



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

Management Discussion and Analysis

As of March 31, 2014

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Management Discussion and Analysis: SE-ED

1. OVERVIEW

Overall in the first quarter of 2014 the Company was affected from the economic and political situation, causing the drop in the purchasing power of consumers and the sales across all regions to continue to decrease. At the same time, there was an impact from the increase of the operation expenses due to the rise of the minimum wage in 2013 nationwide and higher logistics cost. As a result, the Company's profitability continued to decrease.

In the first quarter of 2014, the Company opened 2 new branches of SE-ED Book Center while 5 branches and 1 point of sales that could not generate profit or reached the end of its rental agreement were shut down. As of March 31, 2014, there was a total of 422 active branches and 9 points of sale.

Moreover, 6 new branches of SE-ED Learning Center were launched, leading to the total of 23 branches, 3 of which are operated by the Company.

- Gross profit decreased by THB 28.85 million because of the drop in sales.
- The sales and administrative expenses better, which led to the decrease of these expenses by 4.75% from the drop in the rental fee, service fee and employees' expenses. The product circulation improved, causing the decrease in the slow-moving inventory reserve.

2. BUSINESS Overview

Bookstore Business

In Q1/2014 the Company opened 2 new branches located in Lotus the Walk, Nakhonsawan and Big C Kanchanaburi. This led to the total of 494 branches of SBC that have been in operation so far, with 422 branches that are still active, 3 franchises and 9 points of sale. Several active branches were also renovated and modernized to boost the sales and profits.

Distribution Business

The company has put more emphasis on the distribution business by representing both Thai and foreign publishers such as MIS Publishing Co.,Ltd., Nation International Edutainment Public Company Limited, Nation Egmont Edutainment Co.,Ltd., Petchprakai Co.,Ltd., Ms. Eumporn Wongwiang, Provision Co.,Ltd., Education Mind Line Multimedia Co.,Ltd., Post Publishing Public Company Limited, Thammasat University press, Bear Publishing Co., Ltd., Pelangi Publishing (Thailand) Co.,Ltd, and Oxford University Press (English Language Teaching Division) for which the Company has been the exclusive distributor in Thailand since 2007. The books from various publishers are supplied to SE-ED

Book Center and Book Variety branches, other bookshops in the Company's distributing network and educational institutions. Moreover, the Company is developing its distribution system to be more efficient in order to support the future growth of this business.

Publishing Business

The Company always plans its book publications to meet the market demand and focuses mainly on steady-selling titles with a sufficient market size in the long term. In 2014, the Company will increase the number of titles published per year and will emphasize on language-learning titles such as English, Chinese, and Korean as well as long-lifespan titles including dictionaries, references and maps. The Company also publishes books needed for the development of Thai people and the country, especially books in health and wellbeing category, test preparations and career development books.

Since the end of 2007 the Company started to publish English extensive reading materials that are fun and easy to read and designed to suit readers' different levels of English skills. The objective of this publication is to help English learners improve their English proficiency by reading. The Company has still continued its extensive reading publications. Up until now the Company has published more than 300 titles for the extensive reading campaign with over 200 titles still available for all readers from primary to university level to improve their English language skills. Towards the end of 2013 the Company starts to publish children's titles to build their writing skill in English, Thai and Chinese so that their overall four skills in languages are constantly improved since primary age.

In 2014, the Company's publishing business will work more closely and intensively with the distribution department, retail and wholesale teams to improve and increase the income. One of the new initiatives is to adjust the proportion of books published by SE-ED in SE-ED Book Center and to make sure that those books are displayed more prominently. SE-ED Book Center started this pilot project in early February. Moreover, the Company sees the importance of developing and installing various types of communication tools to add more PR channels and distribute products to target groups more suitably; giving the Company more chances to be successful.

3. OPERATING RESULTS

3.1 Operating performance for Q1 of 2014 over the same period last year.

Table 1 : Operating performance for Q1 of 2014 over the same period last year.

