

19. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL STATUS AND OPERATING RESULTS

19.1 Financial status and Operating Results

Overview of past operating results

- Business Structure 2014

In 2014, the Company's main revenues are realized from online revenue, distribution of PC games and payment channels in Thailand, Singapore, Malaysia, Indonesia, Vietnam, and Philippines. The Company had also launched its first mobile games in 2014.

- Investment Expansion during 2014

As of 5th February 2014, the Company invests in Level Up! Inc. which conducts marketing services via the internet, and also operates as an advertising agency for both internal and external parties. As of 31 December 2014, the Company holds 100% of PHP 138.5 million paid-up capitals and has invested USD 4.2 million.

- Group Operating Result

The Group operates 35 online game titles in 6 countries: Thailand (19 games), Singapore (11 games), Malaysia (12 games), Indonesia (4 games), Philippines (9 games), and Indochina (Vietnam, Cambodia, and Myanmar 8 games.) In 2014, 52% of total revenue is from Domestic business while 48% of total revenue is from Overseas. The proceeds of online game services generated the Group's main income about 79% and distribution generated about 9% and others about 12% of total revenue.

Revenues

The Group's total revenue based on consolidated financial statements for 2012 - 2014 breakdowns by geographic:

Revenue by Geographic	2012		2013		2014	
	Baht Million	(%)	Baht Million	(%)	Baht Million	(%)
1. Thailand	1,155	57	926	54	656	52
2. Overseas	861	43	787	46	606	48
Total	2,016	100	1,713	100	1,262	100
Growth Rate (%)	20		-15		-26	

Total revenue in 2014 was Baht 1,262 Million, decreased 26% from the previous year of Baht 1,713 million. Revenue was contributed from Thailand and overseas by 52% and 48% of total revenue respectively, compared to the previous year of 54% and 46% respectively. Revenue from Thailand dropped 29% from Baht 926 million in 2013 to Baht 656 million in 2014 resulting from online game. Revenue in overseas decreased 23% from Baht 787 million in 2013 to Baht 606 million in 2014, resulting from sales of offline game dropped in 2014.

Revenue by Business

Businesses	2012		2013		2014	
	Baht Million	(%)	Baht Million	(%)	Baht Million	(%)
1. Revenue from online game services	1,662	82	1,530	89	998	79
2. Revenue from distribution business	277	14	115	7	110	9
3. Other Income	77	4	68	4	154	12
Total	2,016	100	1,713	100	1,262	100

(1) Online revenue

The Group operates 35 online game titles in 6 countries: Thailand (19 games), Singapore (11 games), Malaysia (12 games), Indonesia (4 games) Philippines (9 games) and Indochina (Vietnam, Cambodia, and Myanmar 8 games.) For the year 2014, online revenue was THB 998 million decreased THB 532 million or 35% from last year which had THB 1,530 million. The decline in Group revenue results from weak performance in new game launches, in addition to the delayed in launching new mobile games launches, both domestically and overseas.

By Geographic	2012		2013		2014	
	Baht Million	(%)	Baht Million	(%)	Baht Million	(%)
1. Thailand	982	63	805	53	570	57
2. Overseas	680	37	725	47	428	43
Total	1,662	100	1,530	100	998	100
Growth Rate (%)	10		-8		-34	

(2) Distribution income

Distribution income is generated from PC games, payment channels and internet cafe members' fee. The Company realized THB 110 million in revenue, in 2014. A decrease of THB 5 million or 4% from last year which had THB 115 million due to no major packaged product was launched in FY2014.

(3) Other income

Other income was from advertising, sponsoring, licensing and social network advertising management. The Company realises THB 124 million in revenue, an increased of THB 84 million from last year which had THB 40 million due to the sub licensing fee from the subsidiary Level Up! in addition to the increased revenue from social network advertising management.

Cost of Goods Sold

COGS in 2014 was THB 1,218 million increased by THB 61 million or 5% from last year which had COGS of THB 1,157 million. The increase is mainly from the impairment in assets, as well as write-offs from games that are under performing for a total of Baht 256 million.

Selling and Admin costs

Selling and Admin costs were THB 522 million increased THB 42 million from last year's figure of THB 480 million or an increase of 9% due to impairment provisions from investments in the company's subsidiaries for a total of Baht 12 million, and the impairment on good will of Baht 94 million.

