



For the year ended December 31, 2016

February 22, 2017

Management Discussion and Analysis

RS Public Company Limited

Overall Business

The media industry saw a decline in 2016 due largely to the suspension of regular broadcasts during the mourning period. Throughout the 30 days following October 13, 2016, the only broadcasts were news programs, including live television and radio updates on events related to the passing of His Majesty King Bhumibol Adulyadej. The media and advertising market continued to be affected until the end of 2016. Research results of AGB Nielsen Media Research (Thailand) shows that advertising expenditure for the television and radio media industry (ADEX) for the year 2016 dropped by 13.802 billion baht, compared to 2015, as a result of the decrease in media spending on both television and radio. As for digital television, advertising expenditure experienced the smallest decrease; it declined by only 538 million baht or 2.6 percent, followed by for radio which decreased by 413 million baht or 7.3 percent.

The decline in advertising expenditure is in line with the decline in nationwide television viewers which contracted by 4.3 percent in December 2016 when compared to the same period in 2015. However, the proportion of digital television viewers rose to 43.7 percent of overall viewers in December 2016, compared with 29.3 percent in December 2015.

Summary of 2016 Performance

The consolidated financial statements of the company for the year ended December 31, 2016 shows net loss of 102.1 million baht, a decrease by 223.7 million baht or 184.0 percent from a net profit of 121.6 million baht in 2015. This is mainly due to revenue shortfall from television business as a result of the suspension of regular television broadcasting during the fourth quarter of 2016. The marketing expenses for health and beauty products increased since mid-2016 related to expansion to retail channels and a launch of health and beauty products nationwide. These contributed to net loss by 102.1 million baht in 2016, down by 223.7 million baht from 2015.

| Unit: million baht | Year 2016 | | Year 2015 | | Change | |
|--------------------|-----------|------|-----------|------|---------|---------|
| | amount | % | amount | % | amount | (y-y) |
| Revenue | 3,124.9 | 100 | 3,728.7 | 100 | (603.8) | -16.2% |
| Gross margin | 793.9 | 25.4 | 1,025.7 | 27.5 | (231.8) | -22.6% |
| Operating profit | (164.8) | -5.3 | 149.4 | 4.0 | (314.2) | -210.3% |
| Net profit/(loss) | (102.1) | -3.3 | 121.6 | 3.3 | (223.7) | -184.0% |
| Earnings per share | (0.1043) | | 0.1208 | | | |

Revenue

Total revenue and service income for the year ended December 31, 2016 amount of 3.125 billion baht, decreased from the same period in 2015 by 603.8 million baht, or 16.2 percent. The sources of revenue can be broken down by business units, as follows:

| Unit: million baht | Year 2016 | | Year 2015 | | Change | |
|---|-----------|------|-----------|------|---------|--------|
| | amount | % | amount | % | amount | (y-y) |
| Revenue from media business | 1,814.7 | 58.1 | 2,246.1 | 60.3 | (431.4) | -19.2% |
| Revenue from music business | 321.6 | 10.3 | 463.6 | 12.4 | (142.0) | -30.6% |
| Revenue from event business | 753.2 | 24.1 | 707.4 | 19.0 | 45.7 | 6.5% |
| Revenue from health and beauty business | 227.9 | 7.3 | 231.9 | 6.2 | (4.1) | -1.7% |
| Revenue from other services | 7.6 | 0.2 | 79.7 | 2.1 | (72.1) | -90.5% |
| Total revenue and services income | 3,124.9 | 100 | 3,728.7 | 100 | (603.8) | -16.2% |

Revenue from Media Business

Revenue from the media business consists of revenue from television and radio. In 2016, total revenue from the media business amounted to 1.815 billion baht, a decrease by 431.4 million baht, or 19.2 percent from the same period in 2015 as a result of the followings:

Television Media Business: consists of revenue from “Channel 8” which operates under Digital Terrestrial Television license in SD Variety category, and revenue from “Channel 2”, and “Sabaidee TV” which are satellite television channels.

The overall revenue from the television media business saw a decline, due to the impact of the contraction in ad spending for satellite television, which has significant implications on the

decrease in overall advertising expenditure. The use of advertising through satellite television for 2016, compared to 2015, decreased by 2.560 billion baht or 42.3 percent. As a result, the revenue of “Channel 2” and “Sabaidee TV” fell. As for digital television, the drop in advertising expenditure, compared to 2015 is 2.6 percent mainly due to the suspension of broadcasts for the 30-day mourning period during the fourth quarter, which continued to affect the industry until the end of the year. Nevertheless, revenue generated from “Channel 8”, which is the main revenue stream in the Company’s television media business, was strong, countering the performance of the overall market.