(Unit : Million Baht)

	Q1			
	Consolidated financial statements			
Revenues	2014	2013	Change	(%)
Revenues from sales	1,184.99	1,282.66	(97.67)	(7.61)
Tuition fees income	29.98	27.74	2.24	8.08
Interest and dividend income	0.04	1.5	(1.46)	(97.07)
Other income	11.83	13.76	(1.93)	(14.01)
Total revenues	1,226.85	1,325.66	(98.81)	(7.45)
Expenses				
Cost of sales	790.44	858.11	(67.67)	(7.89)
Cost of tuition fees	25.73	24.64	1.09	4.43
Selling expenses	263.33	270.53	(7.20)	(2.66)
Administrative expenses	130.03	142.46	(12.43)	(8.73)
Total expenses	1,209.53	1,295.74	(86.21)	(6.65)
Gross profit	398.80	427.65	(28.85)	(6.75)
Gross Margin (%)	32.82	32.64		0.19
EBITDA	50.47	63.41	(12.94)	(20.41)
Profit from operation accordance with Cash Flow Statement	62.66	78.25	(15.59)	(19.93)
Net profit of shareholders' equity of parent company	11.43	29.87	(18.44)	(61.73)
EPS (Baht)	0.03	0.08	(0.05)	(62.50)

The Company and its subsidiaries' total revenue for the first quarter ended March 31, 2014

according to the consolidated financial statements amounts to THB 1,266.85 million, a decrease of 7.45% from the same period last year. The total revenue, according to the separate financial statements amounts to THB 1,193.21 million, a decrease of 7.94% from the same period last year. In this amount the revenue from sales is 1,184.99 million, a decrease of 7.61%.

The decrease is mostly due to the drop of the same store sales by 12.34%. However, the revenue from the distribution business increased by 6.15% from the previous year because of the promotion of imported textbooks to educational institutions in the new semester.

Cost of sales and service according to the consolidated financial statements for the first quarter ended March 31, 2014 is worth THB 816.17 million, a decrease of 7.54%. While the cost of sales, according to the separate financial statements is worth THB 790.13 million, a decrease of 7.92%. The gross margin of the first quarter of 2014 is accounted for 32.82% or an increase of 0.19% from the previous year. The growth is due to the improvement of product mix in the stores, which the sales ratio of high-profit products had increased, especially the imported textbooks that had been promoted to use in schools.

The Selling and Administrative expense for the first quarter as of March 31, 2014 according to the consolidated financial statements is worth THB 393.36 million, or decreased 4.75%. While the Selling and Administrative expense, according to the separate financial statements, is worth THB 386.62 million, or a decrease of 4.77%. The decrease was due to

- the decrease in operation cost, which include rental fee, utilities and fixed service fee that decreases by 3.61 % from the previous year which is related to the decrease in sales;
- the expenses related to employees decrease because of the adjustment in employees' remuneration reserve to be more appropriate and the employee's structure to be more effective.

The Company's return on shareholders' equity of the parent company for the first quarter as of March 31, 2014 according to the consolidated financial statements amounts to THB 11.43 million, or a decrease of 61.73% from the previous year. This is because the gross profit dropped by THB 28.85 million from the decreased sales. However, the Company could manage the sales and administrative expenses better, which led to the decrease of these expenses by 4.75% from the drop in the rental fee, service fee and employees' expenses. At the same time, the product circulation improved, causing the decrease in the slow-moving inventory reserve. The net profit according to the separate financial statements amounts to THB 11.83 million, or, compared with the same period last year, a decrease of 62.51%.

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 based on the separate financial statements by proposing that the dividends be paid on an annual basis the year following the Annual General Shareholders' Meeting, except the interim dividends payment. The Board of Directors has legal right to approve the dividends payment and reports to the shareholders to acknowledge in the following Shareholders' meeting.

The resolution from the Board of Director meeting no.3/2014 on Thursday, May 8, 2014 concluded that the interim dividend payments of quarter 1/2014 for shareholders will be withheld to maintain cash reserve during the time of the instability of retail business that is affected by the economic situation

Table 2 : The dividend payment of 2013 and 2012 as follow:

Year 2013 operating result

- **Paid dividend by cash**

	Resolutions of the Company's Board/ Shareholder meeting	Meeting date	Dividends payment date	Dividends Per share (Baht)	Dividend Paid Totaling (Million Baht)
Quarter 4	1/2014	24/04/2014	22/05/2014	0.18	70.55
	Total			0.18	70.55