Net Profit

Net Profit by Geographic	2012 (Restated)		2013		2014	
	Baht Million	Net Profit Margin (%)	Baht Million	Net Profit Margin (%)	Baht Million	Net Profit Margin (%)
1. Thailand	215	19	74	8	-139	-11
2. Overseas	79	9	-22	-3	-251	-20
Total	294	15	52	3	-391	-31
Growth Rate (%)	-1		-82		-852	



The net loss of the Domestic business in 2014 amounts to Baht -139 million decreasing -82% from Baht 52 million in 2013. The main reason of the drop results from the decline in performance results from the game license write offs. Resulting a decrease in domestic net profit from 8% to -11%, and a decrease in overseas net profit from -3% to -20%

Assets

Total assets as of 31 December 2014 was THB 1,292 million decreased THB 449 million or 25% from last year of THB 1741 million details as below:

(1) Current assets decreased THB 252 million or 31% from last year due to :

- Cash decreased from invested in game licenses, and equipment.
- Account receivable decreased due to decline in revenue.
- Inventory dropped due to the reduction in product stock, and the increase in aging inventory provisions.

(2) Non-Current Asset decreased THB 197 million or 20% from last year due to :

- Loss on impairment of investment in associate.
- Loss on impairment of goodwill.
- Impairment on game license is greater than license obtained.

Liabilities

The Company total liabilities as of 31 December 2014 was THB 532.73 million increased THB 9.93 million or 1.9% from last year as THB 522.79 million detail as below:

(1) Current Liabilities increased 27.6 Million or 6% from last year due to :

- Short-term loan.
- Increased account payables.

(2) Non - Current Liabilities decreased 17.65 million or 32% from last year due to :

- Decreased in value of call options.
- Decreased in Deferred tax liabilities.
- Decreased in Provision for long-term employee benefits.

Equities

The Company total equity as of 31 December 2014 was THB 759.435 Million decreased 458.559 Million or 38% from last year as THB 1,218 Million detail as below:

(1) Unappropriated deficits (Retained Earning) increased THB 389 million from 2013

(2) Non-controlling interests of the subsidiaries increase by THB 69 million from 2013

19.2 Factors that effects financial position significantly in the future both internal and external

Asiasoft is constantly working to mitigate factors that may affect our overall performances. Below is the list of key factors that may affect financial position and/or operations of Asiasoft and how the Group is planning to handle them.

(1) Risk of Product's Hit Factors

Online game industry in Southeast Asia has become more and more competitive where gamers have become more selective in terms of which games they will spend their time and money into. Hence, Asiasoft is committed to publish hit games and top notch services that will appeal to our market and will result into positive financial performance for the Group.

(2) Operation Schedules

Timing is key in online game industry whether for launching new titles, new game updates, new types of services, gaming events, etc. The Group is carefully scheduling key activities based on consumer's behavior and trend, such as school terms, holiday seasons, key sports events, or competitor's products schedules to ensure optimum timing for any product activities.

(3) Changes in Technology and Platforms

In the past few years, smart phone penetration has grown significantly in Southeast Asian countries and our key customers have been playing games on mobile platform too. The Group has made an approach to enter mobile platform by releasing Ragnarok Online Mobile in Thailand in late 2013. Furthermore, Asiasoft strives to look out for oncoming changes in technology and the Group will constantly adapt to the trend in technology to provide best online entertainment in Southeast Asia, as well as relevant platforms to market our products.

(4) Disruption of Online Service

As a leading online game operator, Asiasoft has been maintaining excellent online services to our users. However, there are factors such as natural disasters, political unrest, internet & data service provider failure, cyber attack, and buggy game contents, that may affect disrupt our online services. Our information system team is striving to maintain adequate operational services, security and supporting infrastructure for the smoothest gaming experience.

(5) Privacy Protection

One of Asiasoft's strengths is our massive amount of users from all across Southeast Asia and beyond. Hence, any leak of consumer's data by and to third parties may negatively affect our relationship with our users and our revenue. However, the Group has implemented security system to store and to protect our user database.

(6) Diversifying Channel Partners

Asiasoft has been maintaining good relationship with channel partners (e.g. for payment, sales, distribution) such as mobile service providers, cyber cafes, convenient shops, gaming shops, and online gaming news portals. Our channel



partners have significant influence over the products and services that we offer on their platform. As such, the Group will maintain to provide agreement that beneficial to our channel partners so they stay to serve us.

(7) Talents in Online Game Industry in Southeast Asia

Asiasoft believes in keeping and nurturing talents as integral part in Group's overall growth. As game industry in the region has grown significantly in the past decade, the demand for and quality of talents in game industry has increased too. The Group will stay competitive in terms of remuneration and advances in job environment, as well as maintaining the effort to draw top talents into Asiasoft.