

L-WAVE ENT 2/2019

28 February 2019

Subject: Report on reasons of change to profit (loss) and management discussion and analysis for the year 2018

To: President, Stock Exchange of Thailand

The Company would like to clarify the following reasons for changes to profit (loss) in the consolidated financial statements for the year 2018

Based on the consolidated financial statements audited by the auditor of Wave Entertainment Public Company Limited, the results were as follows:

#### Operating Results

In 2018, the Group had total revenues of THB 2,454.79 million, an increase of THB 47.62 million. Cost of sales and rendering of services was THB 1,601.50 million, a decrease of THB 114.57 million. Gross margin was THB 853.29 million or 35% of total revenues. Selling and administrative expenses slightly increased by THB 3.59 million, financial costs slightly decreased by THB 3.69 million and share of profit from associates and joint ventures decreased by THB 42.57 million, compared to the previous year. As a result, the Group had net loss for the year of THB 99.53 million. The net loss included depreciation and amortization of intangible assets, which are non – cash items, of THB 201.84 million and share of profit from associates and joint ventures of THB 16.74 million. If finance cost of THB 52.20 million and tax expense of THB 6.57 million were excluded, the Company's earnings before interest, taxes, depreciation and amortization (EBITDA) would be equivalent to THB 144.34 million in the year 2018.

- Sale and service revenues

In 2018, the Group had total revenues of THB 2,454.79 million, an increase of THB 47.62 million or 2% increase year-on-year. The breakdown of total revenues by business units are as set out below.

1. English language school business in the amount of THB 529.10 million

The Group operates English language school under the name "Wall Street English". The revenues from English language school is recognized according to the international accounting standard which recognizes revenue gradually according to contracts period entered into between students and the Group. Although economic conditions have not improved and private sector and retail consumers are cautious on their spending, cash sales of the English language school business had improved compared to the previous year. The same store sales growth rate was at 15%. The Group also opened 3 new branches in 2018, namely Maya Shopping Center branch in Chiangmai, Central Rama 2 branch, and The Mall Bangkapi branch. The annual growth rate of cash sales was at 30%, which had resulted in an increase in revenues from English language school business by THB 130.30 million to THB 529.10 million or 33% increase year-on-year.

In addition, the Group has a plan to open 2 new medium-sized branches in area of not exceeding 300 square meters within the year 2019. One of the branches will be at Central Chaengwattana and is expected to officially open in Quarter 2 of 2019. The other branch will be located in inner Bangkok and is expected to open within Quarter 4 of 2019.

Since the Group was granted the exclusive right as master franchisee of English language school business under the name "Wall Street English" in Thailand, Laos, and Cambodia. Many investors have expressed interest in the business. The Group has a plan to open not less than 5 franchisee branches outside Bangkok in the year 2019.

## **2. Restaurant business in the amount of THB 593.52 million**

The Group operates restaurants under the name "Jeffer Steak and Seafood". At present, there are 64 restaurants nationwide with 27 restaurants in Bangkok and 37 restaurants in other provinces. Since the Group's policy is to be more cautious on opening of new branches, the Group opened a new branch in Fashion Island Department Store in Quarter 2 of the year 2018. As economic conditions had not improved and some lease agreements had expired, revenues from restaurant business did not meet the target. The Group closed 14 non-performing branches in the year 2018. As a result, the revenue decreased by THB 33.69 million or 5% decrease year-on-year.

In addition, the Group is conducting feasibility study on the opportunity to franchise the restaurant business under the name "Jeffer Steak and Seafood" to investors. Many investors from Thailand and overseas had directly contacted the Group on such opportunity. The Group expects to have more developments on this opportunity within 2019.

## **3. Entertainment and marketing activities business in the amount of THB 1,332.17 million**

In 2018, revenues from entertainment and marketing activities business had decreased by THB 48.99 million or 4% decrease year-on-year. This was due to the Group recorded bit projects awarded by public and private sectors in 2017 such as World Expo in Astana, Kazakhstan which was awarded by the government, Digital Thailand Big Bang in Muang Thong Thani. The Group is proud to be awarded by Thai government to again organize World Expo in Dubai, United Arab Emirates, which will be held in 2020. The Group has recorded partial revenues according to the accounting standards from Quarter 4 of 2018 onwards.

- Cost of sales and rendering of services

In 2018, the Group had total costs of THB 1,601.50 million with a decrease of THB 114.57 million or 7% decrease year-on-year. This was due to its effort to control costs and achieve operational efficiency in all business units.

- Overall expenses

The selling and administrative expenses was THB 961.51 million, a slight increase of THB 3.59 million or 0.4% increase year-on-year from continuous efforts of the Group to control and reduce costs in all business units. The Group targets to control and reduce costs every year in order to improve its performance. In addition, the Group had financial costs of THB 52.20 million, a decrease of THB 3.69 million or 7% compared to last year due to partial repayment of loan in the year 2018.

- Share of profit from associates and joint ventures

In 2018, the Group recorded share of profit from associates and joint ventures of THB 16.74 million, a decrease of THB 42.57 million or 72% due to the reduction in recognition of share of profit from investment in TSE since TSE made impairment of its thermal power plant.

