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# MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL

## 19.1 Financial Status and Operating Results

### Overview of past operating results

#### *Business Structure 2015*

In 2015, The Company's main revenues are realized from online revenue, advertising, distribution of PC games, and payment channels in Thailand, Singapore, Malaysia, Indonesia, Vietnam, and Philippines. The Company had also launched mobile games in 2015.

#### *Investment Expansion during 2015*

Asiasoft Corporation Public Company Limited is a leading regional online entertainment service provider in Southeast Asia, with a dominating market share in the region, covering Thailand, Singapore, Malaysia, Vietnam, Indonesia, and Philippines.

As of December 28, 2015, the Group operates 27 online game titles in 6 countries : Thailand (17 games), Singapore (12 games), Malaysia (11 games), Indonesia (6 games) Philippines (13 games) and Vietnam (9 games). In 2015, 59% of total revenue is from Domestic business while 41% of total revenue is from Overseas. The proceeds of online game services generated the Group's main income about 81% and distribution generated about 8% and others about 11% of total revenue.

Total revenue in 2015 was THB 899 million, decreased THB 371 million or 29% from the previous year with revenue THB 1,270 million, due to increased competition in online games, both domestic and overseas, including the rapid growth of smartphones and internet, which increase mobile or smartphone games. The Company's games are mainly the PC games, resulting in the Company's revenue slow down, as changed in consumer behavior from PC games to mobile games.

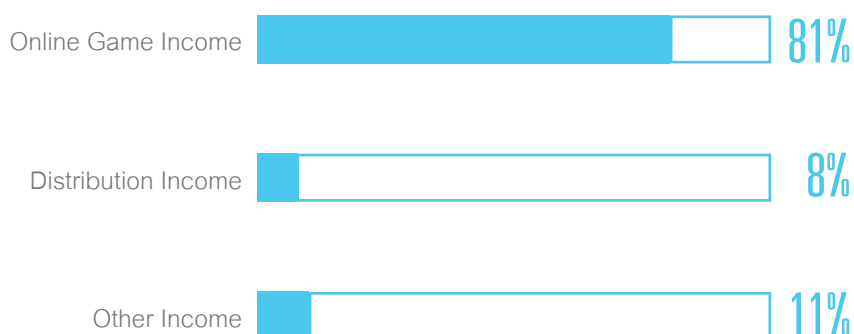
As mentioned above, the Company has change structure and business model to serve change in online game business by entering into mobile game, mobile service and mobile application business, both purchasing the rights from the game developers and developing by the Company itself. In addition, the Company has provided a provision on impairment of investments in subsidiaries THB 367 million, impairment of short-term loans to subsidiaries THB 174 million, which is the one-off item in 2015 that made company loss THB 475 million in 2015.

The Company invest in 750,000 new preferred shares of Pomelo Network Pte. Ltd. or 11.09% of issued shares of Pomelo Network Pte. Ltd. at the par value, in the total amount of USD 750,000. The Company considered that

Pomelo Network Pte. Ltd. has the potential to carry on the developing of Mobile Application and Mobile Messenger. The Company believes that investment in Pomelo Network Pte. Ltd. will support the online gaming service which is the core business of the Company in the future and to expand Group's business.

#### Group Operating Result

Total revenue in 2015 was THB 899 million, decreased THB 371 million or 29% from the previous year of THB 1,270 million. The proportion of revenue was from online game income and distribution income.



Business	2013		2014		2015	
	Baht Million	(%)	Baht Million	(%)	Baht Million	(%)
1. Online Game Income	1,530	89	1,003	79	729	81
2. Distribution Income	115	7	114	9	76	8
3. Other Income	68	4	153	12	94	11
<b>Total</b>	<b>1,713</b>	<b>100</b>	<b>1,270</b>	<b>100</b>	<b>899</b>	<b>100</b>

Remark : The above revenue is already eliminated the related parties transactions.

1. Online Game Income : For the year 2015, online revenue was THB 729 million, decreased THB 274 million or 27% from last year which had THB 1,003 million. The decline in Group revenue results from some new games' performance which less than our expectation, therefore more carefulness on launching new games, both domestic and overseas, to ensure of best service and convenience to gamers, caused the delay in the launch date.

