



L-WAVE ENT 28/2018

28 February 2018

Subject: Report on reasons of change to profit (loss) and analysis on operating results by the management for the year 2017

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 2017

Based on the consolidated financial statements audited by the auditor of Wave Entertainment Public Company Limited, the results for 2017 were as follows:

Operating Results

In 2017, the Group had total revenues of THB 2,407.17 million, a decrease of THB 153.73 million. Cost of sales and rendering of services was THB 1,716.07 million, an increase of THB 31.88 million. Gross margin was THB 691.10 million or 29% of total revenues. Selling and administrative expenses decreased by THB 30.74 million, financial costs decreased by THB 19.37 million and share of profit from associates and joint ventures decreased by THB 32.09 million, compared to the previous year.

As a result, the Group had net loss for the year of THB 253.14 million, in which depreciation, amortization, reserves for other expenses and profit from associates (non – cash items) total amounted to THB 179.05 million in aggregate and with excluding THB 55.89 million of finance cost and tax expense THB 17.18 million, loss before interest, tax expense and non – cash items would be THB 1 million in 2017.

• Sale and service revenues

With the passing of His Majesty King Bhumibol Adulyadej, the 9th King of the Chakri Dynasty in October 2016 and the subsequent mourning period to October 2017, Entertainment and promotional marketing decrease out of respect to the country beloved King and out of request from the Government along with a decrease in private sector spending and consumption. The Group's revenues during the last quarter of 2016 and 2017 was affected. In 2017, the Group had total revenues of THB 2,407.17 million with a decrease of THB 153.73 million or 6% year-on-year decrease. The revenues can be categorized as follows:

1. Restaurant business of THB 627.21 million

At the year end of 2017, the Group operated restaurants under the name “Jeffer Steak and Seafood”. At present, there are 77 restaurants nationwide with 31 restaurants in Bangkok and 46 restaurants in other provinces. In 2017, four new restaurants were opened namely Robinson Roi-Et branch, Robinson Petchburi branch, Robinson Saraburi branch, and Robinson Kamphaeng Phet branch. Due to the declining economy in 2017, the Group had closed 7 non-performing branches. As a result, the revenue decreased by THB 53.47 million or 8% year-on-year decrease.

2. English language school business of THB 398.80 million

The Group operates English language school under the name “Wall Street English”. The revenue 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. Due to declining economy and decrease in consumer spending and promotional activities, the Group recognized revenue from English language school business in 2017 of THB 398.80 million, a decrease of THB 259.07 million year-on-year.

In February 2018, the Group opened a new Wall Street English center in Maya Shopping Center Chiangmai with leased area of not exceeding 150 square meters. It is a model center for expansion of small-sized center in other appropriate locations. Lease and other expenses for such model center are relatively low, paving the way for expansion in franchise model in the future. In addition, the Group plans to open a medium-sized center with leased area of not exceeding 350 square meters in Central Rama 2. The official opening of such center will be held on 1 March 2018.

3. Entertainment and marketing activities business of THB 1,381.16 million

The Company categorized its businesses by types of business. The entertainment and marketing activities business can be divided into 2 categories including (1) television program production and distribution and (2) creative and marketing management communication services. In 2017, the Group generated revenues from entertainment and marketing activities business of THB 1,381.16 million with a year-on-year increase of THB 158.82 million or 13%. The increase mainly was a result of additional revenue from creative and marketing management communication services. Details of each business is set out as follows:

3.1 Creative and marketing communication management services

The Company purchased 50% shares in Index Creative Village Public Company Limited (“ICV”) which operates creative service business and marketing communication management services including creative marketing services, marketing promotion services, and lifestyle services. The Company has controlling interests in ICV group and is required to consolidate profit and loss statement and balance sheet of ICV by recognizing 100% of revenues and expenses but recognizing net profit according to the investment proportion which is 50%.

Although in 2017 there was a decrease in investment by private sector and consumer spending, the government tried to stimulate the economy by increasing public spending and promoting activities and public relations in other forms. In the past year, ICV group was engaged by the public sector to organize World Expo in Astana, Republic of Kazakhstan and Digital Thailand Big Bang at Muang Thong Thani.

3.2 Television program production and distribution

The Group tried to control its production costs of television program production and distribution for efficiency by completing script first ready for shooting at once. The Group's proposal for production of 3 television soap operas had been approved by Channel 3. At present, the scripts are being prepared. It is expected that shooting of one television soap opera will commence in the middle of the year 2018. Therefore, the Group had not delivered television series and recognized revenue from this business during the year 2017. In addition, the Group plans to produce a game show which is expected to on-air in the year 2018.

- **Cost of sales and rendering of services**

In 2017, the Company had total costs of THB 1,716.07 million with an increase of THB 31.88 million or 2% year-on-year. This was largely due to increase of costs from creative and marketing communication management service business, which was in line with increase of revenue of such business.

- **Overall expenses**

The total selling and administrative expenses was THB 957.92 million, a decrease of THB 30.74 million or 3% year-on-year from continuous efforts of the Group to control and reduce costs in all business groups, although the decrease in costs did not match with the decrease in revenues. 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 55.89 million, a decrease of THB 19.37 million or 26% compared to last year due to partial repayment of loan in the year 2017.

