111.2	0.7	344	7,143.1	5.4	(0.3)
11. Ceramic ware and Ceramic Products	9	446.6	3.0	82	3,137.9	2.4	(0.6)
12. Glass and Glass Products	0	0.0	0.0	12	766.2	0.6	(0.3)
13. Other Non-metallic Mineral Products	2	13.7	0.1	24	696.8	0.5	(0.1)
14. Basic Metals	7	1,442.6	9.7	120	14,395.3	10.9	(1.4)
15. Fabricated Metal Products	4	142.7	0.9	94	2,608.7	2.0	(0.3)
16. Electrical and Office Machinery	9	2,369.8	15.9	61	6,985.2	5.3	0.1
17. Communication Equipment and Electronic Components	2	55.0	0.4	25	772.8	0.6	(0.0)
18. Motor Vehicles and Other Transport Equipment	11	591.2	4.0	92	5,994.2	4.6	0.1
19. Machinery and Equipment Not Elsewhere Classified	12	1,288.2	8.6	156	4,767.6	3.6	(0.4)
20. Furniture	14	239.0	1.6	88	1,700.1	1.3	(0.1)
21. Manufacturing Not Elsewhere Classified	3	262.8	1.8	41	860.6	0.7	(0.1)
22. Construction	4	82.0	0.5	45	1,149.0	0.9	(0.1)
23. Hotels	13	223.9	1.5	140	9,425.5	7.2	(1.2)
24. Transport, Storage and Communications	5	359.8	2.4	89	12,056.7	9.1	(0.9)
25. Electricity, Gas, Steam and Water Supply	1	100.0	0.7	13	4,540.1	3.4	0.7
26. Hospital and Health Activities	1	10.0	0.1	30	2,130.9	1.6	(0.1)
27. Services Not Elsewhere Classified	2	2.2	0.0	93	5,859.2	4.4	(5.0)
Total	274	14,929.2	100.0	3,304	131,719.4	100.0	(15.2)

Report of Certified Public Accountant

Translation of a report originally issued in Thailand

To The Shareholders of The Industrial Finance Corporation of Thailand

I have audited the balance sheets of The Industrial Finance Corporation of Thailand as at December 31, 1998 and 1997, the related statements of income, changes in shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management as to their correctness and completeness of the presentation. My responsibility is to express an opinion on these financial statements based on my audits.

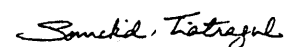
Except as stated in the third paragraph, I conducted my audits in accordance with generally accepted auditing standards. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audits provide a reasonable basis for my opinion.

As discussed in Note 3 to financial statements, the Corporation accounts for its investments in associated companies by the equity method. The equity in net income of associated companies of Baht 23 million and 14 million, included in the statements of income for the years ended December 31, 1998 and 1997, respectively, have not been audited by auditors.

In my opinion, except for the effects of such adjustments to the equity in net income of associated companies as might have been required had the financial statements of associated companies referred in the third paragraph been audited by auditors, the financial statements referred to above present fairly the financial position as of December 31, 1998 and 1997, and the results of operations and cash flows for the years then ended of The Industrial Finance Corporation of Thailand in conformity with generally accepted accounting principles.

On my auditor's report dated February 22, 1998, I expressed a qualified opinion on the financial statements as at December 31, 1997 that two of the Corporation's subsidiaries did not provide allowances for possible losses on investments and accrued interest receivable of certain financial institutions which operations have been closed by the order of the Ministry of Finance totalling approximately Baht 687 million and provided allowances for doubtful accounts for loans receivable which are classified as doubtful assets and sub-standard assets under the criteria set by the Bank of Thailand without any reappraisal of collateral values. The adequacy of provisions for possible losses on investments and possible loan losses of the subsidiaries would have an effect to the Corporation's recognition of equity in net income/loss for the year 1997. However, on August 13, 1998, the two subsidiaries were ordered to reduce their registered share capital to Baht 0.01 per share. The Corporation, therefore, wrote off the values of investments in its books of accounts and discontinued recognizing equity in net income/losses in such two companies since the third quarter of 1998 and discontinued preparing consolidated financial statements in 1998.

As discussed in Note 25 to the financial statements, the Corporation's financial statements include the effect of the current economic crisis to the extent they are known and estimable and will continue to be affected for the foreseeable future by the country's unstable economy and currency volatility in the Asia Pacific region. The Corporation's operations are, therefore, continued to be affected by the uncertainty about the said crisis which is not currently determinable.



SOMCKID TIATRAGUL
C.P.A. (THAILAND)
Registration No. 2785

Bangkok
February 22, 1999

The accompanying financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Thailand. The standards, procedures and practices to audit such financial statements are those generally accepted and applied in Thailand.

Balance Sheets

The Industrial Finance Corporation of Thailand

December 31, 1998 and 1997

ASSETS

In Baht


	1998	1997
Cash in Hand and at Banks (Note 5)	509,745,321	390,861,701
Investments in Short-term Promissory Notes (Note 6)	19,366,514,982	24,453,364,062
Securities Purchased under Resale Agreement (Note 7)	78,000,000	5,879,000,000
Investments in Securities (Note 8)		
Securities for trading	1,613,145,751	1,173,344,917
Securities for investment	24,792,748,044	11,676,158,817
Investments in Securities	26,405,893,795	12,849,503,734
Less Allowances for decline in value of securities	(3,367,629,115)	(1,595,340,807)
Investments in Securities - Net	23,038,264,680	11,254,162,927
Investment in Security under Resale Agreement (Note 9)	-	478,196,500
Loans, Receivables and Accrued Interest Receivable (Note 10)		
Loans and receivables	131,719,409,117	155,259,761,209
Accrued interest receivable and fees	6,450,177,851	4,062,109,232
Total Loans, Receivables and		
Accrued Interest Receivable	138,169,586,968	159,321,870,441
Less Allowances for doubtful accounts (Note 11)	(4,714,219,083)	(2,394,960,000)
Loans, Receivables and Accrued		
Interest Receivable - net	133,455,367,885	156,926,910,441
Properties Foreclosed	446,130,374	264,684,033
Land, Buildings and Equipment-Net (Note 12)	2,065,847,641	1,842,780,751
Other Assets		
Other assets (Note 13)	5,413,126,048	4,594,689,047
Deferred Expenses from Foreign Currency		
Swap - Net (Note 2)	736,962,668	852,054,534
Total Other Assets	6,150,088,716	5,446,743,581
TOTAL	185,109,959,599	206,936,703,996

See accompanying Notes to Financial Statements.
(With Mr. Somckid Tiatragul's report dated February 22, 1999)

LIABILITIES AND SHAREHOLDERS' EQUITY

In Baht

	1998	1997
LIABILITIES		
Notes Payable (Note 14)	39,471,337,046	28,031,663,961
Borrowings (Note 15)	51,124,354,817	42,406,288,632
Debentures (Note 16)	80,170,459,313	116,304,896,201
Accrued Interest and Charges on Borrowings	3,264,055,189	3,498,409,307
Accounts Payable and Accrued Expenses (Notes 15 and 24)	761,497,196	1,013,475,336
Total Liabilities	174,791,703,561	191,254,733,437
SHAREHOLDERS' EQUITY		
Share capital - common share, Baht 10 par value Authorized, issued and fully paid-up 544,794,464 shares in 1998 and 1997 (Note 18)	5,447,944,640	5,447,944,640
Paid-in surplus	3,824,691,567	3,824,691,567
Revaluation increment in property - Net	612,112,074	635,517,558
Unrealized losses on securities for investments	(1,260,938,371)	(770,611,605)
Retained earnings		
Appropriated for (Note 19)		
Legal reserve	777,931,000	687,702,000
Reserve required under borrowing agreements	6,255,656	6,255,656
Special reserves	3,621,392,399	3,621,392,399
Unappropriated (Deficit)	(2,711,132,927)	2,229,078,344
Shareholders' Equity - Net	10,318,256,038	15,681,970,559
TOTAL	185,109,959,599	206,936,703,996
Contingent Liabilities (Note 26)		
Avals to promissory notes and guarantee for loans	16,446,542,297	27,118,652,074
Letters of credit	565,392,146	962,569,650
Other commitments	5,240,093,906	4,318,382,670


