

VANTAGE

POINT

spring 2013

BUSINESS CLASS GROUP MAGAZINE



The psychology of investing

Keep your emotions in check to become a successful investor. Find out more... page 5

Resales by Lifestyle

Buying or selling London property in the secondary market?

Wealth Protection

Why place your assets in a trust? Find out more... page 6

EDITOR'S TALK

Dear readers,

Welcome to the Spring 2013 Edition of Vantage Point!

Platinum Financial Services & Lifestyle Brokers celebrated their 5th Anniversary recently and in this magazine we detail the progress of Business Class Group companies during these years. We start this issue with a review of a very busy year in 2012 for BCG, one that saw the award of "Best Hong Kong Mortgage Broker" for Lifestyle Brokers and as one of "Hong Kong's Most Valuable Companies" for Platinum Financial Services. The BCG business keeps growing both in size and locations and we aim to bring our clients news and articles which keep you informed as part of our service offering.

In this issue Andrew Wood enlightens readers on the important issue of trust formation to protect assets (page 6), Lee Frost explains how an expatriate can purchase property in Thailand using an offshore company (page 8) and Anthony Robson introduces the new "Resales by Lifestyle" brand and tells how clients can buy existing London properties rather than the mass market off plan developments normally available.

We hope that you find this edition of interest - we value input from our clients and welcome comments and questions concerning this issue and suggestions for future topics for the next Vantage Point.

Read on!

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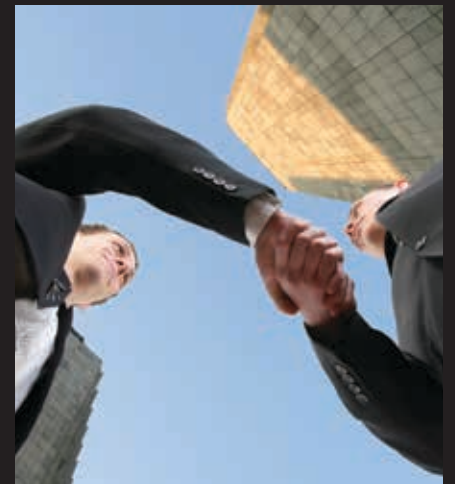
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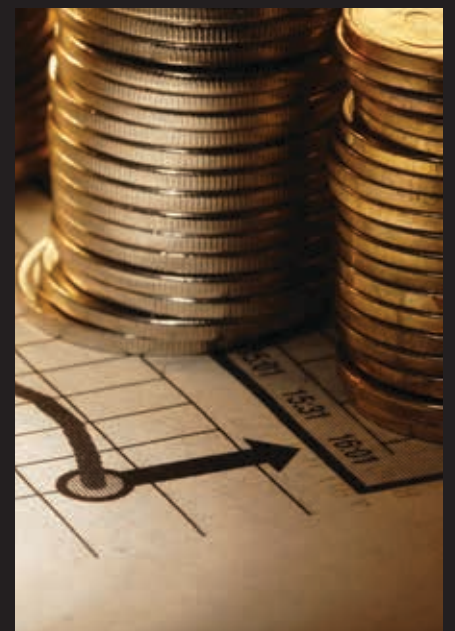
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Expatriate buying in Thailand? Using an offshore company

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BUSINESS CLASS GROUP IN 2012.

INVESTMENT TIPS

Monitor your portfolio regularly. Read your monthly valuations and take the time to meet your PFS consultant at least quarterly to review performance and ask questions.

2012 was yet another challenging year for all of us. We've seen continued market volatility, the slowing of the global economy, the escalating European debt crisis, the Greek bailout, the US election, a change of guard in China and the looming US 'fiscal cliff' problems to name but a few. All of these events have led to uncertainty for many in the job market, the result being the less courageous investors taking a 'wait and see' approach and sitting on the sidelines. Against that backdrop everyone at BCG has been working diligently to provide better services for our clients and to improve our product offerings. We want to become the first people you think of for all things financial as we work to make your life easier and more efficient. We strive for perfection, are committed to getting better at what we do and will continue to broaden our proposition to suit client needs. We chose not to stand still or sit on the sidelines in 2012, instead we are proud of our achievements, some of which are listed below.