Year 2012 operating result

- **Paid dividend by cash**

	Resolutions of the Company's Board/ Shareholder meeting	Meeting date	Dividends payment date	Dividends Per share (Baht)	Dividend Paid Totaling (Million Baht)
Quarter 1	3/2012	10/05/2012	08/06/2012	0.10	35.63
Quarter 2	4/2012	07/08/2012	06/09/2012	0.10	35.63
Quarter 3	5/2012	07/11/2012	06/12/2012	0.10	35.63
Quarter 4	1/2013	25/04/2013	22/05/2013	0.11112	39.59
	Total			0.41112	146.48

- **Paid dividend by ordinary shares**

The Annual General Meeting of the Company's shareholders in 2013 approve paying dividend payments of 2012 in **ordinary shares**, not exceeding 35,631,320 shares in total or THB one (1) per share, and **at ratio of ten (10) current shares per one (1) dividend share** in total of THB 35,631,320 or can be calculated into THB 0.10 per share, to shareholders.

5. FINANCIAL POSITION

5.1 Asset Component

Table 3 : Asset Component

(Unit : Million Baht)

Description	Consolidated financial statements					
	March 31, 2014		December 31, 2013		Change	
	Amount	% to	Amount	% to	Amount	(%)
		Assets		Assets		
Assets						
Current assets						
Cash and cash equivalents	159.99	6.17	160.20	6.16	(0.21)	(0.13)
Current investments	0.00	0.00	22.00	0.85	(22.00)	(100.00)
Trade and other receivables	131.98	5.09	102.15	3.93	29.83	29.20
Inventories	332.16	12.81	373.68	14.38	(41.52)	(11.11)
Other current assets	41.66	1.61	40.09	1.54	1.57	3.90
Total current assets	665.78	25.67	698.12	26.86	(32.34)	(4.63)
Non-current assets						
Restricted bank deposits and other						
Investments	14.58	0.56	14.58	0.56	0.00	0.01
Investments in associate - net	25.68	0.99	25.68	0.99	0.00	0.02
Property, plant and equipment - net	1,644.70	63.41	1,612.84	62.05	31.86	1.98
Leasehold right on land - net	6.62	0.26	6.70	0.26	(0.08)	(1.21)
Leasehold right on buildings - net	84.59	3.26	87.41	3.36	(2.82)	(3.23)
Intangible assets	7.45	0.29	7.98	0.31	(0.53)	(6.68)
Prepaid book copyright and translation fee	21.78	0.84	23.15	0.89	(1.37)	(5.92)
Rental guarantee and deposit	108.34	4.18	108.18	4.16	0.16	0.15
Deferred tax assets	14.09	0.54	14.49	0.56	(0.40)	(2.75)
Other non-current assets	0.23	0.01	0.33	0.01	(0.10)	(31.21)
Total non-current assets	1,928.06	74.33	1,901.34	73.14	26.72	1.41
Total assets	2,593.84	100.00	2,599.46	100.00	(5.62)	(0.22)

5.2 Liabilities and shareholders' equity Component.

Table 4 : Liabilities and shareholders' equity Component.

