

Management Discussion and Analysis

For the Second Quarter 2014

Executive Summary

GMM Grammy has been conducting a total entertainment business, encompassing music, media, movie, broadcasting, and other related businesses for more than 30 years, with solid foundation for future growth and sustainable returns to its shareholders. At the same time, it is always committed to its responsibilities to all stakeholders.

During the first half of 2014, economic slowdown and political situation posted major challenges to drive a successful business plan. In 2Q14, sale of goods, service income, and revenue from copyrights (“operating revenues”) improved from last quarter but declining 18% from the same period last year. Revenue from new businesses increased significantly by 24% Y-o-Y, representing 30% of total operating revenues, higher from 20% in the same period last year; while the proportion of revenue and profit from existing business dropped especially from Music and Media business, along with the high investment during startup period altogether had resulted in a net loss for 2Q14 of THB 913 million.

Home Shopping business grew impressively this quarter, with a steady rise in daily sales from customer preference to shop via this channel. At the same time, GMM Z platform also rose from

larger audiences of Premier League football during this period, leading to total cumulative sales of 2.7 million boxes so far.

The competition of Digital Terrestrial TV (DTT) following the commencement early this year was still in the transition period, with the subsidized coupon valued at THB 690 planned for distribution starting in September, hopefully would be stimulating the purchase decision and expanding DTT viewer base along with higher ratings. In addition, the upcoming official rating licenses granted by NBTC in the 3Q14 should further drive advertising spend in this business significantly.

Revenue from existing businesses especially in Media business was impacted by the emergence of DTT broadcasting this year along with negative market sentiment, thereby causing a drop in overall advertising spending during the first half of year from the delay in purchasing media. However, after the political unrest resolved and the stock market rebounded, revenue would expectedly resume normal in the second half of year with overall spending maintained from last year.

Music business faced a declining growth as well from political pressure causing the

postponement of many shows and concerts, and changing technology leading to less physical sales. For these reasons, GMM Grammy has revised the strategy plan to develop new services for Music and Digital business, and promote music marketing through new channel as evident from the cooperation with YouTube Thailand starting in May, which proved to be very successful from over 100 million music viewers accessible to YouTube and advertising spending via GMM channel in YouTube has grown continuously.

During the second half of year, GMM Grammy plans to organize several big concerts and music events, namely 20-year with Got Jukkrapun Huakaew Huawhan, Sexy on the Beach Concert on Pattaya seaside, New & Jew Duo Featuring Concert, Bodyslam Rock Concert, and make a grand year-end farewell with Big Mountain Music Festival.

Pay TV business encountered a slower growth period with huge investment required. To ride out the intense competition, GMM Grammy has entered into a partnership with CTH, one of the leading Pay TV service providers in Thailand with integrated Pay TV operation and service management. This strategic movement would unleash business potential of

both CTH and GMM Grammy with synergies in infrastructure, marketing, content variety covering sports and exclusive entertainment, with over 5 million customer base in total. As such this alliance lessens competition and lowers cost from combined operation, thereby contributing to an improved business performance and stronger financial status.

According to Board of Directors meeting on 13 August 2014, approval was given to increase the Company's registered capital by issuing new ordinary shares to existing shareholders

up to 63.63 million shares at the par value of THB 1 per share, at the price of THB 13.50 per share, on a pro rata basis of share (Rights Offering) with the ratio of 10 existing shares for 1 newly issued ordinary share. In addition, up to 120 million newly issued shares at the par value of THB 1 per share would also be allocated and offered to specific persons under the private placement scheme with the determination of the offering price through a comparative analysis of the demand and supply in the newly issued shares of the Company ("Book-Building"), and the offering

price shall not be lower than the offering price to the Company's existing shareholders pro rata to their shareholding (Rights Offering). The Board of Directors will proceed to bring the agenda for further approval by the Extraordinary General Meeting of Shareholders on 24 September 2014.

Subsequent to the increase in registered capital, GMM Grammy equity base would be strengthened, leading to a significant improvement in financial leverage and debt to equity measurement.