January

The Year started with the launch of Lifestyle Property Hong Kong, a locally licensed real estate agency operating from our Central office. Whether you are renting or buying, our experienced Agents can now help clients to find their perfect home anywhere in Hong Kong. This was a natural extension to the international brokerage that has been operating for some years and has been well received by our clients.



April

At the Square Foot Magazine 'Best of the Best Award Ceremony' Lifestyle Brokers were voted 'Best Hong Kong Mortgage Broker' for 2011/12 in recognition of our multi-jurisdiction lending expertise for local and expatriate clients.

October

On 2nd October Platinum Financial Services & Lifestyle Brokers celebrated their 5th anniversary with a gathering of staff from all group offices in Bangkok. We now have six fully operating brands and a total headcount of over 70 personnel.

October

Mark Kirkham CEO of Platinum Financial Services proudly received the prestigious award as one of 'Hong Kong's Most Valuable Companies' alongside such other well known names as Volkswagen Hong Kong, Nespresso, Standard Life, Billion Group and Ernst & Young. This award was given to PFS in recognition of the ethical standards under which the highly experienced management team operate.



November

Platinum Financial Services was the main sponsor of "Picnic in the Park"; Hong Kong's largest live international music and dance festival. The event, now in its seventh year attracted a record crowd of more than 10,000 from Hong Kong and overseas and provided over 60 acts of family entertainment for 9.5 hours! A beautiful sunny day where everyone had fun and the Platinum Financial Services, Lifestyle Property, Lifestyle Insurance and Lifestyle Club Brands were showcased.

November

Lifestyle Property exhibited at the Smart Investment & International Property Expo at the Hong Kong Convention & Exhibition Centre to promote the latest UK and high yielding student accommodation investments.

December

The final month of the year saw the launch of 'Resales by Lifestyle'. Another addition to the property stable, this brand is unique in Hong Kong and fills the current void often sought by astute property investors. Why buy new build when you can buy more traditional resale properties in sought after Boroughs across London? Additionally, if you already own property in London and are now looking to sell it you can list it with Resales on a 'no sale, no fee' basis and we will showcase it on your behalf to affluent Asian based buyers.



JULY 2007

Business Class Group was formed with a view to house a number of new financial services, property and insurance brands that would operate within the Far East

& Eastern European regions. Business Class Thailand was established to promote the services of the group in Thailand.

RESALES BY LIFESTYLE

As a property broker with a vast knowledge of the London property market, it has always frustrated me since my move to Hong Kong that the only properties marketed here seem to be off-plan developments. Every weekend there are exhibitions in Central hotels by U.K. based developers who have amazing new developments, due for completion in 1 or 2 years and the local population are always eager to find out more.

There is of course fundamentally nothing wrong with these new developments but there can be difficulties getting finance arranged closer to completion, as banks will often down value them – sometimes by as much as 20%. Indicative rental figures advertised are often over inflated. Mass developments mean when they are complete, there are often over 200 landlords looking for tenants at the same time. This causes favourable conditions for tenants NOT landlords, so rental expectations have to be lowered to find tenants.

London is famed for its diverse range of modern architecture and its more traditional period buildings standing side by side. However, not everyone wants to buy a new build, so who do you turn to in Hong Kong if you want to purchase an existing property, with character and charm? There was no one in Hong Kong offering that type of purchase – until now!

I am meeting more and more clients who want to purchase in a specific location in London and would prefer a period property, so Resales by Lifestyle has been established to help clients source properties to their exact requirements. Through our network of preferred agents in London we aim to find our clients their ideal property to match their budget, location, size and amenity requirements. We do not offer properties that seem like a bargain, but are not, due to their short-term leases. These can be very expensive to renew - sometimes almost doubling the purchase price!

Resales by Lifestyle also offer a reciprocal service to help owners sell their existing properties. Many people also purchase in London in order to send their children there for education and purchase a house for them to stay in whilst studying. This is of course a wise investment, but when the children finish their education what do you do with the property? Keeping it means an ongoing income, but also management & repair costs etc. So maybe it is a good time to dispose of the asset in order to use the money elsewhere? As the majority of London property buyers are located in Asia, it doesn't necessarily make sense to use a London estate agent to advertise the sale. Why not use Resales by Lifestyle - an Asia based agent? There is then no need for you to travel to the UK or to establish a relationship with an agent you'll never meet, and is also in a different time zone.

