



บริษัท ซีเ็ดดยุคเคชั่น จำกัด (มหาชน)  
SE-EDUCATION PUBLIC COMPANY LIMITED

# Management Discussion and Analysis

As of June 30, 2008

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**Management Discussion and Analysis: SE-ED****1. OVERVIEW**

In the first half of the year, the company had been affected by the economic slowdown resulted from the continuously rising inflation. The slowdown caused the commodity price to increase sharply, which in turn built up the purchasing pressure of consumers. The intense political conflict and the variation of the higher petroleum price in the world market also contributed in the flagging economy.

As the company has firmly believed in the potential of the book business, it continuously opened new branches of its bookstore both in shopping malls and in various forms of modern trade businesses, of which branches increased in number in order to support the business's future growth as well. Therefore, the additional sales volumes from new branches opened in the previous year, combined with the increasing sales volumes of the existing branches made the overall sales volume of the first half of the year increased. The sales growth of the company's distribution business was also at the satisfying rate.

**Operating performance for first six-month as 2008 were as follow :**

- The company's total revenue for six-month of 2008 was THB 2,160.34 million or growth 13.85% from the same period of previous year. The sales revenue accounted for THB 2,139.25 million or up 13.86%.
- The net profit for the six-month as of June 30, 2008 was THB 109.83 million or growth 59.47% from the same period of previous year due to the sales growth of 13.86% to the same of previous year and from the benefits gained of tax incentives.
- For six-month as of June 30, 2008, the company has opened more 28 new branches which was the maximum new branches opening compared to the period of first six months of every years. Total bookstores branches now becomes 295 branches and selling point now become 74 selling points.

**Operating performance for three-month as of June 30, 2008 were as follow :**

- The company's total revenue for the second quarter as of June 30, 2008 by THB 1,102.69 million or growth 7.98% from the same period of previous year. The sales revenue accounted for THB 1,094.55 million or up 8.27%.
- The net profit for three-month as of June 30, 2008 was THB 56.84 million, or increased 57.10% from the same period last year due to the sales growth of 8.27% to the same period last year and from the benefits gained from tax incentives.

To approve the interim dividend payment for operating performance of quarter 2/2008 from April 1, 2008 to June 30, 2008. As the company has been continual profitability and high liquidity, the board of directors has agreed to pay dividend at THB 0.10 per share, to the amount of 323,921,130 shares from net profit portion from the financial statement which the equity method calculated by which is not exempt from corporate income tax. The record date will be on August 26, 2008 at 12:00 a.m., and dividend payment date will be on September 5, 2008.

The company was rated as “Excellent” in the 2007 and 2008 valuation in the Annual General Meeting (AGM) of the shareholders by the Securities and Exchange Commission in cooperate with the Listed Companies Association and the Thai Investors Association. The company has been in the group of over 100 points (normal full grade was 100 points with special bonus not more than 10 points to be total of 110 points) which has been praised as good example from SEC. The objective of this appraisal was to increase awareness of stockholders’ rights and good corporate governance principles.

- In 2008 achieved 107.50 points with appraised as one of 74 companies praised as good example from SEC from overall 486 firms.
- In 2007 achieved 103.75 points appraised as one of 19 good example from SEC among overall of 460 firms.

The evaluation of the shareholders meeting aimed to make the registered companies realize the rights of shareholders as well as the good corporate governance principle.

## **2. BUSINESS SUMMARY**

### **Book Store Business**

The company has still expanded bookstore branches continuously to keep the record of being the largest bookstores chain with highest revenue of the country. In the second quarter, 15 branches were opened in Lotus Sena, Lotus Phetchabun, Big C Ratchaburi, Lotus Lang Suan, Big C Ban Pong, Big C Sukhothai, Lotus Sing Buri, Big C Chaiyaphum, Top IT Phitsanulok, Lotus Khukhan, Lotus Ranong, Big C Phetchabun, University of the Thai Chamber of Commerce Book Center, Carrefour Udomsuk and Big C Krabi Total bookstores branches now becomes 306 branches with 295 branches are still in operation including 9 branches of franchisees and 74 points of sales currently in operation. 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 who distributed both the Thai and foreign publishers such as Nation books International Co.,Ltd, MIS Softtech Co.,Ltd, Rak-look Family Group Co.,Ltd, Education Mind Line Multimedia Co., Ltd., Come On Publishing and Oxford University Press which the company has been the distributor of English learning text books (ELT) in Thailand this year 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 books production course to meet the market demand by focusing in printing books for long sales life in a sufficient market size, not concentrated in the titles quantity produced in each year. The company put emphasis on producing reference books, and the books in area need for people and country development. In the end of 2007 the company would begin the project of production English outside reading books which gave both substantial and entertainment to promote more English reading skill for the youths and general people.

