



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

## Management Discussion and Analysis

*As of September 30 ,2006*



## 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 third 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 September 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. The overall market situation of books business has been affected in the same good manner especially the goods according to the ceremony.

After the politics has been changed in September and the set up of new government, the business has begun to be better continually. Comprising with the starting of using information system for SE-ED book center in October, the trend of improving management efficiency was better.

These were the drivers of operating result in Q3 has been satisfied. The net profit for nine-month as of September 30, 2006 was THB 141.76 million, an increased of THB 19.59 million, or growth 16.03% from the same period last year. While the Q3 total net profit was THB 58.73 million, an increased from the same period last year of THB 18.49 million, representing 45.95%. In the first nine-month of 2006, the total revenue for nine-month was THB 2,802.37 million is in line with our expectations.

In the first nine-month of 2006, the company has opened more 18 new branches. Total bookstores branches now becomes 208 branches and selling point now become 195 selling points.

The company approved the interim dividend payment for operating performance of Q3 of 2006 from July 1, 2006 to September 30, 2006 at THB 0.10 per share from net profit portion which is not exempt from corporate income tax.

As the company has granted significance in development of good corporate governance thoroughly, the company has been appraised as the "very good" corporate governance company from The Institute of Thai directors (IOD) of the year 2006. Especially in the subject about shareholders' rights and information disclosure with transparency were appraised to be "excellent". This is the only one publishing firm in the stock market of Thailand listed to be appraised as the level of very good to excellent in good corporate governance subject.



## **2. Business Summary**

### **Book Store Business**

The company has still continuously expanded bookstores branches until being the largest bookstores chain now. In Q3 of 2006, the company has opened more 8 new branches at Kanokkan Kanchanaburi, Panthip Ngamwongwan, Lotus Ban Far Piyarom, Lotus Sawankaloke, Lotus Banpaew, Lotus Tamaka, Lotus Potharam and Homepro Khon Kaen Total bookstores branches now becomes 218 branches with 208 branches are still in operation including 7 branches of franchisees and selling point in Lotus Express, and Lotus now become 195 selling points. 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, The Stock 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% from 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 nine-month as 2006 over the same period last year

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

	(Unit: Million Baht)			
	Jan.-Sep.	Jan.-Sep.	Change	
	2006	2005	Amount	(%)
Sales	2,770.38	2,445.98	324.40	13.26
Other revenue	31.98	18.09	13.89	76.77
Participating gain in the associated companies	-	1.88	(1.88)	100.00
Total revenues	2,802.37	2,465.96	336.41	13.64
Cost of sales	1,923.80	1,710.33	213.47	12.48
SG&A expenses	666.43	578.99	87.44	15.10
Directors' remuneration	3.84	3.21	0.63	19.63
Participating loss in the associated companies	3.33	-	3.33	100.00
Gross Margin	846.58	735.66	110.92	
% Gross Margin	30.56	30.08	-	0.48
EBITDA	272.41	239.48	32.93	13.75
Profit from operation accordance with Cash Flow Statement	260.16	223.75	36.41	16.27
NET PROFIT	141.76	122.17	19.59	16.04

**Total Revenues for first nine-month of 2006** was THB 2,802.37 million, an increase of THB 336.41 million, or up 13.64%. The sales revenue was THB 2,770.38 million, an increase of THB 324.40 million, or up 13.26%. The main driver for such growth was still the increased revenue of SE-ED Book Center and Book Variety, which grew 15.78%, which was the new branches and sales point growth and from the same stores sales growth with the branches renovated. Moreover the sales of books for other bookstores and education institutes grew 2.73%

**The profit after tax for nine-month from operation** as of September 30, 2006 was THB 138.70 million, representing 4.96% of total revenue (For 2005 the company's profit from operation for nine-month was THB 107.57 million) The profit increase of THB 31.13 million, or up 28.94% from the same period last year due to

- The gross profit THB 110.93 million from the increasing of sales revenue which grew 15.08% from the same period last year.



- The selling and administrative expenses excluding the non-operation items increased by THB 72.38 million or 12.33% due to
  - Space rental charges and service charges were increased from the new branches, which increased 26 branches
  - Employees expense was increased due to the increasing of payment and increasing numbers of employees according to the expansion of branches.
  - Losses from lose goods was increasing according to the physical counts of goods in more branches.

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

**The non-operation revenue and expense after tax for nine-month** as of September 30, 2006 was THB 3.06 million. The main revenue and expense was

- Dividend and interest income from securities available for sales in the amount of THB 11.18 million.
- Directors' remuneration expense after tax in the amount of THB (2.88) million. The main cause was pension payment for directors of 2005.
- Participating loss from associated companies in amount of THB (3.33) million

**The net profit** for nine-month including the non-operation item as of September 30, 2006 was THB 141.76 million, representing 5.06% of total revenue and THB 0.46 EPS. (For 2005 the company's net profit for nine-month was THB 122.17 million, representing 4.95% of total revenue and THB 0.41 EPS) The profit increased of THB 19.59 million, or up 16.03% from the same period last year.