Resales by Lifestyle will sell your London property by giving it a 'shop window' through our network of offices – Hong Kong, Shanghai, Bangkok, Kuala Lumpur and Moscow. Our dedicated website will display your property and we will use our knowledge of existing clients who are looking for additions to their property portfolio.

INVESTMENT TIPS

Have realistic expectations concerning the performance of your portfolio and remember that the higher the risk rating of any investment, the greater the short term fluctuations are likely to be.

We will also host regular exhibitions that will allow us to showcase your property, thus attracting the attention of many potential buyers.

The secondary market in London is vast, well established and offers great potential with no developer risk and rental yields are known and provable in advance. Resales by Lifestyle is your ideal partner – committed to providing a unique and unparalleled service on behalf of its clients – both buyers and sellers alike.



Lifestyle Property
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OCTOBER 2007

Platinum Financial Services (PFS) becomes authorised in Hong Kong by the Confederation of Insurance Brokers.



OCTOBER 2007

Lifestyle Brokers Limited was established to promote mortgages and international investment property across the Far East.

Be prepared to hold investments for the long term and do not make a panic move in the light of short term volatility.

THE PSYCHOLOGY OF INVESTING.

When asked how he made his fortune Warren Buffet said:

“To invest successfully over a lifetime does not require a stratospheric IQ, unusual business insights or inside information. What’s needed is a sound intellectual framework for making decisions and the ability to keep emotions from corroding that framework.”

Keeping your emotions in control while investing may sound easy enough in theory, but in today’s volatile markets more and more people are witnessing swift and severe swings in their portfolio values and ultimately finding out first hand if they truly do have the stomach for it! While it is true that investment markets will consistently provide the best returns for long term investors, and there is certainly incredible value in certain sectors of the market at the moment, the returns do not come without risk which needs to be carefully managed within not only your portfolio but at times within yourself. It is essential that you have a plan in place to monitor this risk and have our formula for success in place from the outset. In doing this we need to identify not only the outcome for our investments, but more importantly the stages you will encounter before we reach this. It can help to initially understand not only what the end objectives for any investments are, but also the reasoning behind the strategy that will get you there and the action, including at times sacrifices, you will need to take to keep on track for your investment goals. Markets will change, and our own beliefs and fears will enter into the equation, so it is essential to ensure that any current strategies are working, but also accept that we must constantly change and adapt them to keep on track. However, this should only be done when it is fundamentally right to do so to achieve our end goal and not necessarily as a result of shock, or a panic move in light of short term fluctuations.

a market drop and recovery. Factors such as taking a longer term view point on investments can help to reduce risk, but if in reality any market fluctuations will have you wanting to sell your portfolio in panic, we need to establish this at the outset and fit your portfolio to your risk appetite. Many people claim to have a have a high tolerance to risk on paper, but until their own money is on the line, you just never know how they will react. Fear and emotions can take control of you and even though many people believed that they had the stomach to withstand the ups and downs of the market, some find out the hard way they do not, resulting in crystallizing losses from equities at market lows and moving to perceived safer investments such as cash or bonds.



Instead of tuning out the market noise it can appear easy to give in to the fear and make emotive and at times irrational decisions. Yes, hindsight is a wonderful thing, and the markets can continue to fall as well as rise. If we take the Global Financial Crisis of 2008 as an example, the stock market rebounded substantially, but the cash account where funds may have been switched into attracted very little interest over this time.

At the initial stages of any investment decisions we will typically complete a Risk Profile Questionnaire to determine your appetite to risk and potential asset allocation strategy. After looking at factors such as age, net wealth, time frames, purpose of the investment and previous experience, the questions will focus on risk appetite, and your willingness to accept losses in your portfolio, as well as your patience to withstand

Individuals who are willing to invest their money into the markets need to understand the risks involved, and also that they are investors and not traders. The stock market is not for short term savings goals, and at the same time it is not a quick path to riches. If you can’t handle the thought of losing money during the tough times of a bear market then you should stick with low risk investments such as cash and non equity correlated investments. However, if you can practice the patience and discipline to stick with your strategy for the long term, and only adapt when fundamentally right to do so, ignoring all the market and media noise which may play on your fear and emotions, then you will increase your chances of becoming a successful investor.

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OCTOBER 2007

A joint venture between Barclay Spencer International (Thailand) and Lifestyle Brokers commenced.

JUNE 2008

Platinum Financial Services opens its Rep office in Shanghai.