- **Share of profit from associates and joint ventures**

As the Company disposed 10% of its investment in TSE during end of 2016, the Company's shareholding in TSE had decreased from 20% to 10% of the paid-up capital of TSE. However, under the Company's financial statements, the accounting method used for recognizing share of profit from investment in TSE remained unchanged where the Company used Equity Method. This was because the Company maintained significant influence over TSE as the Company had its representative as authorized director of TSE and the proportion of authority remained unchanged after the disposal of investment.

In 2017, the Group recognized share of profit from associates and joint ventures of THB 59.31 million, a decrease of THB 32.09 million or 35% due to the reduction in recognition of share of profit from investment in TSE from 20% to 10% of the paid-up capital of TSE and decrease of profit of TSE due to increase in interest expenses.

Financial Positions

- **Assets**

The financial positions of the Group as of 31 December 2017 included total assets of THB 3,206.13 million with a decrease of THB 261.19 million or 8% 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 225.22 million or 7% of total assets, with a decrease of THB 322.64 million year-on-year due to the receipt of cash proceeds from disposal of 10% investment in TSE at the end of 2016.

- Trade and other receivables – net
In 2017, the Company had net trade and other receivables of THB 367.62 million or 11% of total assets, an increase of THB 112.81 million or 44% 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 2017, the Company had remaining inventories of THB 30.72 million or 1% of the total assets, a slight increase of THB 2.47 million compared to the last year due to increase of packaging and raw material for restaurant business.
- Investment in associates and joint ventures
Investment in associates and joint ventures was THB 481.29 million or 15% of the total assets, a slight decrease of THB 0.64 million. Such investment amount included share of profit from associates and joint ventures of THB 59.31 million and allowance for impairment of investments of THB 23.08 million.
- Property, plant and equipment
Property, plant and equipment was THB 614.56 million or 19% of the total assets, a decrease of THB 62.90 million compared to the previous year due to annual depreciation expenses, partial disposal of assets and allowance for asset impairment.
- Goodwill
Goodwill is the value expected to be returned to the Company from its acquired business. At the end of 2017, the Group had goodwill of THB 923.17 million or 29% of the total assets, consisting of English language service 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 2017, the Group had intangible assets of THB 243.60 million or 8% of the total assets, a decrease of THB 21.53 million due to the annual amortization expenses.
- Other non-current assets
Other non-current assets accounted for THB 185.66 million or 6% of the total assets, an increase of THB 35.55 million due to increase in deferred taxes.
- Liabilities
As at 31 December 2017, the Company had total liabilities of THB 1,892.79 million, a slight increase of THB 7 million compared to the previous year. In 2017, the Company's account and other payables increased by THB 100.34 million and its account payable for investment decreased by THB 111.53 million. The Company had total borrowings from financial institutions of THB 1,056.26 million, a decrease of THB 20.45 million compared to the previous year.

- **Shareholders' Equity**

As at 31 December 2017, the Company had shareholders' equity (inclusive of non-controlling interests) of THB 1,313.34 million, a decrease of THB 268.19 million compared to the previous year due to a decrease in retained earnings as a result of loss from operation during the year in the amount of THB 269.48 million.

The capital structure of the Group as of 31 December 2017 is as follows:

- Shareholders' equity of THB 1,313.34 million or 41% of the total assets
- Equity attributable to owners of the parent (exclusive of non-controlling interests) of THB 838.59 million or 26% of the total assets
- Total liabilities of THB 1,892.79 million or 59% of the total assets

Important financial ratios are as follows:

- Debt to equity (inclusive of non-controlling interests) ratio of 1.44 times, an increase compared to the previous year ratio of 1.19 times
- Debt to equity attributable to owners of the parent (exclusive of non-controlling interests) of 2.26 times, an increase compared to the previous year ratio of 1.68 times
- Interest-bearing debt to shareholders' equity (exclusive of non-controlling interests) of 1.33 times, an increase compared to the previous year ratio of 1.04 times
- Book value of net assets is THB 2 per share, a decrease from the previous year value which was equivalent to THB 2.67 per share
- Basic loss per share of THB 0.64, a decrease from the last year basic earnings per share of THB 0.14

Cashflows

In 2017, the Company and its subsidiaries had cash and cash equivalents of THB 203.68 million, a decrease of THB 59.70 million compared to the previous year. Details of cash spent on each business activity are as follows:

- In respect of operating activities, the Group had net cash flows used in operating activities of THB 70.74 million or a decrease of THB 105.15 million compared to the previous year. This was largely due to decrease in revenue from operation.
- In respect of investing activities, the Group had net cash flows generated from investing activities of THB 64.13 million or a decrease of THB 295.51 million compared to the previous year. This was due to disposal of investment in TSE in the year 2016.
- In respect of financing activities, the Group had net cash flows used in financing activities of THB 53.27 million for repayment of loan due in the year 2017.

Please be informed accordingly.

Yours sincerely,



Mr. Matthew Kichodhan
Chairman of the Board of Directors and CEO