## Financial Positions

- Assets

The financial positions of the Group as of 31 December 2018 included total assets of THB 3,271.14 million with an increase of THB 65.01 million or 2% increase year-on-year. The details of major assets are as follows:

- Cash and cash equivalents and short-term investments

The Group had cash and cash equivalents and short-term investments of THB 184.89 million or 6% of total assets, with a slight decrease of THB 40.34 million year-on-year.

- Trade and other receivables – net

In 2018, the Company had net trade and other receivables of THB 378.57 million or 12% of total assets, a slight increase of THB 10.95 million or 3% year-on-year due to increase of trade receivables and accrued income from creative and marketing communication management service business.

- Inventories

The Group had managed its remaining inventories well. At the end of 2018, the Group had remaining inventories of THB 27.14 million or 1% of the total assets, a slight decrease of THB 3.58 million compared to the last year due to decrease of packaging and raw material for restaurant business.

- Television programs, concerts, programs under production

The Group had television programs soap opera under production at the end of 2018 in the amount of THB 24.51 million, an increase of 134% year-on-year due to the programs being under production process and will be delivered on air within 2019.

- Investment in associates and joint ventures

Investment in associates and joint ventures was THB 479.68 million or 15% of the total assets, a slight decrease of THB 1.60 million. Most of the investments are investments in TSE and the creative and marketing communication management services, Index.

- Property, plant and equipment

Property, plant and equipment was THB 705.45 million or 22% of the total assets, an increase of THB 90.88 million compared to the previous year. The increase was due to values of decoration and office equipment as WSE, the education business, opened 3 new branches in 2018, namely Maya Shopping Center branch in Chiangmai, Central Rama 2 branch, and The Mall Bangkok branch and investment in lighting and sound equipment for leasing by Index, the creative and marketing communication management services

- Goodwill

Goodwill is the value expected to be returned to the Company from its acquired business. At the end of 2018, the Group had goodwill of THB 923.17 million or 28% of the total assets, consisting of English language school business of THB 389.55 million, restaurant business of THB 408.59 million and creative and marketing communication management services of THB 125.02 million. The Group will test impairment of goodwill every year to be in accordance with the current accounting standards.

- Intangible assets

Intangible assets consisted of copyrights, computer programs, relationship with relevant clients and trademarks. As at the end of 2018, the Group had intangible assets of THB 242.44 million or 7% of the total assets, a slight decrease of THB 1.16 million.

- Deferred tax assets

Deferred tax assets was THB 55.88 million or 2% of the total assets, an increase of THB 25.46 million year-on-year due to increase in the Company's deferred tax assets which is expected to not use in the future.

- Other non-current assets

Other non-current assets accounted for THB 182.21 million or 6% of the total assets, a slight decrease of THB 3.45 million. The decrease was caused by reduction in the amount of security deposits as the Group closed certain restaurant branches of which lease agreements had expired.

- Liabilities

As at 31 December 2018, the Group had total liabilities of THB 1,857.37 million, a decrease of THB 35.43 million compared to the previous year. The decrease was due to repayment of loan by the Group.

- Shareholders' Equity

In 2018, the Company issued 46,750,000 new ordinary shares to The Mall Group at the selling price of THB 3.85 per share. As a result, share premium had increased to THB 133.24 million. However, since the Group's operating performance has not met the targeted performance, as at 31 December 2018, equity attributable to owners of the parent was THB 839.53 million, a slight increase of THB 0.93 million compared to that of the year 2017.

The capital structure of the Group as of 31 December 2018 is as follows:

- Shareholders' equity of THB 1,413.78 million or 43% of the total assets;
- Equity attributable to owners of the parent (exclusive of non-controlling interests) of THB 839.53 million or 26% of the total assets;
- Total liabilities of THB 1,857.37 million or 57% of the total assets

Key financial ratios are as follows:

- Debt to equity (inclusive of non-controlling interests) ratio of 1.31 times, a decrease compared to the previous year ratio of 1.44 times;
- Debt to equity attributable to owners of the parent (exclusive of non-controlling interests) of 2.21 times, a decrease compared to the previous year ratio of 2.26 times;
- Interest-bearing debt to shareholders' equity (exclusive of non-controlling interests) of 1.17 times, a decrease compared to the previous year ratio of 1.33 times;
- Book value of net assets is THB 3.02 per share, a decrease from the previous year value which was equivalent to THB 3.12 per share;
- Basic loss per share of THB 0.41, a decrease from the last year basic earnings per share of THB 0.64.

#### Cashflows

In 2018, the Company and its subsidiaries had cash and cash equivalents of THB 179.17 million, a decrease of THB 24.50 million compared to the previous year. Details of cash spent on each business activity are as follows:

o In respect of operating activities, the Group had net cash flows generated from operating activities of THB 145.10 million or an increase of THB 215.84 million compared to the previous year. This was largely due to increase in revenue from operation.

o In respect of investing activities, the Group had net cash flows used in investing activities of THB 172.17 million or an increase of THB 236.30 million compared to the previous year. This was due to investment for opening new branches and purchase of land, property and equipment for English language school business and creative and marketing communication management services.

o In respect of financing activities, the Group had net cash flows generated from financing activities of THB 4.85 million or an increase of THB 58.12 million due to the issuance of new shares and repayment of loan due in the year 2018.

Please be informed accordingly.

Yours sincerely,

- Mr. Matthew Kichodhan -

Mr. Matthew Kichodhan

Chairman of the Board of Directors and CEO