Andrew Wood, Executive Director, PFS International (Bangkok)

WEALTH PROTECTION YOU CAN TRUST.

Trusts are one of the least understood forms of asset protection. What are the features and advantages? Why place any of your assets in a trust? Read on.

As we get older eventually age has effects on our everyday capabilities. When your affairs become too much to manage who can you trust to hand the reins over to?

Many expats misunderstand the practicalities of trusts and how they may benefit. Much stems from old wives tales that once a trustee has hold of your money you will never see it again. This is nonsense although some prefer to close their ears and hide their head in the sand.

Many people have an employer sponsored pension. All bona-fide pension schemes are written into trust. Administered by trustees the business of the pension scheme is placed in their hands. Some cry that trustees have made a mess of pensions over recent years. It is true that many pension schemes are in difficult financial circumstances. This is largely due to poor investment decisions. The vast majority of schemes are accountable to their government who give some form of protection. Had schemes not been in trust many would have crumbled already.

Some expats have taken the plunge and transferred their UK private pension to a qualified recognised overseas pension scheme (QROPS). All QROPS are held and managed by trustees on behalf of the members. Are you one of the expats who had sufficient foresight to do this prior to 5 April 2012?

With experience of a QROPS you will realize that, as your trustees, they are acting as custodians for you. Trustees always act in your best interest taking account of your wishes, provided they fall within the fiduciary requirements they must maintain. Here is a practical example of how trustees work for you rather than disappearing into thin air.



Similarly you can arrange to place other assets in the care of trustees on your behalf. You legally pass ownership of your assets to the trustees who then act in the best interest of all concerned.

An obvious question is why would it be necessary to place any of your assets in the care of a trustee?

The answer, in a number of simple points:

1. You protect your assets from attack or prying eyes by unwanted third parties.
2. You protect yourself in the management of your wealth, especially when getting older and becoming less able to cope with your affairs in detail.
3. You protect your beneficiaries preserving their eventual inheritance.

4. You create a succession plan which is far superior to a formal will because a trust can continue ad-indefinitum.

How does this work in practice?

Jim is a successful British expat who has settled in Thailand, working as a private consultant. He had a career with a multi-national corporation (MNC) but decided to localise after meeting his Thai wife, Nok. Jim has a house which is the family home. He also owns a property in Singapore. Jim transferred his UK pension to a QROPS but has deferred taking benefits.

Saving wisely Jim has created savings plans and an OPPB. Concerned that when he dies there may be some difficulties, Jim discussed things with me and we agreed there are several potential issues to address.

INVESTMENT TIPS

Write/update your will to ensure that your estate goes to your intended heirs. Dying interstate (without a valid will) means that the state will determine disposition of your assets.

k3solutions

OCTOBER 2008

Barclay Spencer International acquires K3 Solutions, a boutique Thailand based IFA.

LIFESTYLE
property

JULY 2009

Formation of Lifestyle Property Singapore Pte.



Jim has two daughters with Nok. One is in her late teens and the other, in her early twenties, is planning marriage next year. He also has a son, by a previous marriage, living in the UK, now married with a son of his own.

Jim is concerned that if he dies unexpectedly his legacy could fall into the wrong hands.

Inheriting his estate Nok would be lost in dealing with finances of this magnitude. It is common for “relatives” to appear when such events occur, requesting assistance or making claims on such a legacy. The entire inheritance could evaporate in less than a year if there is no protection for Nok.

Jim’s future son-in-law may stage manage a quick marriage and divorce arranging access to a large chunk of wealth unintended for him.

Jim also wishes to ensure that his son and current grandson enjoy part of the inheritance which he intends them to have. Being mindful of his existing grandson and the possibility of future grandchildren he wishes to encompass

them into a succession plan in advance. This is difficult to do with a simple will, although not impossible.

We calculated that, as Jim is domiciled in the UK, his estate will be subject to inheritance tax (IHT). Around £400,000 would currently be levied. The use of trusts can assist here but will not totally mitigate the entire liability.

It looks as though Jim has a relatively complex case although some simple solutions will put him in a position where he achieves all the results he intends.

As with all plans this will take some time to implement. It will also depend on whether Jim wishes to have a recognised alternative domicile of choice from that of the UK. In order to achieve this he will need to establish this and have it recognised by Her Majesty’s Revenue and Customs (HMRC) in the UK.

