



19.1 Financial Status and Operating Results

Overview of past operating results

Business Structure 2016

In 2016, the Company's main revenues are realized from online revenue from both PC and mobile games, distribution of PC games, and payment channels in Thailand, Singapore, Malaysia, Philippines, Indonesia, and Vietnam.

Operating Result

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

As of 31 December 2016, the Company operates 36 online game titles in 6 countries : Thailand (20 games), Singapore (16 games), Malaysia (20 games), Philippines (18 games), Indonesia (13 games), and Vietnam (14 games), comprise of 23 PC games and 13 mobile games. Total Revenue generated from domestic 49% and oversea 51%. It is the first time that our oversea company generated higher revenue than domestic. It is a significant signal that oversea company have potential improvement to compete on market share.

Revenue in 2016 comprise of revenue from online 87%, distribution 3%, and others 10%.

Total revenue in 2016 was 877 million baht, slightly decreased 22 million baht or 2.4% from the previous year with total revenue 899 million baht, due to the change of customer's behavior from PC to mobile or smartphone game according to the change of technology.

As mentioned above, the Company has change structure and business model to serve change in online game business by entering to mobile game, mobile service and mobile application business, by purchasing the rights from game developers and develop by the Company itself. The Company has invested and published more mobile games, but the revenue can't be generated as per expectation, because the mobile gamers' payment behavior was not much enough, and the change of mobile gaming was fast so its life cycle was shorter than PC gaming. In addition, the Company also faced with high competition from big developers who publish both PC and mobile games by themselves.

In 2016, there was one-off item e.g. impairment on investment in associate company and subsidiary company which was stated in Separated Financial Statement, and the recognize of gain or loss per equity method in Consolidation Statement, as well as the impairment on license, loan to subsidiary as follows :

Impairment and Write-off	Consolidation Statement (Million Baht)	Separate Statement (Million Baht)
Loss on Impairment License	67.2	28.8
Loss on Impairment in Associates	19.5	25.0
Loss on Impairment in Subsidiaries	-	15.4
Loss on Impairment on Loan to Subsidiaries	-	61.6
Total	86.7	130.8

There was net loss in 2016 at 216.7 million baht, improved from year 2015 by 258.4 million baht (Loss in 2015 = 475 million baht) or 54.4% subsequent from the reduction of one-off expenses and the reduction of expenses after the Company restructure.

Exclude one-off expenses, the Company loss 130 million baht, higher than year 2015 by 14% (216.7 – 86.7 = 130) because new games were not generated income as expected, and the increase of advertising and promotion expenses for the new games.

The Company has considered to restructure (e.g. merge, sell, close) in order to increase competition efficiency. As of 2016, the Company completed 1 liquidation, on process of 1 liquidation, and sold 1 company.

Overview of Performance for 2016

Total Revenue in 2016 was 861 million baht, comparing to 860 million in year 2015. The proportion of revenue from online game business, distribution, and advertisement.

Revenue by Business	2014		2015		2016	
	Million Baht	(%)	Million Baht	(%)	Million Baht	(%)
Online Game Income	955	77	718	83	761	88
Distribution Income	113	9	50	6	28	3
Other Income	173	14	92	11	72	8
Total	1,241	100	860	100	861	100

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

1. Online game income : For the year 2016, online revenue was 761 million baht, increasing 43 million baht or 6% from last year which had 718 million baht, as to new game launched in oversea company get well response, causing oversea company to generate more revenue than domestic.

2. Distribution income : Distribution income consists of offline PC games, payment channels and internet cafe members' fee. The Company realized 28 million baht as revenue in 2016, a decrease of 22 million baht or 44% from last year which had 50 million baht, due to the change of gamer's behavior and technology.

3. Other income : Others were from advertising, sponsoring, licensing and social network advertising management. The Company realizes 72 million baht in revenue, decreasing 20 million baht or 22% from last year which had 92 million baht, as to the change of business model.

