

L-WAVE ENT 3/2020

28 February 2020

Subject: Report on reasons of change to profit (loss) and management discussion and analysis for the year 2019

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 2019

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

Operating Results

In 2019, the Group had total revenues of THB 1,087.44 million, a decrease of THB 35.57 million. Cost of sales and rendering of services was THB 592.74 million, a decrease of THB 70.08 million. Gross margin was THB 494.70 million or 45% of total revenues. Selling and administrative expenses decreased by THB 68.18 million, financial costs slightly decreased by THB 2.43 million and share of profit from associates increased by THB 57.98 million, compared to the previous year. As a result, the Group had net profit for the year of THB 20.13 million. The net profit included depreciation and amortization of intangible assets, which are non – cash items, of THB 165.63 million and share of profit from associates of THB 74.60 million. If finance cost of THB 43 million and tax expense of THB 19.62 million were excluded, the Company's earnings before interest, taxes, depreciation and amortization (EBITDA) would be equivalent to THB 173.78 million in the year 2019.

• **Sale and service revenues**

In 2019, the Group had total revenues of THB 1,087.44 million, a decrease of THB 35.57 million or 3% decrease 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 545.29 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. Since overall economic conditions in the year 2019 have not improved and private sector, retails, and consumers are cautious on their spending, cash sales of the English language school business remained constant. The Group opened 1 new branch, namely Central Plaza Chaengwattana branch, in May 2019 and plans to open 1 more branch on an area not exceeding 300 square meters in Rayong Province by early 2020. To decrease high costs and expenses, the Group relocated its branches with high lease expense to a more suitable location, area and with reasonable lease expense. The re-located branches are Major Cineplex Pinklao branch which was moved to Central Plaza Pinklao in March 2019 and Silom branch which was moved to United Center in January 2019. As at the end of 2019, the Group has 15 branches for services which are all operated by the Group's management.

Since the Group was granted the exclusive right as master franchisee of English language school business under the name "Wall Street English" in Thailand, Kingdom of Cambodia and Lao People's Democratic Republic, many investors have expressed interest in the business. The Group has officially opened its first franchisee branch in Khon Kaen Province in November and has a plan to open not less than 5 franchisee branches outside Bangkok, Kingdom of Cambodia and Lao People's Democratic Republic within the next 1-2 years.

2. Restaurant business in the amount of THB 511.02 million

The Group operates restaurants under the name “Jeffer Steak and Seafood”. At present, there are 61 restaurants nationwide with 24 restaurants in Bangkok and 37 restaurants in other provinces. Since the overall economic conditions have not improved, revenues from the business did not achieve the targets and expiry of lease agreements, the Group closed down those branches which are not profitable during the past 1 – 2 years. As a result, revenues from the business in the year 2019 was THB 511.02 million, a decrease of THB 82.50 million or 14% compared to the previous year. In addition, the Group has started selling franchise restaurant under the name “Jeffer Steak and Seafood” to potential investors. At present, the Group is in the process of expanding franchise restaurant and has opened 1 franchise restaurant in November in Chumphon Province and expect to open a few more branches in the year 2020 in Thailand and neighboring countries.

3. Entertainment business in the amount of THB 31.13 million

In 2019, revenues from entertainment business was THB 31.13 million, an increase of THB 30.74 million year-on-year. This was due to the Group gradually recognizing revenues from production of 1 television series, which was expected to delivered and on-air in the middle of the year 2020.

Since the Group is in the process of disposal of shares in one of its subsidiaries which creative and marketing communication management service business within 1 year, the Group had to classify it as a non-current asset held for sale and operating performance of such company is treated as discontinued operations. This is in accordance with IFRS 5 relating to non-current assets held for sale and discontinued operations.

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

In 2019, the Group had total costs of THB 592.74 million with a decrease of THB 70.08 million or 11% decrease year-on-year. This was due to its effort to control costs and achieve operational efficiency in all business units. As a result, the Group had gross profit of THB 494.70 million (45% of the total revenues, an increase of 5% year-on-year), an increase of THB 34.50 million or 7% increase year-on-year.

- **Overall expenses**

The selling and administrative expenses was THB 604.88 million, a decrease of THB 68.18 million or 10% decrease 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 43 million, a decrease of THB 2.43 million or 5% decrease compared to last year due to partial repayment of loan in the year 2019.

- **Share of profit from associates**

In 2019, the Group recorded share of profit from associates of THB 74.60 million, an increase of THB 57.98 million compared to the previous year due to increase in recognition of share of profit from investment in TSE.

Financial Positions

- **Assets**

The financial positions of the Group as of 31 December 2019 included total assets of THB 3,380.41 million with an increase of THB 109.27 million or 3% 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 72.24 million or 2% of total assets, a decrease of THB 112.64 million year-on-year.

- **Trade and other receivables – net**

In 2019, the Company had net trade and other receivables of THB 53.77 million or 2% of total assets, a decrease of THB 324.80 million year-on-year due to trade receivables and accrued income from creative and marketing communication management service business in the previous year.