Besides, the company has recognized the importance of develop and install communication tools for increasing public relation channel in order to distribute products to target customers more efficiently. This will be the key factor for success of the company own produced goods.

### 3. PERATING RESULTS

#### **3.1 Operating performance for first six-month as 2008 over the same period last year (from the financial statement which the equity method)**

*Table 1: Operating performance for first six-month as 2008 over the same period last year*

| Description   | (Unit: Million Baht) |          |        |        |
|---|----------------------|----------|--------|--------|
|   | Q2                   | Q2       | Change |        |
|   | 2008                 | 2007     | Amount | (%)    |
| Sales   | 2,139.25             | 1,878.81 | 260.44 | 13.86  |
| Cost of sales   | 1,464.65             | 1,317.85 | 146.80 | 11.14  |
| Gross Margin  | 674.60               | 560.96   | 113.64 | 20.26  |
| Other revenue   | 21.09                | 18.68    | 2.41   | 12.90  |
| Total revenues  | 2,160.34             | 1,897.49 | 262.85 | 13.85  |
| SG&A expenses   | 549.51               | 467.03   | 82.48  | 17.66  |
| Directors' remuneration                                   | 6.59                 | 3.79     | 2.80   | 73.88  |
| Participating loss in the associated companies            | 0.13                 | (1.07)   | 1.20   | 112.15 |
| Gross Margin (%)  | 31.53                | 29.86    | -      | 1.67   |
| EBITDA  | 189.90               | 153.51   | 36.39  | 23.71  |
| Profit from operation accordance with Cash Flow Statement | 202.79               | 171.79   | 31.00  | 18.05  |
| NET PROFIT  | 109.83               | 68.87    | 40.96  | 59.47  |
| EPS (Baht)  | 0.34                 | 0.21     | 0.13   | 61.90  |

**Total Revenues for first six-month of 2008** by THB 2,160.34 million or growth 13.85% from the same period last year. The sales revenue accounted for THB 2,139.25 million, or up 13.86% although the company has been affected from the significantly economic slow down situation in the first half year. But the main driver of increasing satisfactory revenue was from the new bookstores of up to 28 branches in this year which caused to increase the sales volume from the same period of previous year.

Including the growth of same stores sales due to the increasing sales of newspapers and magazines. and books which the company has been exclusively been distributor have sales volume much better than the same period last year, so the revenue of SE-ED Book Center and network was increased up to 14.15%.

Otherwise the company sales from wholesales business unit was 13.07% higher than same period of previous year as the company has been distributor of ELT books of Oxford University Press with 47.10 % increased and has been trusted continuously to be distributors for other popular books publishers.

**The net profit for six-month** as of June 30, 2008 was THB 109.83 million, or increased 59.47% from the same period last year. Due to the sales growth of 13.86% to the same of previous year and gross margin raised from 29.86% to 31.53% from the more selling ratio of more margin goods. The company has more tax benefit from the same period last year THB 16.50 million which are the benefit from loss of asset sales which has been recorded as devalued in 1999 and dividend of investment in private fund and capital expenditure in expansion and efficiency improvement including the managing of depreciated and slow moving goods to gain most benefit.

**The selling and administrative expense** increased THB 82.48 million, or increased 17.66% with higher growth ratio than sales growth of SE-ED books center expansion because some sales portion were sales lagging.

