



**บริษัท ซีเ็ดยูเคชั่น จำกัด (มหาชน)**  
**SE-EDUCATION PUBLIC COMPANY LIMITED**

## Management Discussion and Analysis

*As of June 30 ,2006*

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## **Management Discussion and Analysis: SE-ED**

### **1. Overview**

As the overall economic of the country has been slow down continuously from the past 2005, the economic growth of the second quarter of 2006 was still slow down due to the continuously increasing of petroleum price, the increasing of inflation rate and the rising of interest rate including the chaos in deep south and the unstable of internal politics. The main effect occurring since February was the confidence lacking in politics situation which cause stress all over the society and affected the consumers behaviour that appeared evidently in the dropping of some stores books sales in February and March to be nearly zero growth compared to the same period last year.

But after the speeches of HM the King with guideline to solve problem of the politic situation, the sales in April has been recovered and was much better in June due to the great sales of nano technology T-shirts on the occasion of the 60<sup>th</sup> anniversary of HM the King's accession to the throne celebration period via all SE-ED Book Centers. This also effected to the overall market situation of books business in the same manner. The expectation of better politic situation after election, the business in next year will be continuously grow up further.

### **Operating performance for first six-month as 2006 over the same period last year**

The company's total revenue rose by THB 188.67 million to THB 1,780.80 million or 11.85%. The profit after tax for six-month from operation as of June 30, 2006 was THB 79.84 million, representing 4.49 % of total revenue increase of THB 15.78 million, or up 24.63% from the same period last year. The net profit for six-month as of June 30, 2006 was THB 83.03 million or 1.34%, representing 4.67% of total revenue and THB 0.27 EPS.

### **Operating performance for the second quarter as of June 30, 2006 over the same period last year.**

The company's total revenue rose by THB 123.26 million to THB 950.25 million or 14.90%. The profit after tax for three-month from operation as of June 30, 2006 was THB 48.51 million, representing 5.11% of total revenue increase of THB 13.78 million, or up 39.74% from the same period last year. The company's total net profit for three-month as of June 30, 2006 was THB 49.67 million including the non-operation items or 48.87%, representing 5.23 % of total revenue and THB 0.16 EPS.

The company approved the interim dividend payment for operating performance of Q2 of 2006 from April 1, 2006 to June 30, 2006 at THB 0.10 per share from net profit portion which is not exempt from corporate income tax.



## **2. Business Summary**

### **Book Store Business**

The company has still continuously expanded bookstores branches until being the largest bookstores chain now. In Q2 of 2006, the company has opened more 6 new branches at Lotus Widapha Park, Homepro Ramkhamhaeng, Lotus Topland Phitsanulok, Lotus Watcharaphol, Royal Park Ratchaburi and Homepro Phitsanulok Total bookstores branches now becomes 210 branches with 200 branches are still in operation including 7 branches of franchisees. When accumulate to the selling points in Lotus Express, and Lotus with 22 points, and others will be total selling point now become 440 selling point. Besides, the company has renovated the existing branches to be modernized for continuously sales growth and profit drive.

### **Distribution Business**

The company takes the role of Thailand largest books distributor. To distribute books for other publishers such as Nation books, Work point, The National Science and Technology Development Agency (NSTDA), Thammasat University, Securities Exchange of Thailand , MIS Softtech, Rak-look Family Group, Nation Egmont and Technology Promotion Association (Thai-Japan) etc. to SE-ED Book Center and Book Variety, other bookshops and academic institutes. Moreover, the company has still developed distribution system for better efficiency to support for the future growth.

### **Publishing Business**

The company thinks highly of setting direction, planning production to meet the market demand and emphasizes on development of tools and channel for public relation in order to distribute products to target customers more efficiently. This will be the key factor for success of the company own produced goods.

### **Industry Overview and Competition**

The publishing industry grew ever larger growth rate expected to be around 10-15% for 2000-2006 There are still market opportunities, therefore many new faces occur in the publishing business, retail business and magazines business. Thus the tough competition has begun. Anyway this will inspire the market long-term growth.

However, the company has still have a very good growth rate in book publishing business, wholesale and retail business. As the company still held strength in these areas. Whereas the magazines business still grows in overall but the computer periodicals were hardest hit by competition and an advertising price war, reducing its advertising revenue significantly. However, electronics and industrial periodicals still show significant growth.