Operating Results

unit: THB thousand	2Q14	2Q13	Change (%)
Total operating revenues	2,211,580	2,710,605	-18.41
Other revenues	225,461	100,015	125.43
Expenses			
Cost of sales and services	2,245,179	1,844,809	21.70
Selling expenses	226,049	245,789	-8.03
Administrative expenses	794,318	839,651	-5.40
Total expenses	3,265,546	2,930,249	11.44
Profit before share of income from investments in associates, finance cost, and corporate income tax	-828,505	-119,629	n.m.
Share of income from investments in associates	8,405	7,283	n.m.
Profit before finance cost and corporate income tax	-820,100	-112,346	n.m.
Finance cost	-87,018	-31,685	n.m.
Profit before corporate income tax	-907,118	-144,031	n.m.
Corporate income tax	-14,551	-45,839	n.m.
Profit for the period	-921,669	-189,870	n.m.
Profit attributable to non-controlling interests of the subsidiaries	-8,725	25,711	n.m.
Profit attributable to equity holders of the Company	-912,944	-215,581	n.m.

Financial Ratios

Gross profit margin (%)	-1.52	31.9
SG&A to revenues (%)	41.71	38.6
Net profit margin (%)	-37.33	-7.6

In 2Q14, total revenue from sales and services stood at THB 2,212 million, declining 18% Y-o-Y, especially from Media, Movie and Event Management business, following unstable politics. While the new business which comprises of Home Shopping and Satellite TV business, accounted for 30% of total operating revenues and grew 24% from same period last year. However, due to the investment period in new businesses of GMM Grammy, it generated a net loss of THB 913 million.

Operating results from each business segment can be summarized as follows.

Existing businesses

Music business comprises sale of physical products, publishing management and showbiz. In this quarter, revenues from music business totaled at THB 485 million, declining 13% from last year. Revenue from showbiz was also lower substantially Y-o-Y due to political crisis, many shows were postponed to perform in the second half of year. Also revenue from sale of physical products dropped from changing consumer behavior. Revenue from this business represented 22% of total operating revenues, declining from 30% last year.

Digital business is mainly the sale of music in digital format via download on mobile phone and music streaming. The revenue amounted to THB 119 million, declining 23% from

previous year. However the subscriber base of the music streaming service that GMM Grammy joined hands with AIS has constantly increased to around 100,000 subscribers, while YouTube subscriber also increasing up to 10 million subscribers. The continued expansion in subscriber base would increase digital revenue significantly, currently, revenue from this business representing 5% of total operating revenues.

Media business comprises radio, television, and publishing businesses. In 2Q14, revenues totaled at THB 593 million, decreasing by 31% from last year. Because of the downturn in total media expenditure, TV, radio and magazine declined by 34%, 21% and 29% respectively. Revenue from this business accounted for 27% of total operating revenues, declining from 32% last year.

Movie business in 2Q14, there was only one movie released, "Teacher's Diary" since 20 March 2014. The movie generated box office revenue at THB 85 million this quarter, decreasing 68% Y-o-Y while during the same quarter last year "Pee Mak Pra Kha Nhong" successfully marked a record-high in Thailand movie industry. Revenue from this business represented 4% of total operating revenues, declining from 10% last year.

Event management business generated revenue from domestic and foreign event

management. In 2Q14, it generated revenue at THB 184 million, declining 27% compared to previous year. The influence of politic crisis has caused private sector and government sector to decrease in event activity. Revenue from this business represented 8% of total operating revenues.

New Businesses

Home Shopping business operates under a joint venture with CJ Group from South Korea. In 2Q14, it generated total revenue of THB 239 million, a 127% increase from last year. The operating profit is expected to reach a breakeven point by the fourth quarter this year from increasing consumer demand and expansion in product lines. Moreover there would be online service to capture wider target audiences from all ages in the second half of this year. Revenue from this business represented 11% of total operating revenues.

Satellite TV business comprises satellite TV media business, satellite TV platform business, and satellite Pay TV business. Revenues from satellite TV business in 2Q14 totaled at THB 430 million, slightly lower by 1.5% from last year.

The sale of set-top-box "GMMZ", 190,000 boxes were sold; its revenue was THB 218 million, up 7% from last year.

Advertising revenue from satellite TV media was THB 163 million, down 7% from last year

according to the same trend as Media business.

For Pay TV business, the revenue was from the subscription of Pay TV services. After a business partnership with CTH by signing the shares swap agreement, the strength and synergies of both companies would be combined and contributed as key driving forces towards success.