(Dr. Aran Thammano)
Chairman

(Mr. Anothai Techamontrikul)
President

Statements of Income

The Industrial Finance Corporation of Thailand

for the years ended December 31, 1998 and 1997

In Baht

	1998	1997
INTEREST AND DIVIDEND INCOME ON		
Loans	12,566,907,159	13,692,578,057
Investments in short-term promissory notes and deposits	2,571,860,700	3,006,273,711
Securities - Net	2,432,584,626	741,201,233
Total Interest and Dividend Income	17,571,352,485	17,440,053,001
EXPENSES ON BORROWINGS		
Interest and discounts on borrowings	16,236,819,936	12,906,826,633
Fees and charges on borrowings	140,928,074	155,330,931
Losses on exchange (Note 20)	86,693,201	112,685,244
Total Expenses on Borrowings	16,464,441,211	13,174,842,808
Net Interest and Dividend Income	1,106,911,274	4,265,210,193
DOUBTFUL ACCOUNTS	(3,141,120,201)	(1,950,140,722)
Interest and Dividend Income (Expenses)		
Net of Doubtful Accounts	(2,034,208,927)	2,315,069,471
NON-INTEREST INCOME (EXPENSES)		
Gains (losses) on securities trading - Net	478,934,783	(13,561,860)
Provision for decline in value of long-term investments in securities	(1,441,594,972)	(445,769,309)
Fees and services income	530,946,898	542,128,192
Equity in net loss of subsidiaries and associated companies - Net of goodwill amortization	(2,350,834,745)	(1,039,540,582)
Other income	787,040,054	103,360,917
Total Non-Interest Income (Expenses)	(1,995,507,982)	(853,382,642)
OPERATING EXPENSES		
Personnel expenses	465,071,729	574,589,686
Director's remuneration	3,509,000	9,787,945
Premises and equipment expenses	108,812,197	119,332,233
Other expenses	87,485,615	146,828,421
Total Operating Expenses	664,878,541	850,538,285
NET INCOME (LOSS) (Note 21)	(4,694,595,450)	611,148,544
Earnings (Loss) per Share	(8.62)	1.12

See accompanying Notes to Financial Statements.
(With Mr. Somckid Tiattragul's report dated February 22, 1999)

Statements of Changes in Shareholders' Equity

The Industrial Finance Corporation of Thailand

for the years ended December 31, 1998 and 1997

In Baht

	1998	1997
Common Share Capital		
Balance, beginning of year	5,447,944,640	5,447,628,520
Addition	-	316,120
Balance, end of year	5,447,944,640	5,447,944,640
Paid-in Surplus		
Balance, beginning of year	3,824,691,567	3,823,205,803
Addition	-	1,485,764
Balance, end of year	3,824,691,567	3,824,691,567
Revaluation Increment in Property (Note 12)		
Revaluation increment in property	635,517,558	658,923,042
Accumulated depreciation	(23,405,484)	(23,405,484)
Balance, end of year	612,112,074	635,517,558
Unrealized losses on securities for investments		
Balance, beginning of year	(770,611,605)	(173,977,726)
Addition	(490,326,766)	(596,633,879)
Balance, end of year	(1,260,938,371)	(770,611,605)
Legal Reserve (Note 19)		
Balance, beginning of year	687,702,000	539,588,000
Addition	90,229,000	148,114,000
Balance, end of year	777,931,000	687,702,000
Reserve Required under Borrowing Agreements (Note 19)		
Balance, beginning of year	6,255,656	6,255,656
Addition	-	-
Balance, end of year	6,255,656	6,255,656
Special Reserve (Note 19)		
Balance, beginning of year	3,621,392,399	2,340,660,884
Addition	-	1,280,731,515
Balance, end of year	3,621,392,399	3,621,392,399

See accompanying Notes to Financial Statements.
(With Mr. Somckid Tiattragul's report dated February 22, 1999)

Statements of Changes in Shareholders' Equity

The Industrial Finance Corporation of Thailand

for the years ended December 31, 1998 and 1997

In Baht

	1998	1997
Unappropriated Retained Earnings		
Balance, beginning of year	2,229,078,344	4,562,457,353
Additions during the years - net income (loss)	(4,694,595,450)	611,148,544
- Appropriated for dividends (Note 19)	(272,397,232)	(1,225,726,042)
- Appropriated for legal reserve (Note 19)	(90,229,000)	(148,114,000)
- Appropriated for special reserve	-	(480,731,515)
- Appropriated for business expansion	-	(800,000,000)
- Decrease (Increase) in unrealized loss on securities for investments	117,010,411	(289,955,996)
Balance, end of year	(2,711,132,927)	2,229,078,344
SHAREHOLDERS' EQUITY - NET	10,318,256,038	15,681,970,559

Statements of Cash Flows

The Industrial Finance Corporation of Thailand

for the years ended December 31, 1998 and 1997

In Baht

	1998	1997
Cash flows from operating activities		
Net income (loss)	(4,694,595,450)	611,148,544
Adjustments to reconcile net income (loss) to net cash provided from (used in) operating activities		
Provision for decline in value of investments	1,363,228,767	513,657,838
Depreciation and amortization	75,248,480	73,942,426
Bad debts and doubtful accounts	3,141,120,201	1,950,140,722
Amortization of deferred expenses from foreign currency swap	98,487,866	99,157,091
Interest provided for special fund	17,466,521	19,475,509
Equity in net loss of subsidiaries and associated companies-Net of goodwill amortization and dividend income	2,358,104,245	1,193,428,225
Gains on sales of fixed assets and properties foreclosed	(7,770,647)	(17,861,034)
Increase in interest and dividend receivables	(2,388,068,620)	(2,212,225,647)
Increase (Decrease) in interest payable	(234,354,118)	1,803,059,406
Decrease in other payables	(84,225,635)	(87,074,208)
Decrease in prepaid expenses	7,800,930	7,783,338
Gains on exchange rates	(2,288,528)	(1,420,880)
Net cash provided from (used in) operating activities	(349,845,988)	3,953,211,330
Decrease (Increase) in operational assets		
Investments in short-term promissory notes	3,906,891,778	(5,816,479,747)
Securities purchased under resale agreement	5,801,000,000	(5,879,000,000)
Investments in securities for trading	(439,800,833)	2,707,382,633
Investment in security under resale agreement	478,196,500	(478,196,500)
Loans and receivables	8,839,411,709	(10,240,599,979)
Properties foreclosed	(178,061,676)	(231,348,255)
Other assets	53,552,030	(211,983,905)

See accompanying Notes to Financial Statements.
(With Mr. Somkid Tiatragul's report dated February 22, 1999)

