

November 14, 2014

Bangkok Dusit Medical Services Public Company Limited

MANAGEMENT DISCUSSION AND ANALYSIS

Executive Summary

3Q14 and 9M14 Performance

Bangkok Dusit Medical Services Public Company Limited ("Company") reported consolidated operating income during third quarter of 2014 ("3Q14") of Baht 14,386 million, an increase of 7% yoy despite slowdown in domestic consumption and medical tourism. The growth was attributable to an increase in revenue from hospital operations of 7% yoy from an increase in revenue of network hospitals in Bangkok and vicinity of approximately 6% yoy and network hospitals in the upcountry of approximately 9% yoy. Key growth drivers were attributable to an increase in number of both outpatients and inpatients as a result of an expansion of new network hospitals, namely Bangkok Hospital Phitsanulok, Bangkok Hospital Chiangmai, Sanamchan Hospital and Thepakorn Hospital.

The Company and its subsidiaries reported EBITDA of Baht 3,209 million, increased by 15% yoy. Consequently, the Company and its subsidiaries reported net profit of Baht 1,839 million, increased by 19% yoy. If including non-recurring items totaling Baht 89 million in 3Q14 which are consisted of gain on disposal of land not used in operation, impairment of investment in Royal Rattanak Medical Services Co., Ltd. ("RRH") and share of income from investment in RAM which RAM recorded dividend income received from Sanamchan Hospital Co., Ltd ("SNC") as SNC paid to its shareholders in relation to the Entire Business Transfer in 3Q14, net profit of Baht 1,928 million, increased 24% yoy.

For nine-month period ended September 30, 2014 ("9M14"), the consolidated operating income were Baht 41,590 million, an increase of 10% yoy. The growth was attributable to an increase in revenue from hospital operations of 9% yoy from an increase in revenue of network hospitals in Bangkok and vicinity of approximately 8% yoy and network hospitals in the upcountry of approximately 12% yoy. Key growth drivers were attributable to an increase in number of both outpatients and inpatients as a result of an expansion of new network hospitals together with patient ward expansion and renovation, an increase in patient referral and qualified clinical staffs and specialist doctors.

In addition, revenue from sales of goods and food increased 24% yoy due mainly to an increase in sales of The Medic Pharma Co., Ltd.

The Company and its subsidiaries reported EBITDA of Baht 9,380 million, increased by 15% yoy. Consequently, the Company and its subsidiaries reported net profit of Baht 5,415 million, increased by 15% yoy. If including non-recurring items totaling Baht 89 million in 9M14 and gain on fair value adjustment of investments totaling Baht 148 million in 9M13, net profit of Baht 5,504 million, increased 14% yoy.

Major Development

1. Upgrade the Company rating and senior unsecured debenture rating to AA- by Tris Rating

Tris Rating upgrades the Company rating and senior unsecured debenture ratings to AA- from A+. The upgrades reflect Company's stronger business profile, supported by the ongoing

growth of the healthcare industry, Company's more extensive referral network of hospitals, plus ability to manage the Group's overall operating performance and maintain an appropriate level of leverage.

The "stable" outlook reflects the expectation that Company will maintain its leading position in both domestic and regional private hospital markets and continue to deliver solid operating performance for both existing and newly-acquired hospitals.

2. Issuance of convertible bonds

Following the approval from Extraordinary General Meeting of Shareholders on August 5, 2014 for the issuance and offering of convertible bonds ("Bonds"), on September 18, 2014, Company has issued the zero-coupon Bonds in the amount of Baht 10,000 million with maturity in 2019 to investors outside Thailand. The initial conversion price is fixed at Baht 21.045 per one newly issued ordinary share and yield to maturity is 2% per annum. The Bonds listed on the Singapore Exchange Securities Trading Limited.