Revenue from this business represented 19% of total operating revenues, increasing from 16% last year.

Digital Terrestrial TV business

GMM Grammy appointed Mr. Takonkiet Viravan to operate “one channel” (number 31 or 41 in satellite television), and Mrs. Saithip Monthrikul Na Audhaya to operate “GMM CHANNEL” (number 25 or 35 in satellite television). With the great talents and dedications of both directors, together with the outstanding contents and staffs, the company is confident that its digital television business has a high growth prospect to drive corporate performance in the coming future.

Cost of sales and services in 2Q14 amounted to THB 2,245 million, increasing 22% from last year due to transponder cost combined with amortization of contents in Pay TV business. Moreover, the circulation of set-top-box also increased. For Home Shopping business, cost of sale and service increased in line with revenue growth. On

the other hand, cost of sale and service from existing business declined 24% Y-o-Y, representing 64% of revenue in music business, media business, movie and animation business, as well as event management.

Gross profit in 2Q14 turned negative at THB 34 million which consists of gross profit from existing business at THB 560 million, decreasing 37% from last year from lower revenue. While the gross loss at THB 594 million generated from new businesses was driven by Digital TV license fee and transponder cost in Pay TV business, as well as cost of content production for Digital TV. Meanwhile, home shopping business generated huge profits this quarter, increasing more than 116% from previous year.

SG&A expenses in 2Q14 amounted to THB 1,020 million, down 6% from last year, representing the proportion of 42% of total revenue. Main decreases were from lower expenses in Media and Movie business, while Satellite TV and Home Shopping business got higher marketing expenses along with the increase of management expense in Digital TV.

Net loss in 2Q14 was THB 913 million, increasing 323% from previous year because of the increased financial costs and the investment of new business. However, GMM Grammy expects Digital TV business to generate operating profit in the

near future in conjunction with positive return from Home Shopping business, and the adjustment of Pay-TV strategy. Revenue proportion of new businesses would be projected at 50% of total revenue within 4-5 years from now, increasing significantly from the current proportion at 30%.

Total assets at the end of 2Q14 amounted to THB 16,301 million, increasing 29% from year end 2013 due to the cost of Digital TV spectrum licenses granted since 25 April 2014. Meanwhile, the decrease in short-term investment was resulted from redemption of fixed deposits for short-term loan payment and working capital in the business. In the part of account receivables and other receivables decreased from debt collection along with sales and advertising revenue slow down; while intangible assets were reduced from amortization during the period and the sale of certain long-term investments.

Liability in 2Q14 the interest-bearing debt increased from THB 4,639 million to THB 6,442 million from the loan to support Digital TV operation together with the undue liabilities recognized from Digital TV license, altogether resulting in the increase of total liability to THB 14,145 million, up 64% from last year.

Shareholders at the end of 2Q14 was THB 2,157 million, decreased 46% from year-end 2013 following the incremental

losses generated. Interest-bearing debt to equity increased from year end 2013 at 1.17 to 2.99 this quarter.

However, the Company's financial status remains strong specifically after the adjustment of Pay-TV strategy, Fitch Rating revised company outlook to 'Positive' from 'Stable' and affirmed at 'BBB+' and 'F2' for long-term credit and short-term credit respectively. This reflects less risk factors and stronger financial status.

In 2Q14, cash flow from operating activities was THB 269 million, while cash flow from investing activities decreased by THB 651 million from Digital TV equipment and license fee. Cash flow from financing activities increased by THB 1,371 million from long-term loan. These resulted in a net cash inflow of THB 989 million. At the end of 2Q14 cash on hand and cash equivalents amounted to THB 1,755 million

Unit : million	2Q14	2Q13
Cash and equivalents	1,755	800
Other current assets	5,552	5,027
Non-current assets	8,994	4,993
Total assets	16,301	10,820
Current liabilities	4,851	6,210
Non-current liabilities	9,294	732
Total liabilities	14,145	6,942
Shareholders' equity	2,157	3,878
Total liabilities and shareholders' equity	16,301	10,820
Net interest-bearing debt to equity ratio (x)	2.99	0.78

For additional information, please contact Ms. Anchalee Jieratham, Head of IR
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