### 3.2 Operating performance for Q2 of 2008 over the same period last year. (from the financial statement which the equity method)

Table 2: Operating performance for Q2 of 2008 over the same period last year.

| Description  | (Unit: Million Baht) |            |        |         |
|--|----------------------|------------|--------|---------|
|  | Q2<br>2008           | Q2<br>2007 | Change |         |
|  |                      |            | Amount | (%)     |
| Sales  | 1,094.55             | 1,010.91   | 83.64  | 8.27    |
| Cost of sales  | 751.86               | 723.03     | 28.83  | 3.99    |
| Gross Margin   | 342.69               | 287.88     | 54.81  | 19.04   |
| Other revenue  | 8.14                 | 10.29      | (2.15) | (20.89) |
| Total Revenue  | 1,102.69             | 1,021.20   | 81.49  | 7.98    |
| SG&A expenses  | 285.83               | 241.78     | 44.05  | 18.22   |
| Directors' remuneration                                      | 1.55                 | 3.23       | (1.68) | (52.01) |
| Participating profit from investment in associated companies | 3.25                 | 2.41       | 0.84   | 34.85   |
| Gross Margin (%)   | 31.31                | 28.48      | -      | 2.83    |
| EBITDA   | 92.04                | 78.82      | 13.22  | 16.77   |
| Profit from operation accordance with Cash Flow Statement    | 110.15               | 84.30      | 25.85  | 30.66   |
| NET PROFIT   | 56.84                | 36.18      | 20.66  | 57.10   |
| EPS (Baht)   | 0.18                 | 0.11       | 0.07   | 63.64   |

**The revenue for second quarter as of June 30, 2008** rose to THB 1,102.69 million, or up 7.98%. The sales revenue accounted for THB 1,094.55 million, or up 8.27%. The main driver for such growth was from the sales growth of SE-ED Book Center new branches and wholesales books which grew so much as several items of them were popular in the market and from the English Learning Text books (ELT) of Oxford University Press.

**The net profit for three-month as of June 30, 2008** was THB 56.84 million, or increased 57.10% from the same period last year. Due to the sales growth of 8.27% to the same period last year and gross margin raised from 28.48% to 31.31% from the more selling ratio of more margin goods including the tax benefit more than the same period last year of THB 10.84 million high the same reason of 6 months period.



The selling and administrative expense increased THB 44.05 million from the same period of previous with ratio of 18.22% due to the same cause as in the 6 months period.

#### 4. DIVIDEND PAYMENT POLICY

The company declared a policy to pay dividend no less than 50% of the net profit after the deduction of corporate income tax which the equity method. The payment will be made in the annual general meeting of the year immediately following the operating year.

Table 3: The dividend payment of 2008, 2007 and 2006 as follow:

| <b>Year 2008 operating result</b> |   |                 |                              |                                  |   |
|-----------------------------------|---|-----------------|------------------------------|----------------------------------|---|
|                                   | Resolutions of the<br>Company's Board<br>meeting              | Meeting<br>date | Dividends<br>payment<br>date | Dividends<br>Per share<br>(Baht) | Dividend Paid<br>Totaling<br>(Million Baht) |
| Quarter 1                         | 2/2008  | 09/05/2008      | 06/06/2008                   | 0.10                             | 32.39                                       |
| Quarter 2                         | 3/2008  | 08/08/2008      | 05/09/2008                   | 0.10                             | 32.39                                       |
| <b>Total</b>                      |   |                 |                              | <b>0.56</b>                      | <b>181.33</b>                               |
| <b>Year 2007 operating result</b> |   |                 |                              |                                  |   |
|                                   | Resolutions of the<br>Company's Board/<br>Shareholder meeting | Meeting<br>date | Dividends<br>payment<br>date | Dividends<br>Per share<br>(Baht) | Dividend Paid<br>Totaling<br>(Million Baht) |
| Quarter 1                         | 2/2007  | 10/05/2007      | 08/06/2007                   | 0.10                             | 32.36                                       |
| Quarter 2                         | 3/2007  | 09/08/2007      | 06/09/2007                   | 0.10                             | 32.37                                       |
| Quarter 3                         | 5/2007  | 13/11/2007      | 11/12/2007                   | 0.10                             | 32.38                                       |
| Quarter 4                         | 1/2008  | 29/04/2008      | 28/05/2008                   | 0.26                             | 84.22                                       |
| <b>Total</b>                      |   |                 |                              | <b>0.56</b>                      | <b>181.33</b>                               |
| <b>Year 2006 operating result</b> |   |                 |                              |                                  |   |
|                                   | Resolutions of the<br>Company's Board/<br>Shareholder meeting | Meeting<br>date | Dividends<br>payment<br>date | Dividends<br>Per share<br>(Baht) | Dividend Paid<br>Totaling<br>(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                                       |
| Quarter 3                         | 4/2006  | 10/11/2006      | 08/12/2006                   | 0.10                             | 31.19                                       |
| Quarter 4                         | 1/2007  | 25/04/2007      | 23/05/2007                   | 0.30                             | 97.07                                       |
| <b>Total</b>                      |   |                 |                              | <b>0.60</b>                      | <b>190.55</b>                               |