3. New network hospitals

- Sanamchan Hospital and Thepakorn Hospital
Since August 15, 2014, Bangkok Hospital Sanamchan Co., Ltd. ("BSN"), the Company's subsidiaries, has completed its acquisition of the entire business of SNC at the purchase price of Baht 3,655 million. As a result, Sanamchan Hospital and Thepakorn Hospital have become our network hospitals in Nakhonpathom province.
- Phuket International Hospital
On August 27, 2014, Board of Directors approved the establishment of a new subsidiary under the name of Bangkok Phuket International Hospital Co., Ltd. ("BPI") to acquire and accept the transfer of the entire business of Phuket International

Hospital Co., Ltd. ("PKI"), a well-recognized secondary care private hospital in Phuket with total beds of 151 and having capability to accommodate an expansion to become 281 beds. Since October 2014, BPI has completed the acquisition at the purchase price of Baht 3,559 million.

- Bangkok Hospital Khon Kaen
Since October 2014, Bangkok Hospital Khon Kaen ("BKN") has become our network hospital. BKN is a basic tertiary care hospital located in Northeastern region with total of 120 structured beds, of which 56 beds are opened during first phase.
- Royal Phnom Penh Hospital
Since October 2014, Royal Phnom Penh Hospital ("RPH") has become our network hospital. RPH is a basic tertiary care hospital located in Phnom Penh targeting Cambodian and expatriate. RPH has total of 104 structured beds, of which 53 beds are opened during first phase.
- Bangkok Hospital Chinatown
Since November 2014, Bangkok Hospital Chinatown ("BCT") has become our network hospital. BCT is a basic tertiary care hospital targeting Thai-Chinese residents in Chinatown with total of 59 structure beds, of which 31 beds are opened during first phase.

In this regard, Company currently operates 37 network hospitals in Thailand and in Cambodia.

4. Acquisition of Save Drug Center Co., Ltd.

On August 20, 2014, Bangkok Royal Healthcare Co., Ltd. (Bangkok Royal), a subsidiary company, has entered into Share Purchase Agreement in respect of the total issued shares in Save Drug Center Co., Ltd. ("Save Drug"), engaging in retail sales of medicine, supplementary food, and medical supplies and equipments businesses under the brand Save Drug as well as other tradenames through 107 stores and branches

nationwide. Subsequently, Bangkok Royal has transferred all of its rights and obligations under the Share Sales and Purchase Agreement to Bangkok Save Drug Co., Ltd. (Bangkok Save Drug), a subsidiary company.

On October 30, 2014, Bangkok Save Drug has completed its acquisition of the total issued shares of Save Drug Center and made full payment of Baht 222 million.

3Q14 Consolidated Financial Summary

Operating Income			
(THB mm)	3Q14	3Q13	%Chg
Revenues from hospital operations	13,832	12,961	7%
Revenue from sales of goods and food	424	405	5%
Other income*	130	118	10%
Total Operating Income	14,386	13,485	7%

* Excluding non-recurring items

In 3Q14, total operating income were Baht 14,386 million, an increase of Baht 901 million or 7% from 3Q13, primarily due to

- Revenues from hospital operations were Baht 13,832 million, an increase of Baht 870 million or 7% from 3Q13. The growth was contributable to an increase in number of both outpatients and inpatients, hospital network expansion, namely Bangkok Hospital Phitsanulok, Bangkok Hospital Chiangmai, Sanamchan Hospital and Thepakorn Hospital together with patient ward expansion and renovation, an increase in patient referral and qualified clinical staffs and specialist doctors. During 3Q14, Thai and international patients grew 6% and 10% yoy respectively resulting in the revenue proportion between Thai and international patients changed from 75%:25% in 3Q13 to 74%:26% in 3Q14. From type of patient perspectives, outpatient revenues grew

by 10% yoy while the inpatient revenues increased by 6% yoy.

- Revenues from sales of goods and food were Baht 424 million, an increase by 5% yoy, mainly from an increase in sales of The Medic Pharma Co., Ltd. which was consolidated into the Company since May 2013.
- Other incomes (excluding non-recurring items) were Baht 130 million, an increased by 10% yoy.