Statements of Cash Flows

The Industrial Finance Corporation of Thailand

for the years ended December 31, 1998 and 1997

In Baht

	1998	1997
Increase (Decrease) in operational liabilities		
Notes payable	11,599,960,103	(4,008,472,509)
Borrowings	19,352,503,343	(6,299,715,086)
Other liabilities	(206,226,512)	(42,719,932)
Net cash provided from (used in) operating activities	48,857,580,454	(26,547,921,950)
Cash flows from investing activities		
Increase in securities for investments	(15,354,555,064)	(3,776,382,677)
Purchases of land, buildings and equipment	(325,030,540)	(194,668,455)
Cash received from sales of land, buildings and equipment	112,694	6,219,170
Decrease in long-term investments	(793,666,758)	898,349,327
Net cash used in investing activities	(16,473,139,668)	(3,066,482,635)
Cash flows from financing activities		
Cash received from issuance of debentures and long-term notes payable	33,110,230,942	77,944,337,412
Cash paid for debentures and long-term notes payable	(65,103,390,876)	(47,487,884,175)
Payment of dividends	(272,397,232)	(1,225,726,043)
Increase in share capital	-	316,120
Increase in premium on share capital	-	1,485,764
Net cash provide from (used in) financing activities	(32,265,557,166)	29,232,529,078
Net increase (decrease) in cash	118,883,620	(381,875,507)
Cash at January 1	390,861,701	772,737,208
CASH AT DECEMBER 31	509,745,321	390,861,701

See accompanying Notes to Financial Statements.
(With Mr. Somckid Tiatragul's report dated February 22, 1999)

Notes to Financial Statements

The Industrial Finance Corporation of Thailand

December 31, 1998 and 1997

1. BASIS OF FINANCIAL STATEMENTS

The financial statements include the accounts of The Industrial Finance Corporation of Thailand and associated companies as follows:

	Percentage of holding	
	1998	1997
IFCT Advisory Co., Ltd.	49.00	100.00
Thai Orix Leasing Co., Ltd.	45.45	35.57
Thai Sakura Finance & Securities Co., Ltd.	25.00	25.00
The Mutual Fund Public Co., Ltd.	24.23	24.23
Y.K.K. Zipper (Thailand) Co., Ltd.	20.90	19.99

By the order of the Bank of Thailand dated August 13, 1998, the two subsidiaries of the Corporation, First City Investment Public Co., Ltd. (FCI) and IFCT Finance and Securities Public Co., Ltd. (IFCT Finance), had to decrease and increase their share capital and to be controlled by the Bank of Thailand. Both FCI and IFCT Finance sold all of the common shares on the capital increase to the Financial Institutions Development Fund. The Corporation's interest in FCI and IFCT Finance, therefore, decreased from 55.02% and 55.01% to 0.04% and 0.02%, respectively. In addition, the Corporation sold its investment in IFCT Advisory Co., Ltd., another subsidiary, on September 18, 1998. This reduced the Corporation's interest in such subsidiary from 100% to 49%. As a result, the said subsidiary changed its status to be an associated company, and are not qualified for consolidation. The Corporation, therefore, accounts for its investments in FCI and IFCT Finance by the cost method instead of the equity method and does not have to present the consolidated financial statements since the third quarter of 1998.

2. FOREIGN CURRENCY TRANSACTIONS

Under The Industrial Finance Corporation of Thailand Act, B.E. 2502 and as subsequently amended, the Government can enter into agreements with the Corporation in order to shoulder the losses or receive the gains on foreign exchange, whichever the case may be.

In 1995, the Corporation made loan prepayment to some sources of funds under the agreements with the MoF and recorded exchange losses from such conversion as deferred expenses which accounted for as a part of other assets in balance sheets and will amortize over the remaining repayment periods of local currency debts.

Borrowings not covered by exchange risk agreements with the MoF, but to be absorbed by the debtors, are recorded as Baht receivables and payables by converting at the average rates announced by the Bank of Thailand at the balance sheets dates.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Method of Income Recognition

Interest income on investments in securities is recognized as income on an accrual basis.

Interest on loans and receivables is recognized as income on an accrual basis, except for interest on delinquent receivables overdue for more than 6 months, regardless of the adequacy of collaterals, which are recognized as income on a cash basis.

Method of Expense Recognition

Interest expense is recorded based on principals outstanding on an accrual basis. Discounts on debentures is amortized by the straight-line method over the lives of the debentures and accounted for as a part of interest expense.

Depreciation and Amortization

The Corporation depreciate property and equipment by the straight-line method over the estimated useful lives of the assets ranging from 3 to 20 years.

The Corporation records appraisal increment of land and building in "Revaluation increment in property - Net" which is presented as a part of shareholders' equity. Depreciation of such revaluation increment is recorded as a deduction from appraisal increment in the balance sheets.

The Corporation amortizes goodwill within 10 years commencing from the investment date, and will write down the value to zero when the related investments are disposed of.

Allowances for Doubtful Accounts

The Corporation provides allowances for doubtful accounts equal to the estimated losses that may be incurred from the collection of the loans and receivables on the review and evaluation of the current status of each loan and receivable and including the consideration of the risks and collateral values and in compliance with the announcement of the Bank of Thailand to notify the banks and financial institutions regarding to the debt classification and allowances for doubtful accounts.

Properties Foreclosed

Properties foreclosed are properties received for the settlement of loans receivable which are stated at cost (cost is derived from the principal amount of loans plus related expenses for the transfer of assets) or net realizable value whichever is lower. Gains or losses are taken up in the accounts when properties foreclosed are disposed of.

Investments in Securities

The Corporation accounts for investments in government bonds at the lower of the aggregate cost or aggregate market value. The market prices are based on the average prices in the latest auction.

The Corporation accounts for investments in listed securities for trading and investment at the lower of aggregate cost or aggregate market value. The market prices are based on the latest prices quoted in the Stock Exchange of Thailand at the balance sheets dates.

Investments in other securities that are held for long-term purposes are valued at cost. A partial provision is made for possible losses on investments in capital securities when there are uncertainties as to the ability of the investees to continue as a going concern and a full provision for losses is made when the market values or investees' book values are lower than costs and the decline in values are considered permanent.

Investments in debt instruments for trading are valued at the lower of aggregate cost or the aggregate market value and investments in debt instruments for investment are valued at the lower of aggregate cost (net of remaining balance of premium or discount) or the aggregate market value. Premium or discount of investments in debt instruments for investment is amortized by straight-line method over the remaining lives of debt instruments and accounted for as income or expenses. The market prices are based on the latest prices quoted in the Bond Dealers' Club.

The allowance for decline in value of investments is presented in the balance sheets as a deduction from related investment account. The contra-account of the allowance for decline in value of investments, held for long-term purposes, is presented as "Unrealized losses on securities for investments" which is shown under "Shareholders' Equity" in the balance sheets while the contra-account of the allowance for decline in value of investments, held for trading purposes, is presented as part of "Gains (Losses) on securities trading -Net" in the statements of income. In the event that the decline in value of investments

held for long-term purposes is considered as a permanent decline, the contra-account of the decline in value of investments as referred to above is presented as part of "Provision for decline in value of long-term investments in securities" in the statements of income.

The Corporation accounts for its investments in subsidiaries and associated companies by the equity accounting method in order to comply with the regulations of the Stock Exchange of Thailand. The equity in net income of associated companies of Baht 23 million and 14 million included in the statements of income for the years ended December 31, 1998 and 1997, respectively, have not been audited by auditors.

In March 1997, the Corporation sold investments in 2 subsidiaries and 1 associated company. The gain on sale of investments in such subsidiaries and associated company amounted to approximately Baht 59 million is shown as a part of "Equity in net loss of subsidiaries and associated companies - Net of goodwill amortization" in the statements of income.