Revenue by Geographic	2013		2014		2015	
	Bath Million	(%)	Bath Million	(%)	Bath Million	(%)
1. Thailand	805	53	572	57	437	60
2. Overseas	725	47	431	43	292	40
<b>Total</b>	<b>1,530</b>	<b>100</b>	<b>1,003</b>	<b>100</b>	<b>729</b>	<b>100</b>
<b>Growth rate (%)</b>	<b>-8 %</b>		<b>-34 %</b>		<b>-27 %</b>	

2. Distribution Income : Generated from PC games, payment channels and internet cafe members fee. The Company realized THB 76 million in revenue, in 2015. A decrease of THB 38 million or 33% from last year which had THB 114 million due to no major packaged product was launched in FY2015.

3. Other Income : From advertising, sponsoring, licensing and social network advertising management. The Company realize THB 94 million in revenue, a decrease of THB 59 million or 39% from last year which had THB 153 million.

#### Costs, Expenses, Finance costs, and Income tax

Costs, Expenses, Finance costs and Income tax of the Company and subsidiaries in 2015 was THB 1,407 million, decreased by THB 316 million or 18% from the last year of THB 1,723 million.

List	Consolidated			
	2558	2557	Increase (Decrease)	(%)
Cost of sales and services	(650)	(962)	(312)	-32%
Selling expenses	(98)	(91)	7	7%
Administrative expenses	(323)	(324)	(1)	-0%
Loss from investments in associates	-	(12)	(12)	-100%
Loss on impairment of goodwill	(156)	(94)	61	65%
Loss on impairment and write off of prepaid royalty fee and intangible assets	(193)	(257)	(64)	-25%
<b>Total operation cost</b>	<b>(1,419)</b>	<b>(1,741)</b>	<b>(322)</b>	<b>-18%</b>
Finance cost	(2)	(2)	0	7%
Income tax (expense)	14	19	(5)	-28%
<b>Total</b>	<b>(1,407)</b>	<b>(1,723)</b>	<b>(316)</b>	<b>-18%</b>

The Company's cost and operating cost decreased from the previous year, subsequent to the decrease of revenue from both Domestic and Overseas companies. There was a reversal of loss on impairment of prepaid royalty fee amount of THB 19.6 million.

### Net Profit

The Company has net loss in 2015 at THB (475) million, increasing 24% from THB (384) million in 2014, mainly came from the decrease of online revenue, both in Domestic and Overseas, and the loss on impairment of investment in subsidiaries THB 367 million, loss on impairment of loan to subsidiaries THB 174 million as an one-off items in 2015. This caused a loss from domestic operation, increased from loss 11% to 28%, and overseas operation loss increased from 20% to 25%

Net Profit by Geographic	2013		2014		2015	
	Baht Million	Net Profit Margin (%)	Baht Million	Net Profit Margin (%)	Baht Million	Net Profit Margin (%)
1. Thailand	74	8	-136	-11	-251	-28
2. Overseas	-22	-3	-248	-20	-224	-25
<b>Total</b>	<b>52</b>	<b>3</b>	<b>-384</b>	<b>-31</b>	<b>-475</b>	<b>-53</b>
<b>Growth Rate (%)</b>	<b>-82%</b>		<b>-852%</b>		<b>-24%</b>	

### Balance Sheet

#### Assets

Total assets as of 31 December 2015 was THB 794.57 million, decreased THB 497.59 million or 38.51% from last year of THB 1,292.16 million, details as following :

1. Current assets decreased THB 39.19 million or 8.05% from last year due to :

- Cash and Cash equivalent decreased by THB 31.85 million from the last year, due to a payment of Preferred Share investment in Pomelo Network Pte. Ltd. in Singapore, and the supporting fund to our subsidiaries, both in Thailand and Overseas, as well as the payment for licenses.
- Inventory reduce from 1) Promotion campaign and 2) Net off E&O provision for the inventory aged more than 90 days. In addition, we control on the inventory purchase.
- Decreasing in account receivables THB 28.22 million, subsequent to the lower sale.

### Outstanding trade accounts receivable analysis

Receivables	2558	%	2557	%
Current	74	47%	64	34%
Overdue less than 3 months	33	21%	50	27%
3-6 months	1	1%	4	2%
6-12 months	6	4%	17	9%
Over 12 months	42	27%	51	28%
<b>Total</b>	<b>156</b>	<b>100%</b>	<b>186</b>	<b>100%</b>
Less allowance for doubtful accounts	(27)	-17%	(25)	-13%
<b>Trade accounts receivable</b>	<b>129</b>		<b>161</b>	

In 2015, the Company has current account receivables and overdue less than 6 months at 69% while last year at 63%. The Company has no significant concentrations of credit risk arising from trade receivables as a large number of trade receivables and experience from the collection of the former. In 2015, the Company has revised the standard for allowance of doubtful accounts receivables. Therefore, management believes that the risk will less than provision.