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

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

	(Unit: Million Baht)			
	Q3		Change	
	<u>2006</u>	<u>2005</u>	<u>Amount</u>	<u>(%)</u>
Sales	1,012.89	869.58	143.31	16.48
Other revenue	8.68	5.07	3.61	71.20
Total revenues	1,021.57	874.66	146.91	16.80
Cost of sales	691.63	614.45	77.18	12.56
SG&A expenses	239.90	201.89	38.01	18.83
Directors' remuneration	0.56	0.57	(0.01)	(1.75)
Participating loss in the associated companies	2.25	0.83	1.42	171.08
Gross Margin	321.26	255.13	66.13	
% Gross Margin	31.72	29.34	-	(2.38)
EBITDA	109.80	79.00	30.80	38.99
Profit from operation accordance with Cash Flow Statement	104.01	81.27	22.74	27.98
NET PROFIT	58.73	40.24	18.46	45.95

**Total Revenues for Q3 2006**

The company's total revenue for the third quarter as of September 30, 2006 rose to THB 1,021.57 million, an increase of THB 146.91 million, or up 16.80%. The sales revenue accounted for THB 1,012.89 million, an increase of THB 143.30 million, or up 16.48%. The main driver for such growth was still the increased revenue of SE-ED Book Center and Book Variety which grew 18.60% and from the same stores sales growth with the branches renovated, while the sales of books for other bookstores and education institutes grew 11.55%.

**The profit from operation after tax**

The profit after tax for three-month from operation as of September 30, 2006 was THB 58.86 million, representing 5.77% of total revenue (For 2005 the company's profit from operation for three-month was THB 45.69 million) The profit increase of THB 13.17 million, or up 28.83% from the same period last year due to

- Gross profit increased of THB 65.81 million from the increasing of sales revenue.



- The selling and administrative expenses increased THB 38.49 million over the same period last year, or up 19.26% which was higher than the Q3 revenue growth rate due to the same reason of nine month.

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

The non-operation revenue and expense after tax for three-month as of September 30, 2006 was THB 0.13 million. The main revenue and expense was

- Dividend and interest income from securities available for sales in the amount of THB 2.82 million
- Participating loss from associated companies in the amount of THB (2.25) million.

### The company's total net profit

The company's total net profit for three month as of September 30, 2006 was THB 58.73 million including the non-operation items, representing 5.76% of total revenue and THB 0.19 EPS. (The net profit for three month as of September 30, 2005 was THB 40.24 million, representing 4.60% of total revenue and THB 0.13 EPS). The profit increased from the same period last year of THB 18.49 million, representing 45.95%.

### 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 nine month of 2006, the company have dividend payout ration was 67.34%.

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

		Year 2006 operating result			
	Resolutions of the Company's Board meeting	Meeting date	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
Quarter 2	3/2006	11/08/2006	11/09/2006	0.10	31.16
		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

	September 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	287.55	20.13	269.78	19.33	17.77	6.59
Short-term investment-net	159.37	11.16	182.72	13.09	(23.35)	12.78
Account and note receivable-net	86.55	6.06	83.94	6.01	2.61	3.11
Inventories-net	218.32	15.28	226.03	16.19	(7.71)	3.41
Advanced copyright and translation	20.03	1.40	16.74	1.20	3.29	19.65
Other Current Assets	33.28	2.33	18.93	1.36	14.35	75.81
Total Current Assets	805.10	56.36	807.13	57.82	(2.03)	0.25
Investment in subsidiary and Associated companies	91.32	6.39	50.65	3.63	40.67	80.30
Property, plant and equipment-net	249.63	17.48	255.28	18.29	(5.65)	2.21
Leasehold on buildings-net	157.46	11.02	166.86	11.95	(9.40)	5.63
Guarantee for rental and deposit	49.62	3.47	47.14	3.38	2.48	5.26
Other asset	21.96	1.54	15.53	1.11	6.43	41.40
TOTAL ASSETS	1,428.41	100.00	1,395.97	100.00	32.44	2.32

**Remark** Statement has been reclassified in order to reveal future cash flow estimation clearly and correctly.



**Total Asset** As of September 30, 2006 the company had a total asset of THB 1,428.41 million, increase of THB 32.44 million from the end of last year . Causes of changing of total assets:

- Cash and cash equivalent items for THB 287.55 million increased of THB 17.77 million As in the Q3 of 2006 there was more cash from increasing of sales deposit in the finance institute which would be drawn out from the suppliers in the future due date. While there was much cash and cash equivalent items of the Q4 of 2005 deposit from year end sales.
- Short-term investment-net for THB 159.37 million decreased THB (23.35) million due to the redemption of government bond (age less than 3 months)
- Account and Note receivable for THB 86.55 million increased THB 2.61 million as there were account receivable from several institute groups in the end of year 2005.
- Inventories-net decreased THB (7.70) million from more non-returnable purchasing of goods, particularly mobile top-up cards, cookbooks, premiums, etc. in Q4, 2005
- Other current asset increased THB 14.35 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 40.67 million due to the addition investment in Plearn Patt company of THB 45 million in Q1 and Q2, 2006 and recognized participating loss of THB 6.82 million.

**Total liabilities** As of September 30, 2006 the company had a total liability of THB 819.00 million, a decrease of THB 36.34 million. Decrease in liabilities resulted from

- Bank overdrafts was decreased THB 7.03 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 668.12 million, was decreased THB 19.55 million. Mainly was there were post-dated cheque for buying books in 2005
- Accrued corporate income tax THB 25.77 million, decreased THB 14.37 million from corporate income tax payment for net profit of 2005 which was under due.

**Shareholders' equity** As of September 30, 2006 amount THB 609.41 million, an decrease of THB 3.90 million represent 0.64% due to

- Paid-up share capital increased THB 9.41 million from the exercised of warrant to common share
  - the exercised of SE-ED-W1 amount THB 1.37 million and
  - the exercised of ESOP project amount THB 8.04 million
- Premium of share capital increased of THB 0.83 million from the exercised of SE-ED-W1.
- Net profit from operation result nine-month of 2006 amount 141.76 million.
- Dividend payment in 9 months of 2006 in the amount of THB 152.58 million.



4.2 Cash flow

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

(Unit: Million Baht)

Description	Jan. - Sep.	Jan. - Sep.	Received (used)	
	2006	2005	Amount	(%)
Cash flow received (used)				
from operation activities	236.49	279.97	(43.48)	-15.53
Cash flow received (used)				
from investing activities	(69.34)	(88.62)	19.28	21.76
Cash flow received (used)				
from financing activities	(149.37)	(105.11)	(44.26)	42.11
Cash flow increase (decrease)	(17.78)	86.23	(68.45)	-79.38

**Cash Flow Received from Operation Activities for first nine-month as 2006** was THB 236.48 millions as listed below :

1. Cash flow from operation in the amount of THB 260.16 millions:
  - The Net profit for Q3 of 2006 in the amount of THB 141.76 millions.
  - Non-monitory expenses in the amount of THB 118.40 millions (Depreciation and Leasehold written-off in the amount of THB 67.44 millions, loss from lost goods as THB 38.18 millions, and participating loss from investment Associated companies as THB 3.33 millions.)
2. Cash flow increased from account and note payable increasing as THB 19.55 millions.
3. Cash flow decreased amount THB 33.61 million due to the increasing of inventories.
4. Cash flow decreased amount THB 14.66 million due to the increasing of other current assets. Most of them were advanced rental payment of one bookstore and warehouse amount THB 11.56 million.
5. Cash flow decreased due to the decreasing of accrued tax payment THB 14.37 million.
6. Cash flow increased amount THB 31.12 million from the increasing of other current liabilities. Most of them were accrued bonus amount THB 23.61 million.

**Cash Flow Used from Investment Activities for first nine-month as 2006** in the amount of THB (69.34) millions:

1. Investment of Plearn Patt Co., Ltd. as THB 45 millions
2. Purchase of assets as THB 54.34 millions.
3. Received from the redemption of government bond (age over 3 months) 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 first nine-month as 2006** as THB (149.37) million :

- Cash used from bank overdrafts was THB 7.03 million
- Cash used in dividend payment was THB 152.59 million
- Cash received from the warrant exercises for nine-month of 2006 was THB 10.24

million

### 4.3 Financial Ratios

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

LIQUIDITY RATIOS		9M'06	9M'05
Current Ratio	Time	0.99	1.02
Quick Ratio	Time	0.66	0.67
PROFITABILITY RATIOS		9M'06	9M'05
Gross Profit Margin	%	30.56	30.08
Net Profit Margin	%	5.06	4.95
Return on Equity**	%	23.19	22.37
Return on Asset**	%	14.51	14.52
FINANCIAL POLICY RATIO		9M'06	9M'05
Total Debt to Equity Ratio	Time	1.34	1.22
Interest Coverage Ratio	Time	1,754.53	2,268.55
Dividend Payout Ratio**	%	67.34	73.93

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

Truly yours,

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