Foreign Currency Transactions

All foreign currency transactions during the year are translated to Thai Baht at the rates prevailing on the dates of transactions. Assets and liabilities denominated in foreign currencies at balance sheet dates are translated to Thai Baht at the average exchange rates from the Bank of Thailand at balance sheet dates. Gains or losses on translation are credited or charged to each year operations.

Gains or losses on the forward contracts incurred from exchange rate difference between the spot rate at forward contract date and forward rate are recognized as income or expenses over the contract period.

Earnings (Loss) per Share

Earnings (loss) per share are determined by dividing the net income (loss) by the weighted average number of shares outstanding during the year. The Corporation does not present fully diluted earnings per share for comparative purposes because such earnings per share is not significantly different from the basic earnings per share.

4. RELATED PARTY TRANSACTIONS

4.1 Investments in Subsidiaries, Associated and Related Companies

December 31, 1998							
Name	Type of Business	Type of Relationship	In Thousand Baht		In Thousand Baht		
			Authorized, issues and Paid-Up	Percentage of Holding	Investments		Dividend
					Cost Method	Equity Method	
Associated Companies							
1. IFCT Advisory Co., Ltd.	Investments Banking Services	Associated Company	2,500	49.00	1,225	2,827	-
2. Thai Orix Leasing Co., Ltd.	Hire Purchase/ Leasing	Associated Company	200,000	45.45	90,583	213,381	-
3. Thai Sakura Finance & Securities Co., Ltd.	Finance and Securities	Associated Company	150,000	25.00	66,375	68,386	-
4. The Mutual Fund Public Co., Ltd.	Fund Management	Associated Company	120,000	24.23	353,835	485,501	7,270

December 31, 1998

Name	Type of Business	Type of Relationship	In Thousand Baht		In Thousand Baht		
			Authorized, issues and Paid-Up	Percentage of Holding	Investments		Dividend
					Cost Method	Equity Method	
5. Y.K.K. Zipper (Thailand) Co., Ltd.	Zipper Manufacturing	Associated Company	80,000	20.90	16,720	16,720	13,318
Related Companies							
1. Thai Factory Development Public Co., Ltd.	Factory Developer	Related through Shareholders/ Directorships	320,000	19.66	94,210	-	-
2. Strongpack Public Co., Ltd.	Flexible Packaging Manufacturing	Related through Shareholders/ Directorships	330,000	18.18	225,044	-	3,600
3. IFCT Nomura/JAFCO Capital Co., Ltd.	Venture Capital	Related through Shareholders/ Directorships	250,000	15.00	37,500	-	-
4. IFCT Nomura/JAFCO Holdings Co., Ltd.	Venture Capital	Related through Shareholders/ Directorships	250,000	15.00	37,500	-	-
5. National Fertilizer Public Co., Ltd.	Fertilizer Manufacturing	Related through Shareholders/ Directorships	4,744,559	14.78	617,673	-	-
6. Siam City Factoring Public Co., Ltd.	Factoring Services	Related through Shareholders/ Directorships	180,000	13.83	24,920	-	-
7. Asset Development Co., Ltd.	Hire Purchase/ Leasing	Related through Shareholders/ Directorships	60,000	10.00	6,000	-	-
8. The Industrial Management Co., Ltd.	Business Consultant Services	Related through Shareholders/ Directorships	10,000	10.00	1,034	-	-

December 31, 1997

Name	Type of Business	Type of Relationship	In Thousand Baht		In Thousand Baht		
			Authorized issues and Paid-Up	Percentage of Holding	Investments		Dividend
					Cost Method	Equity Method	
Subsidiaries							
1. IFCT advisory Co., Ltd.	Investments Banking Services	Subsidiary	2,500	100.00	2,500	2,971	-
2. First City Investments Public Co., Ltd.	Financial Institution	Subsidiary	2,650,000	56.69	2,787,768	1,752,550	92,404
3. IFCT Finance & Securities Public Co., Ltd.	Financial Institution	Subsidiary	1,050,000	55.78	984,944	506,932	27,271
Associated companies							
1. Thai Orix Leasing Co., Ltd.	Hire Purchase/ Leasing	Associated Company	200,000	35.57	73,787	192,077	7,200
2. Thai Sakura Finance & Securities Co., Ltd.	Finance and Securities	Associated Company	150,000	25.00	66,375	72,456	3,750
3. The Mutual Fund Public Co., Ltd.	Fund Management	Associated Company	120,000	24.23	353,835	472,202	23,262
Related companies							
1. The Industrial Management Co., Ltd.	Business Consultant Services	Related through Shareholders/ Directorships	10,000	19.99	2,068	-	-
2. Y.K.K. Zipper (Thailand) Co., Ltd.	Zipper Manufacturing	Related through Shareholders/ Directorships	80,000	19.99	15,990	-	9,988
3. Thai Factory Development Public Co., Ltd.	Factory Developer	Related through Shareholders/ Directorships	320,000	19.66	94,210	-	-
4. Strongpack Public Co., Ltd.	Flexible Packaging Manufacturing	Related through Shareholders/ Directorships	330,000	18.18	225,044	-	12,000
5. IFCT Nomura/JAFCO Capital Co., Ltd.	Venture Capital	Related through Shareholders/ Directorships	250,000	15.00	37,500	-	-

December 31, 1997

Name	Type of Business	Type of Relationship	In Thousand Baht		In Thousand Baht		
			Authorized issues and Paid-Up	Percentage of Holding	Investments		Dividend
					Cost Method	Equity Method	
6. IFCT Nomura/JAFCO Holdings Co., Ltd.	Venture Capital	Related through Shareholders/Directorships	250,000	15.00	37,500	-	-
7. National Fertilizer Public Co., Ltd.	Fertilizer Manufacturing	Related through Shareholders/Directorships	4,000,000	14.16	550,173	-	-
8. Asset Development Co., Ltd.	Hire Purchase/Leasing	Related through Shareholders/Directorships	60,000	14.00	8,400	-	-
9. Siam City Factoring Public Co., Ltd.	Factoring Services	Related through Shareholders/Directorships	180,000	11.46	20,620	-	3,671
10. Mae Rim Terrace Resort Co., Ltd.	Hotel & Resort	Related through Shareholders/Directorships	250,000	10.00	25,000	-	-

4.2 Loans to/Loans from Associated Companies and Related Companies

Name	In Thousand Baht		Cost of Lending Policy
	Balance as at		
	December 31, 1998	December 31, 1997	
Short-term Investments in			
Promissory Notes			
Associated Companies			
- Thai Orix Leasing Co., Ltd.	20,000	20,000	At Market
- Thai Sakura Finance & Securities Co., Ltd.	-	20,000	At Market
Related Companies			
- Asset Development Co., Ltd.	2,893,280	1,107,000	At Market
- IFCT Capital Management Co., Ltd.	1,620,000	958,930	At Market
- The Industrial Management Co., Ltd.	1,917,000	1,068,320	At Market
- Strongpack Public Co., Ltd.	150,000	-	At Market
- Siam City Factoring Public Co., Ltd.	361,000	-	At Market
- IFCT Nomura/JAFCO Capital Co., Ltd.	172,406	168,326	At Market
- IFCT Nomura/JAFCO Holdings Co., Ltd	137,445	137,445	At Market

Name	In Thousand Baht		Cost of Lending Policy
	Balance as at		
	December 31, 1998	December 31, 1997	
Loans Receivables			
Related Companies			
- National Fertilizer Public Co., Ltd.	2,303,554	2,697,523	At Market
- IFCT Capital Management Co., Ltd.	-	165,364	At Market
- Siam City Factoring Public Co., Ltd.	-	519,717	At Market
- Thai Factory Development Public Co., Ltd.	633,518	611,976	At Market
Promissory Notes Payables			
Associated Companies			
- Thai Orix Leasing Co., Ltd.	419,500	-	At Market
- The Mutual Fund Public Co., Ltd.	55,500	55,500	At Market

5. CASH IN HAND AND AT BANKS

	In Thousand Baht	
	1998	1997
Cash	313	630
Deposits at banks	425,265	390,232
Cheques in transit	84,167	-
Total	509,745	390,862

6. INVESTMENTS IN SHORT-TERM PROMISSORY NOTES

	In Thousand Baht	
	1998	1997
Promissory notes - at call	8,225,409	7,569,371
Promissory notes and bills of exchange - term -net	11,874,621	16,826,653
Total	20,100,030	24,396,024
Add Accrued interest receivable	312,203	485,370
Less Allowances for doubtful accounts	(1,045,718)	(428,030)
Net	19,366,515	24,453,364

Most of the promissory notes are issued by financial institutions.