## 5. FINANCIAL POSITION

### 5.1 Asset Component (from the financial statement which the equity method)

Table 4: Asset Component

| Description                                       | June 30, 2008   |               | December 31, 2007 |               | Change         |             |
|---|-----------------|---------------|-------------------|---------------|----------------|-------------|
|   | Amount          | % to          | Amount            | % to          | Amount         | %           |
|   | <u>Million</u>  | <u>Baht</u>   | <u>Million</u>    | <u>Baht</u>   | <u>Million</u> |             |
|   | <u>Baht</u>     | <u>Total</u>  | <u>Baht</u>       | <u>Total</u>  | <u>Baht</u>    |             |
|   | <u>Assets</u>   |               | <u>Assets</u>     |               |                |             |
| Cash and cash equivalent items                    | 305.16          | 17.20         | 298.78            | 17.17         | 6.38           | 2.14        |
| Short-term investment-net                         | 184.06          | 10.37         | 207.30            | 11.91         | (23.24)        | (11.21)     |
| Account and note receivable-net                   | 123.44          | 6.96          | 92.21             | 5.30          | 31.23          | 33.87       |
| Loan due from associated company                  | 5.00            | 0.28          | -                 | -             | 5.00           | 100         |
| Inventories-net                                   | 466.71          | 26.30         | 446.50            | 25.66         | 20.21          | 4.53        |
| Prepaid expenses                                  | 29.57           | 1.67          | 26.45             | 1.52          | 3.12           | 11.80       |
| Other current assets                              | 13.37           | 0.75          | 21.38             | 1.23          | (8.01)         | (37.46)     |
| <b>Total Current Assets</b>                       | <b>1,127.30</b> | <b>63.52</b>  | <b>1,092.62</b>   | <b>62.78</b>  | <b>34.68</b>   | <b>3.17</b> |
| Investment in subsidiary and Associated Companies | 83.92           | 4.73          | 85.28             | 4.90          | (1.36)         | (1.59)      |
| Property, plant and equipment-net                 | 292.90          | 16.50         | 271.55            | 15.60         | 21.35          | 7.86        |
| Leasehold on buildings-net                        | 135.46          | 7.63          | 141.73            | 8.14          | (6.27)         | (4.42)      |
| Assets pending for sale-net                       | -               | -             | 19.20             | 1.10          | (19.20)        | (100)       |
| Guarantee for rental and deposit                  | 61.52           | 3.47          | 55.63             | 3.20          | 5.89           | 10.59       |
| <b>Total Assets</b>                               | <b>1,774.66</b> | <b>100.00</b> | <b>1,740.31</b>   | <b>100.00</b> | <b>34.35</b>   | <b>1.97</b> |

**Total Asset** As of June 30, 2008 the Company had a total asset of THB 1,774.66 million, an increase of THB 34.35 million. Causes of changing of total assets:

- Short-term investment-net for THB 184.06 million decreased THB 23.24 million due to the redemption of government bond (age less than 3 months).
- Trade accounts and notes receivable-net increased THB 31.23 million from distribution of English learning text books (ELT) of Oxford University Press.

- Inventories-net for THB 466.71 million increased THB 20.21 million from the release of dictionaries and maps in the second quarter of 2008.
- Property, plant and equipment-net for THB 292.90 million increased THB 21.35 million from the company has opened more 28 new branches which was the maximum new branches opening compared to the period of first six-months of previous year.
- Assets pending for sale-net decreased THB 19.20 million from sales of five four-storied buildings in Din Dang district.