Revenue by Geographic	2014		2015		2016	
	Million Baht	(%)	Million Baht	(%)	Million Baht	(%)
Thailand	644	52	499	58	419	49
Overseas	597	48	361	42	442	51
Total	1,241	100	860	100	861	100
Growth Rate (%)	(34%)		(31%)		0.1%	

Costs, Expenses, Finance Costs, and Income Tax

Costs, Expenses, Finance Costs and Income Tax of the Company and subsidiaries in 2016 was 1,087 million baht, decreasing 320 million baht or 23% from last year of 1,407 million baht.

List	Consolidated			
	2015	2016	Increase (Decrease)	%
Cost of Sales and Services	(637)	(649)	12	2
Selling Expense	(98)	(109)	11	11
Administrative Expense	(323)	(185)	(138)	(43)
Loss on Impairment and Write-off of Intangible and Prepaid License Fee	(205)	(67)	(138)	(67)
Loss on Impairment of Investment in Associates	-	(19)	19	100
Loss on Impairment of Goodwill	(156)	-	(156)	(100)
Total Operation Cost	(1,419)	(1,029)	(390)	(27)
Finance Cost	(2)	(2)	0	-
Tax Income (Expense)	14	(56)	(70)	(500)
Total	(1,407)	(1,087)	(320)	(23)

Cost of sale increased 2% mainly due to the cost of royalty fee for mobile game which was higher than PC game's, and the amortization of license fee as per agreement which was higher than online revenue that was generated from the said game.

Selling expense increased 11% mainly due to marketing expense on advertisement and promotion. Administration expense decreased from last year 138 million baht or 43% as to Company restructure which cause a reduction on employee cost 14 million baht, rental 11 million baht, utility 5 million baht, depreciation and consultant and other expense 17 million baht. In addition, there was a reduction of one-time expenses e.g. impairment of intangible, prepaid license, investment and goodwill.

Net Profit (Loss)

In 2016, the Company has net loss (216) million baht, decreasing 55% from (475) million baht in 2015, mainly came from the decrease of expense subsequent from the Company restructure and one-time expenses on impairment reflecting that the Company has improvement in better direction to create good performance.

Net Profit by Geographic	2014		2015		2016	
	Million Baht	Net Profit Margin (%)	Million Baht	Net Profit Margin (%)	Million Baht	Net Profit Margin (%)
Thailand	(136)	(11)	(251)	(29)	(167)	(19)
Overseas	(248)	(20)	(224)	(26)	(50)	(6)
Total Net Profit	(384)	(31)	(475)	(55)	(216)	(25)
Growth Rate (%)	(852%)		(24%)		55%	

Balance Sheet

Assets

Total assets as of 31 December 2016 was 581.88 million baht, decreasing 212.69 million baht or 26.77% from last year of 794.57 million baht, details as follows :

1. Current assets decreased 25.87 million baht or 5.73% from last year due to :

- Cash and Cash equivalent increased by 102.68 million baht from last year from 121.19 to 223.86 million baht or 84.71% as to the increase of capital.
- Inventory reduce from 1) promotion campaign and 2) purchasing control. There is a policy on net off E&O provision for inventory aged more than 90 days.
- Decreased in account receivables 44.04 million baht or 31.03% as to collection on due date.

Outstanding trade account receivables can be analyzed as follows :

Receivables	2015	%	2016	%
Current	70	70	43	61
Overdue Less Than 3 Months	23	23	19	27
3 - 6 Months	-	-	-	-
6 - 12 Months	-	-	3	4
Over 12 Months	7	7	5	8
Total	100	100	70	100
Less Allowance for Doubtful Accounts	(6)	(6)	(8)	(11)
Trade Accounts Receivable	94		62	

In 2016, the Company has current account receivables-3rd and overdue less than 6 months at 62 million baht . 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 2016, 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 187.02 million baht or 53.93% from last year due to :

- Decrease from investment of associate 17.7 million baht from 26.23 to 8.53 million baht or 67.5%, as to impairment on investment in Pomelo Network Pte, Ltd, and the liquidation of Cybergames Corporation Co., Ltd.
- Loss on impairment of goodwill 155.65 million baht.
- Reduction on intangible assets and prepaid license at 56.98 million baht and 10.19 million baht respectively, as to both amortization and impairment.
- Deferred Tax Asset was reduced which was booked as expense in 2016.