- **Inventories**

The Group had managed its remaining inventories well. At the end of 2019, the Group had remaining inventories of THB 17.21 million or 1% of the total assets, a decrease of THB 9.92 million compared to the last year due to decrease of packaging used for restaurant business.

- **Television programs, concerts, programs under production**

The Group had television programs under production at the end of 2019 in the amount of THB 4.16 million, a decrease of 83% compared to THB 24.51 million in the previous year due to partial revenue recognition in the year 2019.

- Other current assets

The Group had other current assets at the end of 2019 in the amount of THB 37.43 million, a decrease of THB 24.63 million or 40% decrease year-on-year due to decrease in undue input VAT and withholding tax.

- Non-current asset held for sale

Non-current asset held for sale consists of the creative and marketing communication management service business in the amount of THB 1,508.82 million. The is in line with IFRS 5 which requires the Group to classify such item as non-current asset held for sale and operating performance of such company is treated as discontinued operations.

- Investment in associates

Investment in associates was THB 509.43 million or 15% of the total assets, an increase of THB 30.51 million or 6% increase due to increase in recognition of revenue from such investment.

- Property, plant and equipment

Property, plant and equipment was THB 117.98 million or 3% of the total assets, a decrease of THB 587.47 million compared to that of the previous year of THB 705.45 million. The decrease was due to classification of the creative and marketing communication management service business as non-current asset held for sale in the amount of THB 602.27 million.

- Goodwill

Goodwill is the value expected to be returned to the Company from its acquired business. At the end of 2019, the Group had goodwill of THB 798.14 million or 24% of the total assets, consisting of English language school business of THB 389.55 million and restaurant business of THB 408.59 million. Goodwill decreased by THB 125.02 million due to classification of the creative and marketing communication management service business as non-current asset held for sale. 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 2019, the Group had intangible assets of THB 167.59 million or 5% of the total assets, a decrease of THB 74.85 million due to classification of the creative and marketing communication management service business as non-current asset held for sale.

- Deferred tax assets

Deferred tax assets was THB 8.62 million, a decrease of THB 47.26 million year-on-year due to classification of the creative and marketing communication management service business as non-current asset held for sale.

- Other non-current assets

Other non-current assets was THB 83.53 million, a decrease of THB 98.69 million. This was mainly due to decrease in withholding tax in the amount of THB 90.44 million as a result of classification of the creative and marketing communication management service business as non-current asset held for sale.

- **Liabilities**

As at 31 December 2019, the Group had total liabilities of THB 1,850.14 million, a slight decrease of THB 7.23 million compared to the previous year. The current liabilities was THB 1,523.45 million, an increase of THB 326.44 million compared to the previous year. The current liabilities consisted of liabilities directly relating to non-current asset held for sale in the amount of THB 544.92 million. The non-current liabilities was THB 326.69 million, a decrease of THB 333.67 million compared to the previous year. This was mainly due to decrease in long-term loan from financial institutions from repayment of loan by the Group in the amount of THB 225.26 million.

- **Shareholders' Equity**

As at 31 December 2019, shareholders' equity of the Group was THB 1,530.28 million and equity attributable to owners of the parent was THB 835.62 million, a slight decrease of THB 3.90 million compared to that of the year 2018.

The capital structure of the Group is as follows:

- Shareholders' equity of THB 1,530.28 million or 45% of the total assets;
- Equity attributable to owners of the parent (exclusive of non-controlling interests) of THB 835.62 million or 25% of the total assets;
- Total liabilities of THB 1,850.14 million or 55% of the total assets

Key financial ratios are as follows:

- Debt to equity (inclusive of non-controlling interests) ratio of 1.21 times, a decrease compared to the previous year ratio of 1.31 times;
- Debt to equity attributable to owners of the parent (exclusive of non-controlling interests) of 2.21 times, similar to the previous year;
- Interest-bearing debt to shareholders' equity (exclusive of non-controlling interests) of 0.87 times, a decrease compared to the previous year ratio of 1.17 times;
- Book value of net assets is THB 3.27 per share, an increase from the previous year value which was equivalent to THB 3.02 per share;
- Basic loss per share of THB 0.18, a decrease from the last year basic earnings per share of THB 0.45.

Cashflows

In 2019, the Company and its subsidiaries had cash and cash equivalents of THB 70.06 million, a decrease of THB 109.11 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 199.22 million or an increase of THB 52.61 million compared to the previous year. This was 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 118.95 million or a decrease of THB 103.14 million due to decrease in investment for opening new branches and purchase of land, property and equipment.

o In respect of financing activities, the Group had net cash flows generated from financing activities of THB 11.09 million as the Group received proceeds from sale of partial investment and repayment of loan due in the year 2019.

Please be informed accordingly.

Yours sincerely,

- Mr. Matthew Kichodhan -

Mr. Matthew Kichodhan

Chairman of the Board of Directors and CEO