Throughout 2016, “Channel 8” under the concept “Intense Story, Full Emotion”, along with the newly unveiled logo and the addition of new programs to expand the urban viewership base, continued to enjoy popularity in its sports programs, namely, “8 Max Muay Thai”, “The Champion Muay Thai Dat Cheurk”, “HBO Boxing”, “Ultimate Fighting Championship (UFC)” and “Muay Thai Battle” and the new boxing show in the Friday prime time line up, called “Muay Thai Battle” and “Muay Mun Super Max”. For news category “Kui Kao Chong 8” (morning news) has set a new rating record for “Channel 8” which ranks number one in news program among new digital television operators and number three nationwide. With this progress in news category, it has expanded new programs of “Sadut Kao Det” and “Pak Tong Dong Ru”. As for drama series, 8 new series were aired, including “Sapai Rot Saeb”, “Monrak A-Soon”, “Pi Leang”, “La Dap Tawan”, “Baap Ban-pa-garn”, “Buang Rak Sa-lak Kaen”, “Mae Nak” and “Kratin Rimrua”. In addition, the channel added more fun with 3 new variety shows, including “The Guest Tee Sanit Khon Dang”, “Smile Ranger Kabuan-gan Ap Yim” and “English...Sakid Tom Ha”. Moreover, the new programming included popular foreign series from Korea and China - with the aim to capture new viewers. According to the survey conducted by AGB Nielsen Media Research (Thailand), the viewers of “Channel 8” at the end of 2016 had increased 13.9 percent from the end of previous year.

Radio Media Business: consists of revenue from the radio media business, or its “COOL Fahrenheit 93” radio channel. On the whole, revenue from the radio media business in 2016 decreased 11.9 percent from the previous year. This was mainly due to industry-wide shifts in

media consumption behavior. Moreover, in 2016, the Company ceased operations for “Sabaidee Radio 88.5”. According to AGB Nielsen Media Research (Thailand), “COOL Fahrenheit 93” remains number one ranking for Easy Listening category and number two nationwide. There were well-received events for its audience throughout the year, including “Ink Eat All Around”, “COOL Music Alive”, “COOL Outing”, “COOL Music Fest” and “One Life”.

Revenue from Music Business

Revenue from the music business consists of revenue from the digital segment, copyright collection and artist management. The Company stopped manufacturing and distributing physical records since the first quarter of 2016, to better align with changing consumer behavior. As a result, the overall revenue for 2016 was 321.6 million baht, down by 142 million baht or 30.6 percent from the previous year. Also, the popular trend of downloading ringtones subsided. However, the increase in revenue from music streaming services and YouTube has yet to compensate the decrease in revenue from other channels. Nonetheless, after a business restructuring and streamlining operating costs, its profitability has continued to improve.

Revenue from Event Business

Revenue from the event business consists of revenue from concerts and marketing events organization. In 2016, revenue from event business was 753.2 million baht, an increase of 45.7 million baht from the previous year or 6.5 percent. This is attributed to the continuous hosting of successful concerts, including “The Next Venture Concert 2016”, “Love Laugh Cry with 9 Men” and concerts for various media of the Company such as “Channel 8 Pob Puen” and “Sabaidee Sunjorn”.

Revenue from Health and Beauty Business

Revenue from the health and beauty business comprised revenue from the facial care products under the “Magique” brand, hair care products under the “Revive” brand, and the food supplements products. The Company generated revenue of 227.9 million baht, which is relatively stable as compared with 2015 at 231.9 million baht. The main reason for the decrease was the suspension of sales via television media in the fourth quarter. This is also due to the fact that the economy has been

stagnant for some time, which affects consumers' purchasing decisions on new products. However, when the advertising market started to return to normal, the Company expanded its sales channels through its television programs and further leveraged its media outlets. It also increased the number of staff at its call center to better respond to the needs of an increasing number of customers. Moreover, the Company continues to exercise sales promotion and marketing activities in order to boost sales and to promote the product awareness in the market. There were also an expansion of sales outlets and co-promotions with Watsons, EVEANDBOY, Tops Market, Gourmet Market and Home Fresh Mart.

Cost of Sales and Services

Cost of sales and services amounted to 2.331 billion baht, a decrease of 372.0 million baht from the previous year, or 13.8 percent. This was mainly due to a decrease in the cost for satellite television operations, as a result of rigorous cost control to align with the diminishing revenue from satellite television. Another reason for lower cost was from music business, which showed a significant decrease in cost from the above mentioned operation. Even though the costs associated with "Channel 8" increased, it was in proportion to the growth in revenue. This also reflected the increase in the quality of the content and equipment needed for operations, costs for broadcasting drama series and the new program additions - all with the ongoing aim of boosting the channel's popularity and increasing viewership.

Selling and Administrative Expenses, Other Expenses and Finance Costs

Selling and administrative expenses and other expenses of 960.6 million baht increased by 84.2 million baht from 2015, or a 9.6 percent increase. This resulted from the increase in marketing expenses for the Company's health and beauty products in an attempt to expand its sales channel to mass market.

Finance costs of 83.4 million baht increased by 2.3 million baht from 2015 or 2.8 percent. The reason was from higher bank interest expenses in line with the newly drawn long-term loans to support the digital television concession installment.



Plans and Future Outlook

In 2016, “Channel 8” formulated a strategy to continue strengthening its popular programming segments, led by sports, news, drama series and variety programs, to boost ratings and align with the 35 percent increase in advertising rates from 2016.

For the health and beauty business, following the well-received strategy for new sales channels in mid-December of 2016, the Company plans to add more product categories (SKU) to respond to the needs of consumers and to expand its distribution channels to home shopping and other retail outlets.

(Darm Nana)

Director and Chief Financial Officer

Authorized to sign on behalf of the Company