2. Non-Current Asset decreased THB 458.39 million or 56.93% from last year due to :

- Decreased restricted bank deposits by THB 45.78 million or 83.2% from the last year.
- Increased from investment of associate THB 20.35 million on Pomelo Network Pte. Ltd. in Singapore, for 11.01% of total issued shares.
- Loss on impairment of goodwill THB 155.65 million.
- Reduction on intangible assets and prepaid license at THB 194.1 million and THB 45.6 million respectively as to both amortization and impairment.

#### *Liabilities*

The Company total liabilities as of 31 December 2015 was THB 575.59 million, increased THB 14.59 million or 2.60% from last year as THB 560.99 million, details as following :

1. Current Liabilities increased THB 36.15 million or 6.89% from last year due to :

- Decreased short-term borrowings from financial institution THB 37.76 million or 61.91% due to loan repayment.
- Increased accounts payable THB 5.12 million or 2.72%.
- Increased short-term loan from the Director THB 39.02 million for the oversea subsidiaries.
- Increased deferred revenue and license fees THB 23.09 million or 9.17%.

2. Non-Current Liabilities decreased THB 21.55 million or 59.24% from last year due to :

- Decreased in value of call options THB 1.73 million.
- Decreased in deferred tax liabilities THB 20.77 million or 96.55%.
- Increased in provision for long-term employee benefits THB 1.39 million or 10.96%.

### *Equities*

The Company total equity as of 31 December 2015 was THB 218.978 million, decreased 512.192 million or 70.05% from last year as THB 731.171 million, details as following :

1. Unappropriated deficits (Retained Earning) increased THB 471.12 million from 2014.
2. Non-controlling interests of the subsidiaries decrease by THB 37.37 million from 2014.

### **Profitability**

As of December 31, 2015, the Company and subsidiaries' gross profit margin was 24.82%, increasing by 21.93% from 2014. Net Loss 52.86%, increasing by 30.21% from 2014, due mainly to the decrease of online revenue, both in Domestic and Overseas companies, including loss on write off and impairment of prepaid royalty, loss on impairment of intangible asset THB 174.9 million, and loss on impairment of goodwill THB 155.6 million.

### **Asset Management Ability**

In 2015, the Company and subsidiaries' Return on Assets (ROA) was (45.54)%, decreasing by (25.76%) from the previous year, and Total Assets Turnover was 1.13 times, increasing by 0.98 times because the Company and

subsidiaries had higher loss while decreased in Equipment, Prepaid royalty fees, Goodwill and Other intangible assets.

### Liquidity and Capital Adequacy

In 2015, the Company and subsidiaries' liquidity ratio was 0.80 times, decreasing by 0.93 times from the previous year due to investment in new preferred shares of Pomelo Network Pte. Ltd.

In 2015, Debt to Equity ratio was 2.63 times, increasing by 0.77 times from the previous year because the increase in accumulate deficit.

### 19.2 Factors that Affect Financial Position Significantly in the Future, Both Internal and External

Asiasoft is constantly working to mitigate factors that may affect our overall performances. Here 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 : Consumers or game players' behaviors have changed drastically, due to changes in technology and the games are easier to access and more prevalent. In the last several years, smartphone penetration has grown significantly in Thailand, so "Game Application" and "Game on Mobile" became popular. However game online service providers are attend to entry in this business and launch the game on a mobile phone with offer the themselves game develop and with a partner Thailand market. Furthermore, Asiasoft strives to look out for oncoming changes in behavior and the Group will constantly adapt business plan to moving in mobile games. However, Asiasoft also continues focus on PC Game with strategy to made the player can be access the game easier and faster as well as develop a system to serve internet users in Southeast Asia both game and non-game.

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 and data

service provider failure, cyber attack, and buggy game contents, that may 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' 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 platforms. 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.

8. Risk in Expanding Business Abroad : Asiasoft has expanded its investment in Southeast Asia since 2012. However, if the Company does not have a efficient analyzing system, Internal control, monitoring and cannot develop employee, the operating result might be affected.

9. Risk in Copyright Amortization : Asiasoft has a risk from copyright cost for obsolete game which will be considered to terminated or estimated reserves for impairment which may affect the operation results. However, the Company has tried to revise the terms of contract and negotiate with the manufacturers or game developers to reduce the risk.