Next time we will look in detail at how Jim may work toward achieving all these goals with the use of trusts.



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JUNE 2011

Platinum Financial Services opens a new office in Moscow, the first of its planned locations across Russia and Eastern Europe.



OCTOBER 2011

Platinum Financial Services becomes licensed by the Mandatory Provident Fund Association (MPFA) in Hong Kong.

EXPATRIATE BUYING A PROPERTY IN THAILAND?

USING AN OFFSHORE COMPANY

Buying land or property in Thailand for either investment, residence or retirement purposes is a very attractive proposition to expatriates pondering the purchase of a dream home in the Kingdom, but many are often confused by contradictory information and misleading claims, as Thailand law generally prohibits foreigners from owning freehold land.

In general, foreigners can own buildings and houses in Thailand as Thai real estate law places no nationality restrictions on ownership, but there are many restrictions on foreigners owning land. There are however, various exceptions to the rule regarding this issue and other methods are available for acquiring valid and legal rights to land and real estate in Thailand that do not amount to outright ownership.

Five common ways of acquiring land rights and purchasing property in Thailand are:

INVESTMENT: Under section 71 of the Land Code foreign nationals may apply for permission to acquire no more than 1 Rai for personal dwelling purposes on the condition that Thai Baht 40 million is separately invested into Thai Bonds and certain property mutual funds. The procedures and documentary requirements to obtain this special permission are onerous and convoluted and only available to individuals, so needless to say this is not particularly attractive and very little used.

THAI SPOUSE: According to Thai real estate law, a Thai spouse of a foreigner may be allowed to buy land or property in Thailand in his or her own name. However the married couple may be asked to sign declarations at the Land Department to state that the funds used are the separate property of the Thai spouse. This may have the effect of waiving any claim on the land or property by the non-Thai spouse. This can also become problematic in a divorce case as it may be difficult for the non-Thai spouse to prove that the land was marital property. In this case, a skillfully drafted prenuptial agreement or loan agreement could be used to minimize the risk to the non-Thai spouse, but this procedure does not guarantee your investment and is not recommended.

CONDOMINIUM: The acquisition of a condominium under the Condominium Act is by far the most common way forward because foreign persons or foreign companies may purchase and own freehold condominium units in approved developments so long as no more than 49% of the total units in that particular project are allocated and owned by foreign entities.

LAND LEASES: Although Thai real estate law restricts land ownership rights to non-Thai citizens, foreigners or companies may hold a 100% interest in a Thai land lease. Thailand lease law allows a 30-year maximum lease period, with the possibility of renewing the lease for additional 30 year periods.



NOVEMBER 2011

Business Class Group acquires KFMS, a boutique Thailand based IFA and integrates it into PFS International Thailand.



MARCH 2012

Another new brand for Thailand, Lifestyle Property is formed and begins trading as a local real estate agent.



“ A common solution is to purchase any land or property through a Thai company where a foreign person or entity may own a maximum of 49% of the voting rights in that company. ”

A foreign person or indeed a foreign or local company may enter into a lease with the owner of the property for a lease of land for no more than 30 years with an option of a further 30 years. Some lease agreements are drafted with an option for a third 30 year lease term but this is not enforceable under Thai law. Leases technically cannot be transferred to successors on death and could be automatically extinguished. This has been a very grey area with Thai Court judgments in the past. Obviously leases can be drafted to include a succession clause but such a clause may not be enforceable particularly in the case where the owner of the Lease sells his interest to a third party.

Therefore when the lease is owned by an offshore company, it could avoid the loss of a leased asset on death. Furthermore, it avoids the long delays and expenses associated with obtaining probate in Thailand along with the taxes, fees and transfer implications that follow.

Company Ownership: Thai registered companies with majority Thai ownership are eligible to buy land in Thailand. In the past it has been common for foreign nationals to acquire an interest in Thai real estate as minority shareholders in a Thai company. A common solution is to purchase any land or property through a Thai company where a foreign person or entity may own a maximum of 49% of the voting rights in that company. The remaining 51% must be owned by Thai persons. Anybody choosing to take this route should be aware that the Thai government is wary of corporate structures being used to circumvent the law so any Thai shareholders must be able to prove that they have sufficient income and assets to acquire their interest in the Thai company. A typical solution to this situation is that the foreigner or foreign company grants the Thai shareholders a loan to purchase their 51% share in the company.