### 3. Operating Results

#### 3.1 Operating performance for first six-month as 2006 over the same period last year

Table 1: Operating performance for first six-month as 2006 over the same period last year

	(Unit: Million Baht)			
	Jan.-Jun.	Jan.-Jun.	Change	
	2006	2005	Amount	(%)
Sales	1,757.50	1,576.40	181.10	11.49
Other revenue	23.31	13.02	10.29	79.03
Participating gain in the associated companies	-	2.71	(2.71)	100.00
Total revenues	1,780.80	1,592.13	188.67	11.85
Cost of sales	1,232.17	1,095.88	136.29	12.50
SG&A expenses	426.54	377.10	49.44	13.11
Directors' remuneration	3.28	2.64	0.64	24.24
Participating loss in the associated companies	1.08	-	(1.08)	100.00
Gross Margin	525.33	481.15	44.17	
% Gross Margin	29.89	30.52	-	(0.63)
EBITDA	79.84	64.06	15.78	24.63
Profit from operation accordance with Cash Flow Statement	156.15	142.48	13.67	9.59
NET PROFIT	83.03	81.94	1.10	1.34

**Total Revenues for first six-month of 2006** was THB 1,780.80 million, an increase of THB 188.67 million, or up 11.85%. The sales revenue was THB 1,757.50 million, an increase of THB 181.10 million, or up 11.49%. The main driver for such growth was still the increased revenue of SE-ED Book Center and Book Variety, which grew 14.26%, which was the new branches and sales point growth and from the great sales of nano technology T-shirts on the occasion of the 60th anniversary of HM the King's accession to throne. However the sales of books for other bookstores and education institutes decrease of 2.59%

**The profit after tax for six-month from operation** as of June 30, 2006 was THB 79.84 million, representing 4.49 % of total revenue (For 2005 the company's profit from operation for six-month was THB 64.06 million) The profit increase of THB 15.78 million, or up 24.63% from the same period last year due to

- The gross profit THB 44.17 million from the increasing of sales revenue which grew 11.49% from the same period last year.



- The selling and administrative expenses excluding the non-operation items increased by THB 38.89 million or 10.06% due to the increasing of rental and service rate and employees incentives according with the growth of new branches while the same stores growth were dropped down and new branches still can not make profit in the beginning, also there was more investment in logistics system to support more new branches.

However the increasing of the selling and administrative expenses excluding the non-operation items is still less than the increasing of gross margin.

**The non-operation revenue and expense after tax for six-month** as of June 30, 2006 was THB 3.19 million.

The main revenue and expense was

- Dividend and interest income from securities available for sales in the amount of THB 8.37 million.
- Directors' remuneration expense after tax in the amount of THB (2.46) million. The main cause was pension payment for directors of 2005.
- Participating loss from associated companies in amount of THB (1.08) million

**The net profit** for six-month including the non-operation item as of June 30, 2006 was THB 83.03 million, representing 4.67% of total revenue and THB 0.27 EPS. (For 2005 the company's net profit for six-month was THB 81.94 million, representing 5.15% of total revenue and THB 0.27 EPS) The profit increased of THB 1.10 million, or up 1.34% from the same period last year.



**3.2 Operating performance for the second quarter as of June 30, 2006 over the same period last year.**

Table 2: Operating performance for the second quarter as of June 30, 2006 over the same period last year.

	(Unit: Million Baht)			
	Q2		Change	
	<u>2006</u>	<u>2005</u>	<u>Amount</u>	<u>(%)</u>
Sales	934.81	818.41	116.40	14.22
Other revenue	13.42	5.25	8.17	155.62
Participating gain in the associated companies	2.02	3.33	(1.31)	39.28
Total revenues	950.25	826.99	123.26	14.90
Cost of sales	653.36	572.79	80.57	14.07
SG&A expenses	224.63	185.03	39.60	21.40
Directors' remuneration	2.86	2.16	0.70	32.41
Gross Margin	281.44	245.62	35.82	
% Gross Margin	30.11	29.64	-	(0.46)
EBITDA	48.51	31.32	17.19	54.89
Profit from operation accordance with Cash Flow Statement	88.57	76.43	12.14	15.88
NET PROFIT	49.67	47.76	1.91	4.00

**Total Revenues for Q2 2006**

The company's total revenue for the second quarter as of June 30, 2006 rose to THB 950.25 million, an increase of THB 123.26 million, or up 14.90%. The sales revenue accounted for THB 934.81 million, an increase of THB 116.40 million, or up 14.22%. The main driver for such growth was still the increased revenue of SE-ED Book Center and Book Variety which grew 16.15%, the main driver was due to the sales of nano technology T-shirts in June on the occasion of the 60th anniversary of HM the King's accession to the throne, while the sales of books for other bookstores and education institutes grew 9.44% due to the increasing sales from education institute customers according to the period of academic term opening.