Investments in short-term promissory notes on which the Corporation stopped accruing interest amounted to approximately Baht 1,385 million and Baht 821 million at the December 31, 1998 and 1997, respectively.

7. SECURITIES PURCHASED UNDER RESALE AGREEMENT

This account represents investment in government bonds issued by the Bank of Thailand. The Corporation can resale such bonds to the Bank of Thailand within the agreed period.

8. INVESTMENTS IN SECURITIES

	In Thousand Baht			
	1998		1997	
	Cost	Book value/ Market value	Cost	Book value/ Market value
Securities for Trading				
Government bonds	447,257	461,405	-	-
Private enterprises securities	550,549	522,615	650,699	650,335
Less Allowances for decline in value	(51,009)	-	(364)	-
Debt instruments-net	946,797	984,020	650,335	650,335
Common share securities				
Listed securities	615,340	385,965	522,646	438,854
Less Allowances for decline in value	(229,375)	-	(83,792)	-
Common share securities - net	385,965	385,965	438,854	438,854
Securities for Trading-net	1,332,762	1,369,985	1,089,189	1,089,189
Securities for Investment				
Government bonds	14,485,116	14,776,542	-	-
Private enterprises securities	4,089,492	2,925,769	3,334,875	2,980,936
Less Allowances for decline in value	(1,110,252)	-	(353,939)	-
Debt instruments-net	17,464,356	17,702,311	2,980,936	2,980,936
Common share securities				
Listed securities (At cost)	2,317,757	1,035,364	2,048,695	1,333,343
Listed securities (By equity method)	485,501	218,085	2,731,685	1,068,094
Other securities (At cost)	3,113,567	1,910,058	3,293,400	3,225,375
Other securities (By equity method)	301,315	435,813	267,504	298,109
Total	6,218,140	3,599,320	8,341,284	5,924,921
Less Allowances for decline in value	(1,976,993)	-	(1,157,246)	-
Common share securities - net	4,241,147	3,599,320	7,184,038	5,924,921
Securities for Investments - net	21,705,503	21,301,631	10,164,974	8,905,857
Investments in Securities - net	23,038,265	22,671,616	11,254,163	9,995,046

The Corporation's investments in 10% or more than 10% of the outstanding shares of other companies which are included in securities for investments - common shares are as follows:

	1998		1997	
	%	In Thousand Baht	%	In Thousand Baht
IFCT Advisory Co., Ltd.	49.00	2,827	100.00	2,971
Thai Orix Leasing Co., Ltd.	45.45	213,381	35.57	192,077
Thai Sakura Finance & Securities Co., Ltd.	25.00	68,386	25.00	72,456
The Mutual Fund Public Co., Ltd.	24.23	485,501	24.23	472,202
Y.K.K. Zipper (Thailand) Co., Ltd.	20.90	16,720	19.99	15,990
Asean Potash Holding Co., Ltd.	19.90	181,850	19.90	181,850
Thai Factory Development Public Co., Ltd.	19.66	94,210	19.66	94,210
Bangkok Visypak Co., Ltd.	19.05	13,333	19.05	13,333
Strong Pack Public Co., Ltd.	18.18	225,044	18.18	225,044
Rural Capital Partner Co., Ltd.	17.50	1,750	17.50	1,750
Thai Castrol Oil Industry Co., Ltd.	15.40	8,689	15.40	8,689
General Agro Co., Ltd.	15.00	6,300	15.00	6,300
IFCT Nomura/JAFCO Capital Co., Ltd.	15.00	37,500	15.00	37,500
IFCT Nomura/JAFCO Holding Co., Ltd.	15.00	37,500	15.00	37,500
Piboon Concrete Co., Ltd.	15.00	12,000	15.00	12,000
Sanwa Inter Food Co., Ltd.	15.00	15,000	15.00	15,000
Nam Seng Insurance Public Co., Ltd.	14.78	129,143	13.16	92,185
National Fertilizer Public Co., Ltd.	14.78	617,673	14.16	550,173
Siam City Factoring Public Co., Ltd.	13.83	24,920	11.46	20,620
Island Resort Hotel Co., Ltd.	12.61	58,450	12.61	58,450
Small Industry Credit Guarantee Corporation	11.92	47,660	11.92	47,660
Usha Siam Steel Industries Co., Ltd.	11.11	48,000	11.11	48,000
Antara Holiday Park Co., Ltd.	10.00	13,000	10.00	13,000
Bangkok Castings Co., Ltd.	10.00	1,000	10.00	1,000
Bangkok Mould Co., Ltd.	10.00	500	10.00	500
BNH Medical Centre Co., Ltd.	10.00	88,875	10.00	81,469
Eastern Sea Laem Chabang Terminal Co., Ltd.	10.00	26,000	10.00	26,000
Ferry Line Public Co., Ltd.	10.00	57,000	10.00	57,000
IFCT Capital Management Co., Ltd.	10.00	2,499	10.00	2,499
Lanna Agro Industry Co., Ltd.	10.00	7,000	10.00	7,000
Modular Samko Co., Ltd.	10.00	3,500	10.00	3,500
Pet Pak Co., Ltd.	10.00	8,000	10.00	8,000
Rivon Foods Co., Ltd.	10.00	15,000	10.00	15,000
Siam Buyck Co., Ltd.	10.00	9,000	10.00	9,000
Small Industry Finance Corporation	10.00	30,000	10.00	30,000
Sima Thani Co., Ltd.	10.00	27,000	10.00	27,000
Sunprene (Thailand) Co., Ltd.	10.00	14,600	10.00	14,600
Thai Container Systems Co., Ltd.	10.00	26,786	10.00	26,786
Thumrin Hotel Co., Ltd.	10.00	40,000	10.00	40,000
Asset Development Co., Ltd.	10.00	6,000	14.00	8,400
The Industrial Management Co., Ltd.	10.00	1,034	19.99	2,068

9. INVESTMENT IN SECURITY UNDER RESALE AGREEMENT

On March 30, 1998, the Financial Institutions Development Fund (FIDF) and the Corporation (IFCT) jointly signed an amendment to the Share Purchase and Sale Contract dated May 7, 1997, whereby FIDF agreed to sell to IFCT 47.34% of Bangkok Bank of Commerce Public Co., Ltd. (BBC) fully paid-up share capital at Baht 0.50 per share. IFCT paid for such investment at 5% of total contract price by issuing non-transferable promissory notes which will be due within six months with interest rate at the MLR minus 2.5% p.a. IFCT is required to pay for the remaining value of such shares by annual installments at amounts and periods prescribed in the contract. The right (if any) to purchase the shares from the increase share capital and to receive the dividend arose from the common shares will be transferred to FIDF within 7 years commencing from the date in the contract. FIDF agreed to repurchase such shares from IFCT at the price purchased by IFCT plus the interest at the rate MLR minus 2.5% p.a. of the amount paid by IFCT for such shares.