**Total liabilities** As of June 30, 2008 the Company had a total liability of THB 1,116.79 million, an increase of THB 43.59 million, represent 4.06%. Causes of changing of total liabilities:

- Account payable and note payable THB 931.23 million, was increased THB 72.45 million. Most of them was wholesales creditors of SE-ED Book Center and account payable of distributors.
- Accrued corporate income tax decreased THB 23.07 million from corporate income tax payment for net profit of 2007 which due payment in May 2008.
- Accrued expense was THB 81.35 million, decreased 13.76 million mainly cause from bonus expense for from operation result of 2007.
- Other current liabilities amount THB 68.21 million, increased THB 7.64 million mainly cause from rental booth payment in Thailand Electronics and Industrial Technology exhibition which will exhibit in July each year.

**Shareholders' equity** As of June 30, 2008 amount THB 657.87 million, an decrease of THB 9.25 million represent 1.39% due to:

- Paid-up share capital increased THB 0.16 million from the exercised of warrant to common share the exercised of ESOP. (Since rights to exercise warrants was expired on January 14, 2008.)
- Retained earnings due to the dividend payment as THB 116.61 million.
- Net profit from operation result Q2 of 2008 amount 109.83 million.

## 5.2 Cash flow

Table 5: Cash flow for Q2 of 2008 over the same period last year.

| Description   | (Unit: Million Baht) |                     |                  |               |
|---|----------------------|---------------------|------------------|---------------|
|   | Jan. - Jun.<br>2008  | Jan. - Jun.<br>2007 | Change<br>Amount | Change<br>(%) |
| Cash flow received (used) from operation activities | 143.91               | 91.24               | 52.67            | 57.73         |
| Cash flow received (used) from investing activities | (21.09)              | (53.46)             | 32.37            | 60.55         |
| Cash flow received (used) from financing activities | (116.46)             | (113.29)            | (3.17)           | (2.80)        |
| Cash flow increase (decrease)                       | 6.37                 | (75.51)             | 81.87            | 108.42        |

**Cash Flow Received from operation activities for Q2 of 2008** was THB 143.91 millions as listed below:

- Cash flow from operation increased in the amount of THB 202.79 millions:
  - The Net profit before corporate income tax 1H of 2008 in the amount of THB 139.61 millions.
  - Non-monitory expenses in the amount of THB 63.18 millions (Depreciation and Leasehold written-off in the amount of THB 48.25 millions, loss from lost goods as THB 16.51 millions, and as allowance for lost goods (reversal) THB 8.04 millions.)
- Cash flow decreased amount THB 24.92 million from trade accounts receivable.
- Cash flow decreased amount THB 44.67 million from inventories.
- Cash flow increased from trade accounts and notes payable THB 69.89 million.
- Cash flow increased amount THB 8.90 million from other current assets.
- Cash flow decreased from tax payment THB 52.86 million.

**Cash Flow Used from Investment Activities for Q2 of 2008** in the amount of THB (21.09) millions as listed below:

- Cash flow decreased from Purchase of assets as THB 65.99 millions.
- Cash flow decreased from short-term investments as (age over than 3 months) THB 21.09 million.
- Cash flow increased amount THB 20 millions from sales of assets pending for sale of five four-storied buildings.

**Cash Flow Used from Financial Activities for Q2 of 2008** as THB (116.46) million due to dividend payment of THB 116.61 million.

### 5.3 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'08</b> | <b>1H'07</b> |
|-------------------------------|------|--------------|--------------|
| Current Ratio                 | Time | 1.02         | 1.03         |
| Quick Ratio                   | Time | 0.55         | 0.56         |
| <b>PROFITABILITY RATIOS</b>   |      | <b>1H'08</b> | <b>1H'07</b> |
| Gross Profit Margin           | %    | 31.53        | 29.86        |
| Net Profit Margin             | %    | 5.08         | 3.63         |
| Return on Equity              | %    | 35.16        | 32.46        |
| Return on Asset               | %    | 18.49        | 19.31        |
| <b>FINANCIAL POLICY RATIO</b> |      | <b>1H'08</b> | <b>1H'07</b> |
| Total Debt to Equity Ratio    | Time | 1.70         | 1.61         |
| Interest Coverage Ratio       | Time | 1,413.16     | 726.94       |

Signature.....

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