Operating Expenses			
(THB mm)	3Q14	3Q13	%Chg
Cost of hospital operations and others	9,195	8,433	9%
Administrative expenses*	2,893	3,077	(6)%
Total Operating Expenses	12,087	11,510	5%

* Excluding non-recurring items

In 3Q14, the Company and its subsidiaries reported total operating expenses & depreciation of Baht 12,087 million, an increase of Baht 577 million or 5% yoy.

- Cost of hospital operations and others (including depreciation and amortization) were Baht 9,195 million, an increased by 9% yoy. An increase was due mainly to an increase in medical supplies and lab expenses.
- The administrative expenses (including depreciation and amortization but excluding non-recurring items) were Baht 2,893 million, a decreased by 6% yoy as a result of Company's cost containment measures.
- The depreciation and amortization expenses were Baht 910 million in 3Q14, an increased by 10% yoy due mainly to the renovation expansion of network hospitals and the consolidation of depreciation and amortization of new network hospitals, namely Bangkok Hospital Phitsanulok, Bangkok Hospital Chiangmai, Sanamchan Hospital and Thepakorn Hospital.

Other Major Items

- Share of income (excluding non-recurring items) from investments in associated companies were Baht 268 million in 3Q14, an increase of Baht 28 million or 12% yoy. Share of income from investments in associated companies in 3Q14 were mainly from investment in Bumrungrad Hospital Public Co., Ltd ("BH") of Baht 184 million together with investment in RAM of Baht 80 million.
- Finance expenses decreased to Baht 227 million or decreased by 8% yoy due to decrease in overall cost of debt.
- Taxes in 3Q14 were Baht 458 million, an increase from Baht 359 million in 3Q13, due mainly to an increase in pre-tax profit.

Non-Recurring Items

During 3Q14, the Company and its subsidiaries recorded non-recurring items of totaling Baht 89 million from the following items:-

1. Other income:- Gain on disposal of land not used in operation of about Baht 95 million
2. Administrative expenses:- The impairment of investment in RRH of Baht 91 million as the Company decided to cease the operation of RRH and transferred the business to our new network hospital namely Royal Phnom Penh Hospital.
3. Share of income from investments in associated companies:- share of income from investment in RAM which RAM recorded dividend income received from SNC of Baht 85 million as SNC paid to its shareholders in relation to the Entire Business Transfer.

Profitability Analysis

(THB mm)	3Q14	3Q13	%Chg
EBITDA*	3,209	2,802	15%
EBITDA margin*	22.3%	20.8%	
EBIT*	2,549	2,234	15%
EBIT margin*	17.9%	16.6%	
Net profit*	1,839	1,549	19%
Net profit margin*	12.8%	11.5%	
Net profit	1,928	1,549	24%
Net profit margin	13.4%	11.5%	
(THB)			
Basic earnings per share *	0.12	0.10	18%
Basic earnings per share	0.12	0.10	24%

* Excluding non-recurring items

Remarks

EBITDA = Total operating income – Total operating expenses (Excluding depreciation and amortization)

EBITDA Margin = EBITDA / Total Operating income

If excluding the non-recurring items, EBITDA increased from 2,802 in 3Q13 to Baht 3,209 million in 3Q14 or increased by 15% yoy. EBITDA margin increased from 20.8% in 3Q13 to 22.3% in 3Q14. Net profit was Baht 1,839 million in 3Q14, an increase of Baht 290 million, or increased by 19% yoy. Net profit margin increased from 11.5% in 3Q13 to 12.8% in 3Q14. Basic earnings per share were 0.12 Baht per share or increased by 18% yoy.

If including the non-recurring items, net profit was Baht 1,928 million, an increase of Baht 379 million or increased by 24% yoy. Net profit margin increased from 11.5% in 3Q13 to 13.4% in 3Q14. Basic earnings per share were 0.12 Baht per share or increased by 24% yoy.