The Thai shares are then pledged to the lender, thereby providing additional security.

The capital can be structured so that the foreign entity holds a disproportionate right to financial benefit in the company. If a Thai company is used to purchase your property, we recommend that the 49% minority interest is held through an offshore company rather than an individual's name.

Advantages of using an offshore company to hold shares, leases and freehold condominiums are:

- An offshore company can avoid Thai Tax on Capital Gains
- An offshore company can reduce purchase and sale costs
- An offshore company can reduce Thai Tax on rental income
- An offshore company can provide privacy and confidentiality
- An offshore company can reduce your IHT liability back home

There are several suitable jurisdictions for an offshore company to hold property. Some have additional advantages, such as tax treaties with Thailand where benefits are particularly attractive for property development businesses.

More information on this article and detailed answers regarding offshore companies holding property can be obtained by registering your interest at info@businessclassasia.com



Business Class Asia
Country: Thailand

Email: info@businessclassasia.com
Website: www.businessclassasia.com



JUNE 2012

Lifestyle Insurance Thailand is established as a new division of Lifestyle Property Thailand.



AUGUST 2012

Lifestyle Insurance in Asia is opened to cater to the general insurance needs of clients living out of our office locations (Hong Kong, China, Thailand, Russia).

INVESTING IN ASIA

PITFALLS AND PROSPECTS

In the current economic climate, to most of the World, it looks like Asia is the next powerhouse that will drive global economic growth throughout the 21st century.

There are indeed many great opportunities, but Asia is diverse and business conditions are often very different from what Western investors are accustomed too. The first obstacle is understanding the Asian mind-set and getting used to local rules/regulations or in many cases restrictions for foreign investors. Once you have a firm grip of that, then you need to analyse and unearth pockets of opportunities and how best to profit from them in each different area.

One thing that has been clear is that GDP growth has slowed and economic growth in the region cannot continue at the rate it has been doing in the past – with that being said a GDP growth rate of China's projected 7.5% this year still surpasses the West, which has potential for negative growth in the coming years.

The major concern from a foreign investment stand point is that continued growth has caused Asian currencies to strengthen significantly against the traditional leading Western currencies. The Singapore Dollar is one which stands out, with a growth of 20% in the last three years against USD. Most other Asian nations do maintain a rolling peg to the USD so have kept some relative value, although in many instances – like in Hong Kong – there is constant debate to relinquish the relationship given that the USD is viewed to weaken further.

Investment opportunities are nonetheless rife and a selective approach in each country is the best strategy, given the diversity of investments available – Hong Kong and Singapore are clearly the biggest service hubs in the region whereas Vietnam and Thailand are favoured for production.

The locals tend to prefer investing in the property market – this is due to the greater understanding of physical bricks and mortar investments and the asset class's prevalence in the past. In addition to this, leverage and financing has grown in availability – and in many cases only to locals (not foreigners), which again is something that they can and are taking advantage of as this means there is a buoyant expatriate rental market. Thailand is a prime example where there are big restrictions on property and land investments for foreign buyers.

Having said that and property clearly being the popular asset class for locals – it has caused what many consider to be inflated prices – Hong Kong is an example where prices in prime areas are on par if not exceed what one would pay in London.

Industrial Production and Infrastructure are also a common theme and India is a prime example of that – those that have visited recently would have seen roads and transport being built, where Mumbai is likened to a building site by many. There are ways foreigners may

want to get involved, although the illiquidity of this type of investment (similar to land and property mentioned above), along with restrictions in place, make this another that we would openly avoid from a foreign standpoint.



Equities are the most liquid and preferred investment type for foreign investors and again there are many ways to go about getting involved. One may want to get involved locally if resident in Asia – but even so the rules, paperwork and regulations that must be adhered to can be off-putting – and money has to be proven locally, where freedom of movement of capital is hard achieved when cashing and repatriating funds. Investors should be mindful of these restrictions and much like many countries in Asia it is easy to bring money in but hard to take it back out – especially if gains are made.

The only real way to invest is via a mutual fund – these structures have adhered to local rules and use local brokers, but are designed with foreign investors in mind. Economies of scale are sought when trading and freedom of movement of capital is achieved.