As at December 31, 1997, the Corporation accounted for the said investment at amount equal to the 5% payment of the contract price as the "Investment in Security under Resale Agreement" in balance sheets. The Corporation resold all of shares to FIDF in accordance with the conditions as mentioned in the agreement on December 1, 1998.

10. LOANS, RECEIVABLES AND ACCRUED INTEREST RECEIVABLES

1) Classified by Types of Contracts

	In Thousand Baht	
	1998	1997
Packing credit loans	62,759	-
Working capital receivables	36,626,913	45,468,324
Long-term loans	95,029,737	109,791,437
Total	131,719,409	155,259,761
Add Accrued interest receivable and fees	6,450,178	4,062,109
Less Allowances for doubtful accounts	(4,714,219)	(2,394,960)
Loans, Receivables and Accrued Interest Receivable - Net	133,455,368	156,926,910

Deferred income amounting to Baht 0.8 million and Baht 6.4 million as at December 31, 1998 and 1997, respectively, are shown as deductions from the above working capital receivables.

Delinquent loans and receivables on which the Corporation stopped accruing interest amounted to approximately Baht 45,223.2 million and Baht 14,114.4 million at December 31, 1998 and 1997, respectively.

2) Classified by Remaining Periods of Contracts

	In Thousand Baht	
	1998	1997
At call	29,708,864	15,330,836
Not over one year	28,389,284	38,861,962
Over one year	73,621,261	101,066,963
Total Loans and Receivables	131,719,409	155,259,761

3) Classified by Types of Businesses

Agricultural and mining
Manufacturing and commercial
Real estate business and construction
Utilities and services
Total Loans and Receivables

In Thousand Baht	
1998	1997
11,338,449	14,905,340
85,219,392	95,078,085
1,149,029	1,251,791
34,012,539	44,024,545
131,719,409	155,259,761

11. ALLOWANCES FOR DOUBTFUL ACCOUNTS

Beginning balance
Add Doubtful accounts
Less Bad debts written-off
Ending balance

In Thousand Baht	
1998	1997
2,394,960	858,573
2,487,564	1,540,731
(168,305)	(4,344)
4,714,219	2,394,960

12. LAND, BUILDINGS AND EQUIPMENT

Land
Original cost
Appraisal increment (1992)
Buildings
Original cost
Appraisal increment (1992)
Furniture, fixtures, office equipment and computer
Transportation equipment
Construction in progress
Leasehold right
Total
Less Accumulated depreciation
On cost
On appraisal increment
Net

In Thousand Baht	
1998	1997
509,556	509,556
504,055	504,055
466,644	466,644
267,995	267,995
289,597	265,360
104,122	104,092
593,192	295,266
7,130	7,130
2,742,291	2,420,098
(516,505)	(440,785)
(159,938)	(136,532)
2,065,848	1,842,781

Depreciation charges to operating expenses in 1998 and 1997 are Baht 77.6 million and Baht 80.1 million, respectively.

13. OTHER ASSETS

Long-term investments
Other receivables and advances
Accrued interest and dividends

Total

In Thousand Baht	
1998	1997
2,149,122	1,543,353
2,896,094	2,903,050
367,910	148,286
5,413,126	4,594,689

Most of long-term investments represent investments in foreign currency financial instruments which are to protect exchange risk.

14. NOTES PAYABLE

Notes payable- - at call
- terms
Long-term notes payable
Rediscounted notes
Bills of exchange - net

Total

In Thousand Baht	
1998	1997
3,939,516	6,747,282
19,308,049	8,339,300
3,695,696	3,709,621
270,164	210,602
12,257,912	9,024,859
39,471,337	28,031,664

15. BORROWINGS

Local short-term borrowings
Local long-term borrowings
Foreign short-term borrowings
Foreign long-term borrowings on currency swap to Baht
Foreign long-term borrowings in foreign currencies

Total

In Thousand Baht	
1998	1997
3,000,000	-
11,497,298	3,614,288
2,820,328	14,472,571
2,134,604	3,472,012
31,672,125	20,847,418
51,124,355	42,406,289

Details of foreign currency borrowings which are converted to Baht at the average exchange rates from the Bank of Thailand at the balance sheets dates are as follows:

Currency	1998		1997	
	In foreign currency '000	In Thousand Baht	In foreign currency '000	In Thousand Baht
USD	503,022	18,454,854	677,412	32,005,675
Yen	49,426,140	15,710,791	8,010,567	2,912,518
DM	10,000	219,648	10,000	264,231
BEF	75,000	80,160	81,250	104,565
Baht		16,658,902		7,119,300
Total		51,124,355		42,406,289

The above loans bear interest at different rates. Some are interest-free and some are interest exempted for a period of time. They are scheduled to be repaid either on a semi-annual or annual basis until 2031. Most of the foreign loans with specific use are guaranteed by the Thai Government and will be for lending under the restricted conditions. Foreign borrowings from capital markets do not have any usage restriction.

In February, March and September 1998, the Corporation obtained loans from three foreign financial institutions in the form of subordinated loans totalling approximately USD 55 million for 10-year term with detachable warrants to purchase common shares for 25.2 million units. The holder of each warrant has the option to purchase 1 Corporation's common share at the price of Baht 10.00 and Baht 18.25 for Baht 10 par value which is subject to change if certain circumstance changed that causes the Corporation to adjust the price to an international standard, or the exercisable price and the ratio to exercise the warrants changed, the Corporation has to increase the reserve common shares for the exercisable warrants. The warrants are exercisable within 5 years.

Under the term of the borrowing agreements with Kreditanstalt fur Wiederaufbau (KfW), the Corporation is required to pay interest only at 2% of borrowings from KfW. The difference of interest earned is granted to the Corporation to maintain as a special fund. This special fund is restricted for use in training, to compensate the losses from foreign currency swap of borrowings from KfW and others. As of December 31, 1998 and 1997, the balance of this special fund are Baht 78.8 million and Baht 78.4 million, respectively, and are presented as part of "Accounts Payable and Accrued Expenses" in the balance sheets.

Foreign long - term borrowings with specific uses are as follows:

- Borrowings from Nordic Investment Bank (NIB) for lending to the partners in the joint ventures with Nordic countries or business using Nordic machinery/ equipments is outstanding with a balance of USD 146.16 million or approximately Baht 5,362.3 million with the remaining terms of 19 years.
- Borrowings from the Sweden Government for lending to those who use Swedish machinery/equipments is outstanding with a balance of USD 18.01 million or approximately Baht 660.7 million with the remaining terms of 5 years.
- Borrowings from the Danish Government for lending to those who use Danish machinery / equipments is outstanding with a balance of USD 3.50 million or approximately Baht 128.4 million with the remaining terms of 5 years.
- Borrowings from the Belgium Government for lending to those who use Belgian machinery/equipments is outstanding with a balance of BEF 75.0 million or approximately Baht 80.2 million with the remaining terms of 12 years.