Liabilities

The Company total liabilities as of 31 December 2016 was 467.92 million baht, decreasing 107.67 million baht or 18.71% from last year which was 575.59 million baht, detail as follows :

1. Current Liabilities decreased 111.32 million baht or 19.85% from last year due to :

- Decreased Account Payables 26.32 million baht or 13.64% due to settlement on due cause.
- Increased short-term loan from director 29.28 million baht due to settlement on due cause and re-class 3.5 million baht to long-term loan.
- Decreased Deferred revenue and license fees 55.49 million baht or 20.17% as to revenue recognition.

2. Non-Current Liabilities increased 3.65 million baht or 24.61% from last year mainly due to A reclassification of short-term to long-term loan 3.5 million baht.

Equities

The Company total equity as of 31 December 2016 was 113.96 million baht decreased 105.02 million baht or 47.96% from last year which had 218.98 million baht. The total equity 113.96 million baht comprise of parent company 112.3 million baht and NCI 1.65 million baht as per below major reason.

1. Unappropriated deficits (Retained Earning) increased 215 million baht from 2015
2. Non-controlling interests of the subsidiaries increased by 6.67 million baht from 2015

Profitability

As of 31 December 2016, the Company and subsidiaries' gross profit margin was 16.86%, of net revenue (including the one-off items) against gross margin 2.09% in year 2015 to 2.09% which was a good sign on improvement. The Net Loss 25.16% improved from 55.22% of last year due to a turnaround from some country and the decrease of one-time expenses as Company almost fully impair in order to be ready for competition.

Asset Management Ability

In 2016, the Company and subsidiaries' Return on Assets (ROA) was (31.48%), comparing to (45.54%) from previous year. Total Assets Turnover 1.25 times, comparing to 0.82 times of previous year, because of the reduction of loss, equipment, prepaid royalty fees, goodwill, and other intangible assets.

Liquidity and Capital Adequacy

In 2016, the Company and subsidiaries' liquidity ratio was 0.93 times, comparing to 0.80 times of previous year as to capital increase.

Debt to Equity ratio 4.1 times and 2.63 times for year 2016 and 2015 respectively. The increase came from the reduction of equity as to 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 Company 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, the Company 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 Company.

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 Company 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 or mobile game became popular. However, the online game service providers are attend to entry in this business by launching mobile games which have been developed by themselves or with a partner for Thailand's market. Furthermore, the Company strives to look out for oncoming changes in behaviour and the Company will constantly adapt business plan to move into mobile gaming market. However, the Company also continues focusing on PC games with the strategy that let the player access the games easier and faster, as well as develop a system to serve internet users in Southeast Asia for both gaming and other services.

4. Privacy Protection : One of the Company'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 Company has implemented security system to store and to protect our user database.

5. Diversifying Channel Partners : the Company has been maintaining good relationship with the 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 Company will maintain to provide agreement that beneficial to our channel partners.

6. Talents in Online Game Industry in Southeast Asia : the Company believes in keeping and nurturing talents as integral part in the Company'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 Company will stay competitive in terms of remuneration and advances in job environment, as well as maintaining the effort to draw top talents into the Company.

7. Risk in Expanding Business Abroad : the Company has expanded its investment in Southeast Asia since 2012. However, if the Company does not have an efficient analyzing system, internal control, and monitoring system, and if the Company cannot develop its own employees, the operating result might be affected.

8. Risk in Copyright Amortization : the Company 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.