9M14 Consolidated Financial Summary

Operating Income			
(THB mm)	9M14	9M13	%Chg
Revenues from hospital operations	39,910	36,516	9%
Revenue from sales of goods and food	1,277	1,029	24%
Other income*	402	396	2%
Total Operating Income	41,590	37,941	10%

* Excluding non-recurring items

In 9M14, total operating income were Baht 41,590 million, an increase of Baht 3,649 million or 10% from 9M13, primarily due to

- Revenues from hospital operations were Baht 39,910 million, an increase of Baht 3,394 million or 9% from 9M13. The growth was contributable to an increase in number of outpatients and inpatients across our network hospitals, hospital network expansion namely Bangkok Hospital Phitsanulok, Bangkok Hospital Chiangmai, Sanamchan Hospital and Thepakorn Hospital together with patient ward expansion and renovation, an increase in patient referral and qualified clinical staffs and specialist doctors.
During 9M14, Thai and international patients grew 11% and 7% yoy respectively resulting in the revenue proportion between Thai and international patients remains unchanged at 72:28% in 9M13 and in 9M14. From type of patient perspectives, outpatient revenues grew by 10% yoy while the inpatient revenues increased by 10% yoy.
- Revenues from sales of goods and food were Baht 1,277 million, an increase by 24% yoy, mainly from an increase in sales of The Medic Pharma Co., Ltd. which was consolidated into the Company since May 2013.
- Other incomes (excluding non-recurring items) were Baht 402 million, an increased by 2% yoy.

Operating Expenses			
(THB mm)	9M14	9M13	%Chg
Cost of hospital operations and others	26,595	24,265	10%
Administrative expenses*	8,256	7,898	5%
Total Operating Expenses	34,851	32,162	8%

* Excluding non-recurring items

In 9M14, the Company and its subsidiaries reported total operating expenses & depreciation of Baht 34,851 million, an increase of Baht 2,689 million or 8% yoy.

- Cost of hospital operations and others (including depreciation and amortization) were Baht 26,595 million, an increased by 10% yoy. Cost of hospital operations and others are mainly consisted of rising in clinical staffs expenses as a result of an increasing in annual salary, number of clinical staffs and newly recruited specialist doctors both full-time and part-time together with an increase in medical supplies and lab expenses which in line with an increase in total operating income.
- The administrative expenses (including depreciation and amortization but excluding non-recurring items) were Baht 8,256 million, an increased by 5% yoy, due mainly to an increase in non-clinical staffs expenses. However, administrative expenses grew at the slower pace than total operating income as a result of Company's cost containment measures.
- The depreciation and amortization expenses were Baht 2,641 million in 9M14, an increase by 11% yoy due mainly to the renovation expansion of network hospitals and the consolidation of depreciation and amortization of new network hospitals, namely Bangkok Hospital Phitsanulok, Bangkok Hospital Chiangmai, Sanamchan Hospital and Thepakorn Hospital.

Other Major Items

- Share of income (excluding non-recurring items) from investments in associated companies were Baht 754 million in 9M14, a decrease of Baht 34 million or 4% yoy. Share of income from investments in associated companies in 9M14 were mainly from investment in BH of Baht 489 million together with investment in RAM of Baht 269 million.
- Finance expenses decreased to Baht 680 million decreased by 4% yoy.
- Taxes in 9M14 were Baht 1,235 million, an increase from Baht 1,025 million in 9M13, due mainly to an increase in pre-tax profit.

Non-Recurring Items

During 9M14, the Company and its subsidiaries recorded non-recurring items of totaling Baht 89 million from the following items

1. Other income:- Gain on disposal of land not used in operation of about Baht 95 million
2. Administrative expenses:- The impairment of investment in Royal Rattanak Medical Services Co., Ltd. ("RRH") of Baht 91 million as the Company decided to cease the operation of RRH and transferred the business to our new network hospital namely Royal Phnom Penh Hospital.
3. Share of income from investments in associated:- Share of income from investments in associated companies:- share of income from investment in RAM which RAM recorded dividend income received from SNC of Baht 85 million as SNC paid to its shareholders in relation to the Entire Business Transfer.