Description	Consolidated financial statements				(Unit : Million Baht)	
	March 31, 2014		December 31, 2013		Amount	Change (%)
	Amount	% to Total Assets	Amount	% to Total Assets		
Liabilities and shareholders' equity						
Current liabilities						
Short-term loans from financial institutions	210.00	8.10	100	3.85	110.00	110.00
Trade and other payables	1,140.29	43.96	1,264.43	48.64	(124.14)	(9.82)
Current portion of long-term loans	6.26	0.24	20.70	0.80	(14.44)	(69.76)
Income received in advance recognizable within one year	37.02	1.43	39.73	1.53	(2.72)	(6.83)
Income tax payable	8.73	0.34	7.09	0.27	1.64	23.17
Current portion of provision for long-term employee benefits	4.47	0.17	9.20	0.35	(4.73)	(51.42)
Other current liabilities	59.12	2.28	57.60	2.22	1.52	2.63
Total current liabilities	1,465.89	56.51	1,498.75	57.66	(32.87)	(2.19)
Non-current liabilities						
Income received in advance	7.60	0.29	9.08	0.35	(1.49)	(16.35)
Long-term loans from director	0.50	0.02	0.50	0.02	0.00	0.00
Long-term loans, net of current portion	98.52	3.80	75.28	2.90	23.24	30.87
Provision for long-term employee benefits, net of current portion	31.26	1.21	36.71	1.41	(5.45)	(14.86)
Other non-current liabilities	8.57	0.33	8.64	0.33	(0.08)	(0.87)
Total non-current liabilities	146.44	5.65	130.21	5.01	16.23	12.46
Total liabilities	1,612.32	62.16	1,628.96	62.67	(16.64)	(1.02)
Shareholders' equity						
Share capital						
Registered						
391,944,529 ordinary shares of Baht 1 each	391.95	15.11	391.95	15.08	0.00	0.00
Issued and paid-up						
391,944,418 ordinary shares of Baht 1 each	391.95	15.11	391.95	15.08	0.00	0.00
Share premium	149.42	5.76	149.42	5.75	0.00	0.00
Retained earnings						
Appropriated-statutory reserve	39.19	1.51	39.19	1.51	(0.00)	(0.00)
Unappropriated	210.49	8.11	198.97	7.65	11.52	5.79
Other components of shareholders' equity	130.25	5.02	130.33	5.01	(0.08)	(0.06)
Equity attributable to owners of the Company	921.30	35.52	909.86	35.00	11.44	1.26
Non-controlling interests of the subsidiaries	60.22	2.32	60.64	2.33	(0.42)	(0.69)
Total shareholders' equity	981.52	37.84	970.50	37.34	11.02	1.14
Total liabilities and shareholders' equity	2,593.84	100.00	2,599.46	100.00	(5.62)	(0.22)

Financial analyses

Total Assets As of March 31, 2014 the company and its subsidiaries had a total asset of THB 2,593.84 million, a decrease of THB 5.62 million or 0.22% from the end of last year. Changes of total assets are as follows:

- Cash and cash equivalent as of March 31, 2014 totals THB 159.99 million, a decrease of THB 0.21 million or 0.13%.
- Temporary investment decreases by THB 22.00 million or 100% because of the sale of Krungsri Star Plus Fund to pay for the construction of the new warehouse on Bangna-Trad Road (k.m.21).
- Remaining inventory totals THB 332.16 million, a decrease of THB 41.52 million or 11.11%. This is due to the decrease of imported foreign books that were promoted to use as a textbook in educational institutions.
- Other current assets total THB 41.66 million, a decrease of THB 1.57 million or 3.90%. This is due to the reclassification of the advance payment to develop the e-commerce and e-book programs, which are the intangible assets.
- Building lease hold right totals THB 84.59 million, a decrease of THB 2.82 million or 3.23%, which is due to the amortization of the lease hold right according to the contract term.
- Property, plant and equipment in the amount of THB 1,641.18 million Baht, an increase of 28.34 million Baht or 1.76%. The increase was due to the rack shelf installation in the new warehouse on Bangna-Trad Road (k.m.21).
- Trade account receivables and other receivables total THB 131.98 million, an increase of THB 29.83 million or 29.20%. This is due to the sales increase of foreign books to educational institutions in the new semester.
- Intangible assets total THB 10.97 million, an increase of 2.99 million or 37.43%. This is due to the cost of e-commerce and e-book program development.
- Advance royalties and translation fees total THB 21.78 million, a decrease of 1.37 million or 5.92%.

Total Liabilities As of March 31, 2014 the Company and its subsidiaries had a total liability of THB 1,612.32 million decreased of THB 15.98 million or 0.98%. Causes of changing of total liabilities:

- Trade and other payables total THB 1,140.29 million, a decrease by THB 124.14 million or 9.82%. Trade payables decrease is related to the sales decrease and the annual bonus payment in the end of March every year.
- Long-term loans total THB 104.78 million, an increase of THB 8.80 million or 9.17%. The loans come from parents and guardians of students in the education loan project of Plearnpatt Co.,Ltd (subsidiary) to use for building construction and current capital within the subsidiary without collateral. The loan's maturity is 3-7 years with the interest rate at 5.80-7.50% per year.
- Short-term loans from financial institutions THB 210 million, an increase of 110 million because of the short-term loans from 2 financial institutions to pay for the construction of a new warehouse.
- Current portion of provision for long-term employees totals THB 35.73 million, a decrease of 10.18 million because there were payments for retired employees in the interim and the reserve of long-term benefits of employees leaving the Company in the interim.
- Income received in advance totals THB 44.62 million, an increase by THB 4.20 million or 8.60%. This is due to the subsidiary's receipt of prepaid tuition fees as the income in the interim.