**The profit from operation after tax**

The profit after tax for three-month from operation as of June 30, 2006 was THB 48.51 million, representing 5.11 % of total revenue (For 2005 the company's profit from operation for three-month was THB 34.18 million) The profit increase of THB 17.19 million, or up 39.74% from the same period last year due to

- Gross profit increased of THB 35.82 million from the increasing of sales revenue.
- The selling and administrative expenses excluding the non-operation items increased by THB 30.40 million or 15.74% due to the same reason as the 6 months period which was increasing less than the increasing of gross margin.

**The Non-operation revenue and expense after tax**

The non-operation revenue and expense after tax for three-month as of June 30, 2006 was THB 1.16 million. The main revenue and expense was

- Dividend and interest income from securities available for sales in the amount of THB 2.72 million
- Participating gain from associated companies in the amount of THB 2.02 million.
- Directors' remuneration expense in the amount of THB (2.86) million mainly is the gratuity for directors of 2005.

**The company's total net profit**

The company's total net profit for three month as of June 30, 2006 was THB 49.67 million including the non-operation items, representing 5.23 % of total revenue and THB 0.16 EPS. (The net profit for three month as of June 30, 2005 was THB 47.76 million, representing 5.78% of total revenue and THB 0.16 EPS). The profit increased from the same period last year of THB 1.91 million, representing 4.0%.

**3.3 Dividend payment policy**

The company declared a policy since financial year 1991 to pay dividend no less than 50% of the net profit after the deduction of corporate income tax. The payment will be made in the annual general meeting of the year immediately following the operating year. For six month of 2006, the company have dividend payout ration was 75.03%.

Table 3: The dividend payment of 2006 and 2005 as follow:

	Resolutions of the Company's Board meeting	Meeting date	Year 2006 operating result		
			Dividends payment date	Dividends Per share (Baht)	Dividend Paid Totaling (Million Baht)
Quarter 1	2/2006	10/05/2006	09/06/2006	0.10	31.13





Year 2005 operating result					
	Resolutions of the Company's Board/ Shareholder meeting	Meeting date	Dividends payment date	Dividends Per share (Baht)	Dividend Paid Totaling (Million Baht)
Quarter 1	2/2005	12/05/2005	10/06/2005	0.10	30.02
Quarter 2	4/2005	11/08/2005	09/09/2005	0.10	30.14
Quarter 3	5/2005	14/11/2005	09/12/2005	0.10	30.16
Quarter 4	1/2006	26/04/2006	23/05/2006	0.29	90.29
	Total			0.59	180.61

#### 4. Financial Position

##### 4.1 Asset Component

Table 4: Asset Component

	June 30, 2006		December 31, 2005		Change	
	Amount (Bt mn)	% of Total Assets	Amount (Bt mn)	% of Total Assets	Amount (Bt mn)	%
Cash and cash equivalent items	246.99	17.89	316.08	21.92	(69.09)	21.86
Short-term investment-net	160.20	11.60	182.72	12.67	(22.52)	12.32
Account and note receivable-net	74.93	5.43	83.94	5.82	(9.01)	10.73
Inventories-net	213.25	15.44	226.03	15.67	(12.78)	5.65
Other Current Assets	59.89	4.34	35.67	2.47	24.22	67.90
Total Current Assets	755.27	54.69	853.43	59.17	(98.16)	11.50
Investment in subsidiary and Associated companies	93.57	6.78	50.65	3.51	42.92	84.74
Property, plant and equipment- net	250.41	18.13	255.28	17.70	(4.87)	1.91
Leasehold on buildings-net	160.63	11.63	166.86	11.57	(6.23)	3.73
Other asset	67.67	4.90	62.68	4.35	(4.99)	7.96
TOTAL ASSETS	1,380.88	100.00	1,442.27	100.00	(61.39)	4.26



**Total Asset** As of June 30, 2006 the company had a total asset of THB 1,380.88 million, decrease of THB 61.39 million. Causes of changing of total assets:

- Cash and cash equivalent items for THB 246.99 million decreased of THB (69.09) million as there were several title of books in Q4 of 2005 which were in popular trend and cause more cash from sales.
- Short-term investment-net for THB 160.20 million decreased THB (22.52) million due to the reclassification of government bond (age more than 3 months) to be cash and equivalent items.
- Account and Note receivable for THB 74.93 million decreased THB (9.01) million as there were account receivable from several institute groups in the end of year 2005.
- Inventories-net decreased THB (12.78) million from more non-returnable purchasing of goods, particularly mobile top-up cards, cookbooks, premiums, etc. in Q4, 2005
- Other current asset increased THB 24.22 million. Most of them were the classification of advanced rental payment of one bookstore and warehouse which used to be in non-current asset group.
- Investments in subsidiary and associated companies increase of THB 42.92 million due to the addition investment in Plearn Patt company of THB 45 million and recognized participating loss of THB 4.57 million in Q2, 2006.