During 9M13, the Company and its subsidiaries recorded non-recurring items of totaling Baht 148 million from gain on fair value adjustment of investments in Thonburi Medical Center Public

Co., Ltd of Baht 61 million and in The Medic Pharma Co., Ltd of Baht 87 million.

Profitability Analysis			
(THB mm)	9M14	9M13	%Chg
EBITDA*	9,380	8,152	15%
EBITDA margin*	22.6%	21.5%	
EBIT*	7,548	6,638	14%
EBIT margin*	18.1%	17.5%	
Net profit*	5,415	4,696	15%
Net profit margin*	13.0%	12.4%	
Net profit	5,504	4,844	14%
Net profit margin	13.2%	12.8%	
(THB)			
Basic earnings per share*	0.35	0.30	15%
Basic earnings per share	0.36	0.31	13%

* Excluding non-recurring items

Remarks

EBITDA = Total operating income – Total operating expenses (Excluding depreciation and amortization)

EBITDA Margin = EBITDA / Total Operating income

If excluding the non-recurring items, EBITDA increased from 8,152 in 9M13 to Baht 9,380 million in 9M14 or increased by 15% yoy. EBITDA margin changed from 21.5% in 9M13 to 22.6% in 9M14. Net profit was Baht 5,415 million in 9M14, an increase of Baht 719 million, or increased by 15% yoy. Net profit margin increased from 12.4% in 9M13 to 13.0% in 9M14. Basic earnings per share were 0.35 Baht per share or increased by 15% yoy.

If including the non-recurring items, net profit was Baht 5,504 million, an increase of Baht 660 million or increased by 14% yoy. Net profit margin increased from 12.8% in 9M13 to 13.2% in 9M14. Basic earnings per share were 0.36 Baht per share or increased by 13% yoy.

Asset			
(THB mm)	Sep 14	Dec 13	%Chg
Cash & cash equivalents	9,679	4,061	138%
Trade & other receivables	5,450	4,925	11%
Inventories	881	919	(4)%
Investment in associates	13,928	13,092	6%
Property, premises & equipment	43,487	38,875	12%
Goodwill	13,273	10,945	21%
Other assets	3,676	3,582	3%
Total assets	90,374	76,399	18%

The consolidated financial position of the Company and its subsidiaries as of September, 30 2014: The Company and its subsidiaries reported total assets of Baht 90,374 million, an increase of Baht 13,975 million or increase of 18% from December 31, 2013, due mainly to an increase in cash and cash equivalents of Baht 5,618 million mainly from cash received from the issuance of convertible debentures. Property, premises and equipment also increased about Baht 4,612 million mainly from building under construction and medical equipment under installation for new network hospitals, for example, Bangkok Hospital Chiangmai, Bangkok Hospital Khon Kaen, Royal Phnom Pehn and Bangkok Hospital Chinatown together with the purchase of new medical equipment for both existing and new network hospitals netted with depreciation during the period. Goodwill also increased by Baht 2,328 million mainly from the acquisition of Sanamchan Hospital Co., Ltd.

However, inventory decreased by 4% from December 31, 2013 as a result of an increase in inventory of the healthcare supporting business which reserves the inventory for services during the beginning of the year.

Liabilities and Equity			
(THB mm)	Sep 14	Dec 13	%Chg
Debentures*	11,091	14,059	(21)%
Long-term loans*	11,044	8,564	29%
Convertible bonds	9,249	-	N/A
Other non-current liabilities	12,952	11,133	16%
Total liabilities	44,337	33,755	31%
Equity attributable to equity holder of the Company	43,916	40,681	8%
Non-controlling interests	2,121	1,963	8%
Total equity	46,037	42,644	8%

* Including current portion

Total consolidated liabilities as of September 30, 2014 were Baht 44,337 million, an increase of Baht 10,582 million or 31% from December 31, 2013, due mainly to the issuance of convertible debentures of Baht 9,249 million together with an increase in long-term loans from financial institutions of Baht 2,003 million.