Volatility is prevalent and so one should seek a diverse fund with a mixed basket of stocks – we do prefer those investing across the region rather than country specific. There are some prevalent themes that we do like and the first is the emergence of smaller Asian companies (in line with the shift of demand to domestic companies) – JF Eastern Smaller Companies is an example of a fund we have favoured and is in our Adventurous and Balanced Model Portfolio – the fund returned approximately 35% over calendar year 2012 and has had a strong start to 2013.

Another theme we like is that as bigger Asian companies grow they will begin to start paying dividends – traditionally equity income yields were in the region of 2% for Asian companies (i.e. incredibly low as compared to UK and US companies paying historic yields of 7%) – the tide has changed and Western companies have slashed dividends and yields are now closer to 5% and in the East with improving profits they have risen to 4% – we expect this shift to continue and Asian companies being the place to look for those seeking a solid yield going forward.

Asia based funds will therefore certainly continue to hold a place across Platinum's Model Portfolios and one can expect returns to continue strong for the foreseeable future as the region continues to develop.

INVESTMENT TIPS

Spending & Saving. It may sound simple but if you consistently spend more than you earn then you are unlikely to save enough to meet your long term goals.

HOW TO VALUE A PRIVATE COMPANY.

When determining the value of a private company, it has to be said that there is no precise way of doing this, but there are plenty of accepted means of making estimates. The most common is based on a multiple of sales, determined by industry statistics. This method is widely used within financial circles.

In most cases it boils down to a "rule of thumb" and if that is applied to the multiple of sales method you can arrive at a reasonable figure for the business. For example if a grocery store had average profits between 11 and 18% and annual sales of \$250,000 the store would be worth a multiple of between \$27,500 and \$45,000, plus the value of the inventory.

Another common method is to compare valuation ratios for a private company versus ratios of a comparable public company. If you are able to find the company or group of companies of relatively the same size and similar business operations, then you can take the valuation multiples such as price/earnings ratio (P/E) and apply it to the private company. You calculate the P/E by taking the share price and dividing it by the company EPS (Earnings per share).

Let us take for example a private company that makes pottery products and a similar sized public company makes the same or similar products. Being a public company, you have access to their financial statements and valuation ratios. If the public company has a P/E ratio of 10, this means investors are willing to pay \$10 for every \$1 of the company's earnings per share. In this simple example, you may find it reasonable to apply that ratio to your own company. If your company had earnings of say \$1/share, you would multiply that by 10 and would arrive at a share price of \$10. If you own 5000 shares, your equity stake would be approximately \$50,000.

Please understand these are not the only methods but they do tend to be a reasonably reliable application for private companies. The difficulty in making an accurate valuation can be challenging for both sellers and buyers, and thus it's more of a "black art" than exact science. The biggest issue generally is the lack of real information and the abundance of misinformation that is made available about comparative sales, which can often skew valuations.

A lot depends on the company, its employees, revenue, operating income and the growth/expansion of the company, plus, owners naturally have an emotional attachment and therefore think it is worth more than is generally accepted. In any case, any value would be an estimate at best. In practice the shares are worth what someone is willing to pay.

As with any financial transaction there is always the potential for a tax implication. It should be made clear that we are not tax consultants

and anything of a technical nature we would seek council outside our normal remit. However, under normal conditions, the buyer would not have any tax consequences on purchase, only after the event in the form of tax on dividends, such as withholding tax etc. The seller however could incur a tax liability, dependent on what price the shares were sold at against the price paid or issued at, but that is a matter that can be discussed with your tax advisers.

Glossary and examples

Price earnings Ratio (P/E) - Calculate the P/E by taking the share price and dividing it by the company's EPS (Earnings per share).

E.g. If company A had earnings of \$200 plus 20 shares outstanding the EPS would be 10 ($200/20=10$).

If company B had earnings of \$200 plus 50 shares outstanding the EPS would be 4 ($200/50=4$).



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INVESTMENT TIPS

Credit card debt is expensive! Rates can be up to 30% and yet many people fail to repay 100% the balance monthly and incur high charges. If you can't pay off the outstanding amount on your cards consider debt consolidation through a short term bank loan which is often much cheaper.

EXPATRIATE LIFESTYLE & BUSINESS SERVICES

- Property
- Mortgages
- Offshore/Local Incorporation
- Offshore/Local Banking
- Accounting & Legal Services
- Business Administration
- Work Permit/ Visa
- Healthcare
- Wealth Management