- Borrowings from the Export - Import Bank of the United States of America for lending to those who use America machinery/equipments is outstanding with a balance of USD 2.73 million or approximately Baht 100.2 million with the remaining terms of 5 years.
- Borrowings from The Overseas Economic Cooperation Fund (OECF) for lending to export business, small industry business and pollution protection investment business is outstanding with a balance of YEN 6,279.14 million or approximately Baht 1,995.9 million with the remaining terms of 22 years.
- Borrowings from the Export - Import Bank of Japan (JEXIM) for lending to direct and indirect export business and related companies or joint ventures with Japan is outstanding with a balance of YEN 40,000 million or approximately Baht 12,714.6 million with the remaining terms of 4 years.
- Borrowings from Kreditanstalt fur Wiederaufbau (KfW) for small industry business is outstanding with a balance of DM 10.0 million and USD 30 million or approximately Baht 219.6 million and Baht 1,100.6 million with the remaining terms of 33 years.

Under the terms of the above mentioned borrowing agreements, the Corporation is required to comply with the terms and conditions as stated in the agreements.

In 1998 and 1997, the Corporation managed some foreign debts with exchange risks by means of currency swap and interest rate swap. This is to be lent to customers with no foreign exchange risk to the Corporation.

16. DEBENTURES

As at December 31, these consist of debentures with various interest rates and redemption as follows:

	In Million Baht	
	1998	1997
Redeemable in		
1998	-	12,253.68
1999	13,747.94	12,575.37
2000	18,426.90	18,761.42
2001	11,112.67	9,532.80
2002	10,274.14	23,474.53
After 2002-2010	26,720.11	39,924.32
Total	80,281.76	116,522.12
Less Discount	(111.30)	(217.22)
Net	80,170.46	116,304.90

17. REGISTERED PROVIDENT FUND

The Corporation has a non-funded provident fund for its employees. Under the regulation of the Corporation's non-funded employees' provident fund B.E. 2525, contributions to the fund are made solely by the Corporation at rates ranging from 5% to 10% of the employees' basic salaries based on length of employment.

Effective from January 1, 1996, the Corporation management approved the establishment of contributory employees' provident fund in accordance with the provisions of the provident fund Act. B.E. 2530. Membership to the fund is on a voluntary basis and members of the Fund have the option to make monthly contribution to the fund at the rate ranging from 3% to 10% of their basic salaries, whereby the Corporation will make monthly contribution to the Fund at the rate ranging from 5% to 10% of their basic salaries based on length of employment.

The Corporation's contribution to the above funds in 1998 and 1997 are approximately Baht 27.4 million and Baht 27.7 million, respectively.

18. SHARE CAPITAL

On January 23, 1998, the shareholders of the Corporation passed a special resolution at the 1/1998 Extraordinary Meeting (to ratify the minutes of the 38th Ordinary General Meeting held on April 25, 1997) to approve the increase in share capital for Baht 5,000 million, from Baht 7,000 million to Baht 12,000 million, by issuing 500 million new common shares at Baht 10 par value. This can be made by issuing common shares and/or convertible debentures and/or warrants to purchase common shares, based on the board of directors' consideration.

19. APPROPRIATION OF RETAINED EARNINGS

Legal Reserve

Under the provisions of the Civil and Commercial Code of Thailand, the Corporation is required to appropriate at least 5% of its net income as legal reserve at each dividend declaration. This requirement shall cease to be compulsory when the reserve equals 10% of the authorized capital. The reserve is not available for dividend distribution.

Special Reserve

As at December 31, these consist of:

	In Thousand Baht	
	1998	1997
Reserves for bad debts and possible losses on investments	2,019,406	2,019,406
General reserve	1,986	1,986
Reserve for business expansion	1,600,000	1,600,000
Total	3,621,392	3,621,392

Reserves for doubtful accounts and possible losses on investments are appropriated from retained earnings only when the doubtful accounts and possible losses on investments, provided in accordance with generally accepted accounting principles, in any year are less than 25% of net income.

As at December 31, 1998 and 1997, the Corporation has reserve for business expansion of Baht 1,600 million because the Corporation has the on-going constructions to expand head - office building to support the business expansion.

Reserve Required under Borrowing Agreements

Under the terms of certain borrowing agreements, the Corporation is required to set aside its unappropriated retained earnings as a reserve for expansion programs and for relending purposes. The amounts of annual appropriation is defined in the respective agreements.

Appropriation of Dividend

On April 23, 1998, the Meeting of shareholders passed a resolution to approve the dividend payment for the year 1997 at Baht 0.50 per share amounting to Baht 272,397,232 for 544,794,464 common shares.

20. LOSSES ON EXCHANGE

Losses on exchange charged to expenses during the years are as follows:

	In Thousand Baht	
	1998	1997
Provision for losses on exchange	154	146
Amortization on deferred expenses from foreign currency swap	98,488	99,159
Losses (gains) on exchange rate	(11,949)	13,380
Total	86,693	112,685

21. TAXES

The Corporation is established under The Industrial Finance Corporation of Thailand Act B.E. 2502 (1959) and is not subject to the corporate income tax as ruled by the Revenue Department.

Under the provision of Section 78 bis (7) of the Revenue Code and Royal Decree No. 10 (B.E.2500) issued under the provision of the Revenue Code, the Corporation is also exempted from payment of business taxes and the stamp duty. The Corporation is also exempted from payment of the specific tax under the provision of Section 91/3 of the Revenue Code.

22. ASSET QUALITY

1. Investments in Securities

- 1.1 Investments in the closed finance companies or finance companies under the control of BOT for which the share capital had been decreased and increased are as follows:

	In Million Baht		
	At cost/Net book value	Market Price	Allowances for decline in value of investments
Common shares	77.79	0.01	77.78
Debentures	256.00	198.62	43.63
Subordinated Debentures	2,018.41	50.73	720.22
Total	2,352.20	249.36	841.63

The Corporation provided allowances for possible losses of investments in debentures and subordinated debentures by determination of indebtedness after deduction of the minimum amount expected to be received from the sharing of proceeds and/or the market prices of debentures and subordinated debentures at balance sheet date.

As at December 31, 1998, the Corporation has investments in subordinated debentures totalling approximately Baht 1,250 million in First City Investment Public Co., Ltd. and IFCT Finance & Securities Public Co., Ltd., which are under the control of BOT. In this regard, Krungthai Thanakit Public Co., Ltd. agreed to accept the transfers of the subordinated debentures from the two financial institutions and transferred the said debts to Bank Thai Public Co., Ltd. referred to the announcement from the Ministry of Finance dated December 22, 1998, with the following conditions:

1. To extend repayment schedule for the period of 10 years commencing from February 1, 1999 to February 1, 2009.
2. To waive the right to request for the repayment of all accrued interest receivable and agreed not to claim for interest for the extended repayment period.
3. To waive the right to convert the debentures and other debt instruments to equity.

The Corporation intends and is able to hold these investments in subordinated debentures until maturity. The Corporation, therefore, follows the guideline suggested by the Stock Exchange of Thailand concerning the accounting treatment for debt instruments issued for the closed finance companies by not setting up allowances for loss on investments in subordinated debentures in the accounts.

- 1.2 The Corporation has investments in the companies which are being delisted from the Stock Exchange of Thailand as follows:

	In Million Baht		
	At cost/Net book value	Market Price	Allowances for decline in value of investments
Common shares	8.59	3.39	5.20
Debentures	30.00	-	30.00
Subordinate Debentures	65.00	-	65.00
Total	103.59	3.39	100.20

2. Short-term Investments in Promissory Notes

The Corporation has investments in short-term promissory notes of 8 closed finance companies totalling of Baht 1,097.82 million and provided the allowances for doubtful accounts of Baht 517.12 million. This figure derived from the determination of indebtedness after deduction of the minimum amount that is expected to be received from the sharing of proceeds.