Total consolidated shareholders' equity as of September 30, 2014 was Baht 46,037 million, an increased by Baht 3,393 million or 8% from December 31, 2013. This is due mainly to comprehensive income during 9M14 netted with dividend payment of Baht 3,098 million.

Liquidity and Capital Management

Cash Flow	
(THB mm)	9M14
Net cash from operating activities	8,762
Net cash used in investing activities	(8,867)
Net cash from financing activities	5,724
Net increase in cash and cash equivalents	5,618
Beginning cash and cash equivalents	4,061
Ending cash and cash equivalents	9,679

For the nine-month period ended September 30, 2014, the Company and its subsidiaries had net increase in cash and cash equivalent of Baht 5,618 million, with the cash and cash equivalents at the beginning of the period of Baht 4,061 million. As a

result, cash and cash equivalents at the end of the period was Baht 9,679 million. Details of cash flow by activities during the period are as follows:-

Net cash flows from operating activities were Baht 8,762 million, resulting mainly from profit during 9M14.

Net cash used in investing activities were Baht 8,867 million. The investing activities during the period were mainly from purchase of property, premises and equipment for Baht 5,785 million to expand our network hospitals together with purchase of investments in subsidiaries, associates and other company of Baht 3,661 million due mainly to an acquisition in Sanamchan Hospital Co., Ltd.

Net cash from financing activities were Baht 5,724 million comprising mainly from cash received from issuance of convertible debentures of Baht 9,831 million together with cash received from short-term loans from financial institutions of Baht 5,314 million and long-term loans from financial institutions of Baht 3,405 million, netted with repayment of short-term loans of Baht 5,547 million and long-term loans from financial institutions of Baht 923 million, redemption of maturing debentures of Baht 2,970 million and dividend payment of Baht 3,089 million.

Ratios Analysis

Returns (%) *	9M14	9M13
Return on Asset	8.7	8.7
Return on Equity	17.1	16.6
Liquidity (x)		
Current ratio	1.2	0.9
Quick ratio	1.1	0.8
Assets & Liabilities Management (Days)		
Average Collection Period	34.0	35.3
Average Inventory Period	9.1	8.9
Average Payable Period	41.6	39.9

* Excluding non-recurring items

Remark

Assets & Liabilities Management is calculated based on 360 days

Ratios Analysis

	9M14	9M13
Leverage & Coverage Ratios (x)		
Interest coverage	13.8	11.6
	Sep-14	Dec-13
Total debt to equity (x)	0.7	0.5
Net debt to equity (x)	0.5	0.4
Net debt to EBITDA (x)	1.8	1.7

Remark:-

Interest coverage = EBITDA/Interest Expenses

Return on assets during 9M14 remains unchanged from 9M13 while return on equity during 9M14 slightly increased from 9M13. Current ratio and quick ratio during 9M14 increased from 9M13 as a result of an increase in current assets.

In addition, the Company and its subsidiaries continue to maintain strong leverage & coverage ratios. Interest coverage ratio increased from 11.6x as of September 30, 2013 to 13.8x as of September 30, 2014. Total debt to equity increased from 0.5x as of December 31, 2013 to 0.7x as of September 30, 2014 as a result of the issuance of convertible debentures. Net debt to equity also increased from 0.4x as of December 31, 2013 to 0.5x as of September 30, 2014. Net debt to EBITDA slightly increased from 1.7x as of December 31, 2013 to 1.8x as of September 30, 2014.

The leverage and coverage ratios are well within the financial covenant of the long-term loans and debentures.