Shareholders' equity As of March 31, 2014 the Company and its subsidiaries had a total shareholders' equity of THB 981.52 million, of which the shareholders' equity of parent company accounted for THB 921.30 million, an increase of THB 11.44 million. The return on shareholders' equity of parent company from operation result f or the first quarter of 2014 amounts to THB 11.43 million.

5.3 Cash flow

Table 5 : Cash flow for Q1 of 2014 over the same period last year.

	(Unit : Million Baht)			
	Consolidated financial statements			
	Q1'2014	Q1'2013	Change	(%)
Cash flow received (used) from operation activities	(87.18)	(12.27)	(74.91)	610.51
Cash flow received (used) from investing activities	(31.84)	(110.89)	79.05	(71.29)
Cash flow received (used) from financing activities	118.80	0.20	118.60	59,300
Cash flow increase (decrease)	(0.22)	122.96	(122.74)	(99.82)

Cash Flow Used from Operation Activities for Q1 of 2014 was THB (87.18) million as listed below:

- Income from operation increased in the amount of THB 62.66 million:
 - The net profit before corporate income tax for Q1 of 2014 in the amount of THB 14.03 million.
 - Adjustments to reconcile profit before tax in the amount of THB 48.63 million (Depreciation and amortization as THB 30.25 million, Allowance for lost goods and stock obsolescence as THB 6.84 million, expense from lost goods as THB 3.66 million, amortized leasehold rights on land and buildings as THB 2.90 million, Loss on stock destruction as THB 1.63 million, loss on sales and written-off equipment as THB 1.23 million, expense from donation of goods and equipment as THB 1.10 million, interest expense as THB 3.29 million, and adjustment from un-utilized coupon payable as THB (1.28) million.
- Cash flow decreased from trade and other receivables increased by THB 29.17 million because of the higher sales of imported books to educational institution in the new semester.
- Cash flow increased from remaining inventory decreasing by THB 28.30 million because of the higher sales of imported books.
- Cash flow increased from other current assets decreasing by THB 1.67 million.
- Cash flow decreased from the decrease of trade payables and other payables in relation to the drop in sales and the accrued expenses from the bonus payment at the end of March every year.
- Cash flow for the provision of benefits for employees decreased in the amount of THB 10.10 million because of the actual payment in the amount of THB 4.73 million and the reversed accrued expense because of the resignation of employees.

Cash Flow Used from Investment Activities for Q1 of 2014 was THB (31.84) million as listed below:

- Cash flow decreased from asset purchases amounts to THB 54.21 million, mostly because of the rack shelf installation in the new warehouse on Bang Na-Trad Road (k.m.21) and partially from the investment in opening new branches.
- Cash flow increased from the decrease of current investments in the amount THB 22.19 million from the sale Investment in Mutual Fund to pay for the construction of the new warehouse.

Cash Flow Received from Financial Activities for Q1 of 2014 was THB 118.80 million because of the short-term loans from 2 financial institutions to pay for the construction of a new warehouse. The subsidiary also increased loans from the parents to use as a circulating fund.

5.4 Financial Ratios

Table 6 : *Financial ratios calculated according to the Office of the Securities and Exchange Commission's formulae. (From the consolidated financial statements)*

		Q1'2014	Q1'2013 <u>(Restated)</u>
LIQUIDITY RATIOS			
Current Ratio	Time	0.45	0.59
Quick Ratio	Time	0.20	0.30
PROFITABILITY RATIOS			
Gross Profit Margin	%	32.82	32.63
Net Profit Margin	%	0.93	2.25
Rate of Return to Equity	%	5.90	22.60
EFFICIENCY RATIOS			
Return on Asset	%	3.12	8.80
FINANCIAL POLICY RATIO			
Debt to Equity Ratio	Time	1.64	1.70
Interest Capability Ratio	Time	-24.57	-7.03

Signature.....

(Mr. Viboolsak Udomvanich)

Deputy Managing Director and Company Secretary

INVESTOR RELATION

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