**Total liabilities** As of June 30, 2006 the Company had a total liability of THB 799.68 million, a decrease of THB 29.29 million. Decrease in liabilities resulted from

- Bank overdrafts was decreased THB 42.21 million. As in the end of the year, the supplier could not received payment from cheques as long holidays of bank office.
- Account payable and note payable THB 630.83 million, was decreased THB 17.74 million. Mainly was there were post-dated cheque for buying books in 2005
- Accrued corporate income tax THB 32.62 million, decreased THB 7.51 million from corporate income tax payment for net profit of 2005 which was under due.
- Other current liabilities THB 82.85 million, was increased THB 38.34 million mainly cause from the cash advanced payment for the silver nano technology T-shirts sale on the occasion of the 60<sup>th</sup> anniversary of HM the King's accession to the throne celebration period via all SE-ED Book Centers and accrued expense for bonus in Q1 and Q2.

**Shareholders' equity** As of June 30, 2006 amount THB 581.20 million, an decrease of THB 32.10 million represent 5.23% due to

- Paid-up share capital increased THB 9.22 million from the exercised of warrant to common share
  - the exercised of SE-ED-W1 amount THB 1.26 million and
  - the exercised of ESOP project amount THB 7.96 million
- Premium of share capital increased of THB 0.76 million from the exercised of SE-ED-W1.
- Net profit from operation result six-month of 2006 amount 83.03 million.
- Dividend payment in 6 months of 2006 in the amount of THB 121.42 million.



## 4.2 Cash flow

**Table 5: Cash flow for first six-month as 2006 over the same period last year**

(Unit: Million Baht)

Description	Jan. - Jun.	Jan. - Jun.	Received (used)	
	2006	2005	Amount	(%)
Cash flow received (used)				
from operation activities	135.17	182.08	(46.91)	-25.76
Cash flow received (used)				
from investing activities	(50.60)	(103.26)	52.66	50.99
Cash flow received (used)				
from financing activities	(153.66)	(77.36)	(76.30)	98.63
Cash flow increase (decrease)	(69.09)	1.46	(70.55)	-4,832.19

**Cash Flow Received from Operation Activities for Q2 of 2006** was THB 135.17 millions as listed below :

1. Cash flow from operation increased in the amount of THB 156.15 millions:
  - The Net profit for 1H of 2006 in the amount of THB 83.03 millions.
  - Non-monitory expenses in the amount of THB 73.12 millions (Depreciation and Leasehold written-off in the amount of THB 44.86 millions, loss from lost goods as THB 22.30 millions, and participating loss from investment Associated companies as THB 1.08 millions.)
2. Cash flow decreased from decreasing account and note payable increasing as THB 17.74 millions.
3. Cash flow decreased amount THB 15.16 million due to the increasing of inventories.
4. Cash flow decreased amount THB 16.26 million due to the increasing of other current assets.
5. Cash flow decreased from accrued tax payment THB 7.51 million.
6. Cash flow increased amount THB 38.34 million from other current liabilities.

**Cash Flow Used from Investment Activities for Q2 of 2006** in the amount of THB (50.60) millions:

1. Investment of Plearn Patt Co., Ltd. as THB 45 millions
2. Purchase of assets as THB 35.60 millions.
3. Classified government bond (age over 3 months) to be cash equivalent in the amount of THB 20 million.
4. Cash received from Plearn Patt Co., Ltd. loan clearing of THB 9 millions.



**Cash Flow Used from Financial Activities for Q2 of 2006** as THB (153.66) million :

- Cash used from bank overdrafts was THB 42.21 million
- Cash used in dividend payment was THB 121.42 million
- Cash received from the warrant exercises for six-month of 2005 was THB 9.98 million

**4.3 Financial Ratios**

**Table 6: Financial ratios calculated according to the Office of the Securities and Exchange Commission's formulae**

<b>LIQUIDITY RATIOS</b>		<b>1H'06</b>	<b>1H'05</b>
Current Ratio	Time	0.95	1.01
Quick Ratio	Time	0.61	0.66
<b>PROFITABILITY RATIOS</b>		<b>1H'06</b>	<b>1H'05</b>
Gross Profit Margin	%	29.89	30.52
Net Profit Margin	%	4.67	5.15
Return on Equity**	%	13.90	15.16
Return on Asset**	%	8.34	9.96
<b>FINANCIAL POLICY RATIO</b>		<b>1H'06</b>	<b>1H'05</b>
Total Debt to Equity Ratio	Time	1.38	1.18
Interest Coverage Ratio	Time	1,037.39	1,885.39
Dividend Payout Ratio**	%	75.03	73.42

\*\*Calculated from net profit of six month period only

Truly yours,

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