3. Loans, Receivables and Accrued Interest Receivable

As at December 31, 1998, the Corporation loans, receivables and accrued interest receivable classified under the criteria from the Bank of Thailand (BOT) are as follows:

	In Million Baht			
	Indebtedness	Percentage Required by BOT	Required Provision	Allowances for Doubtful Accounts
				Minimum Amount allowed By BOT
Normal receivables	81,404.66	1	814.05	162.81
Special mentioned receivables	4,121.15	2	82.42	16.48
Sub-standard receivables	4,206.37	20	130.34	26.07
Doubtful receivables	14,766.75	50	769.43	153.89
Bad debts	31,668.83	100	6,503.27	1,300.65
Total	136,167.76		8,299.51	1,659.90

The above allowances for doubtful accounts as required by BOT of approximately Baht 8,300 million were computed with the consideration of the collateral value in accordance with the criteria in the announcement of the BOT. As at December 31, 1998, the Corporation provided the allowances for all doubtful accounts in the accounts amounting to approximately Baht 4,714 million which is more than the minimum amount allowed by BOT.

Loans, receivables and accrued interest receivable to companies with financial problem for which the allowances for doubtful accounts have already been provided for are as follows:

	In Million Baht			Allowances for Doubtful Accounts
	Items	Indebtedness	Collaterals	
1. Closed finance companies	-	-	-	-
2. Finance companies under the control of BOT for which share capital had been decreased and increased	-	-	-	-
3. Listed companies which are being delisted from SET	8	5,070.84	2,900.01	2,271.32
Total	8	5,070.84	2,900.01	2,271.32

23. MANAGEMENT AGREEMENT UNDER THE REHABILITATION SCHEME

The Corporation has a Management Agreement with BBC for rehabilitating BBC's operations. The term of the agreement is for 7 years. IFCT shall receive a management fee of Baht 36 million per year and profit sharing which is to be calculated from net profit duly verified by the Bank of Thailand at the rates prescribed in the agreement.

Recently, IFCT received a letter from the Financial Institutions Development Fund dated September 11, 1998, to notify the cancellation of the Management Agreement with effective from August 31, 1998.

24. MANAGEMENT PLAN AND ADMINISTRATION AGREEMENTS

In 1990, the Corporation entered into a management plan agreement with the Canadian International Development Agency (CIDA) to promote businesses of small and medium industries in the Northern Region of Thailand by offering loans and/or participating in joint ventures. Both the Corporation and CIDA contributed to the fund at Canadian Dollars 4.1 million each, and the Corporation has been appointed as the manager of the fund. The Corporation will record the CIDA contributions to the fund as part of its business transactions under its liabilities. As at December 31, 1998, and 1997, the fund balances under this plan are Baht 92.3 million and Baht 92.5 million, respectively, and are shown as "Accounts Payable and Accrued Expenses" in the balance sheets.

On May 9, 1996, the Corporation and CIDA amended the management plan and administration agreements whereby the Corporation has an authorization to manage the fund and has the right over the fund which was effective from June 30, 1996. As a result, the Corporation recorded income from loans and/or equity investments and others to income of the Corporation.

25. ECONOMIC CRISIS

The accompanying financial statements as of December 31, 1998, include the effect of the economic crisis to the Corporation to the extent they are known and can be estimated. The country's economic crisis caused by the currency volatility of the countries in the Asia Pacific region which has a significant effect to the operations of the Corporation and will continue to be effect for the foreseeable future. As a result, there are significant uncertainties that might affect future operations of the Corporation. The ultimate outcome on these matters cannot be presently determined.

26. COMMITMENTS AND CONTINGENT LIABILITIES

	In Thousand Baht	
	1998	1997
Avals to loan	-	3,206,715
Guarantee for loan	16,446,542	23,911,937
Letters of credit	565,392	962,570
Unwithdrawn borrowings under agreements	4,646,625	3,449,971
Commitments under construction contracts	593,469	868,412

In addition, the Corporation had commitments under the forward contracts and long-term debts management contracts of which has the risks from exchange rate by means of currency swap and interest rate swap. This is for on lent to customers with no foreign exchange risk to the Corporation.

As at December 31, 1998, the Corporation had commitments under the above contracts as follows:

	As at December 31, 1998		
	In Thousand Baht		
	Baht	Foreign Currency	Total
1. Forward Contracts			
- Purchase contracts	-	1,132,654	1,132,654
- Sale contracts	-	1,133,706	1,133,706
2. Currency Swap Contracts			
- Receiving contracts	3,280,358	11,578,439	14,858,797
- Delivering contracts	2,262,611	10,818,898	13,081,509
3. Principals of Interest Rate Swap Contracts	-	15,104,316	15,104,316

	As at December 31, 1997		
	In Thousand Baht		
	Baht	Foreign Currency	Total
1. Forward Contracts			
- Purchase contracts	-	7,455,070	7,455,070
- Sale contracts	-	7,573,264	7,573,264
2. Currency Swap Contracts			
- Receiving contracts	438,000	10,021,900	10,459,900
- Delivering contracts	2,262,611	7,067,753	9,330,364
3. Principals of Interest Rate Swap Contracts	-	29,550,541	29,550,541

27. THE COMPUTER REMEDIATION PLAN FOR THE YEAR 2000 (UNAUDITED)

The Corporation has commenced to renovate, validate and implement its computer system since the middle of the year 1997 in order to cope up with the year 2000 problem. The computer remediation project which is divided into two sections, core-business systems and non-core business systems, is expected to be fully completed in December 1998 and September 1999, respectively. The total cost in this remediation project is approximately Baht 1.8 million of which Baht 1.0 million was recorded as expenses in the current period. It is expected that the modification and implementation of the Corporation's computer system will be fully completed on schedule. However, the Corporation still has some risks for the non-compliance with year 2000 by if the counter-parties with whom the Corporation does businesses be unable to remedy the year 2000 problem.

28. RECLASSIFICATION OF ACCOUNTS

Certain accounts in 1997 were reclassified to conform with the 1998 Corporation financial statements presentation.

29. BASIS OF FINANCIAL STATEMENT PRESENTATION

The Corporation maintains its official accounting records in Thai Baht and prepares its statutory financial statements in the Thai language in conformity with financial accounting standards in Thailand. Certain accounting principles applied by the Corporation that conform with financial accounting standards and accounting principles in Thailand may not conform with generally accepted accounting principles in other countries. Accordingly, these financial statements are not designed for those who are not informed about Thailand accounting principles and practices.

For the convenience of the reader, the accompanying financial statements have been translated into English from the statutory Thai language financial statements which are issued for domestic reporting purposes.

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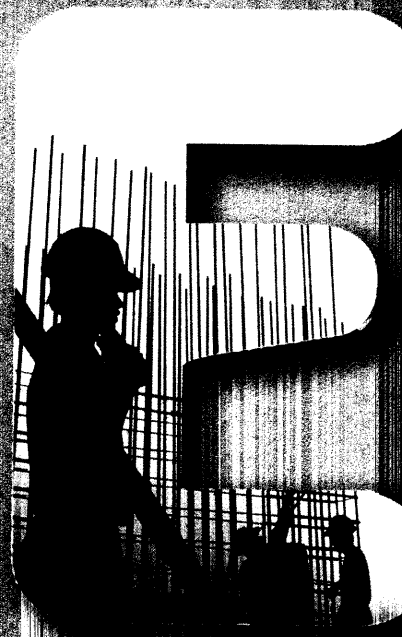


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