



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

Management Discussion and Analysis

As of June 30, 2014

Published Date : August 8, 2014

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Management Discussion and Analysis: SE-ED

1. Overview

Overall in the second quarter of 2014, the company is still affected by the unreliable economic and political situation, resulting in the continuous decrease in the net purchasing power and regional sales. Anyhow, the company has gained more gross profit rate from the higher trade discount from new distributed books. The company is also able to effectively manage the operation cost, resulting in a significant increase in profit as follows:

- Gross profit decreased by THB 9.23 million because of the drop in sales 8.47% from the previous year.
- The product circulation improved, causing the decrease in the slow-moving inventory reserve. The sales and administrative expenses better, which led to the decrease of these expenses by 6.11% from the drop in the rental fee, service fee and employees' expenses.
- The operation result of Plearnpattana school has improved.

Because of the economic deceleration and increased competition in the second quarter of 2014, the Company opened only 3 new branches of SE-ED Book Center while 25 branches and 1 point of sales that could not generate profit or reached the end of its rental agreement were shut down. As of June 31, 2014, there was a total of 419 active branches and 9 points of sale.

The resolution from the Board of Directors meeting is as follows:

SE-EDUCATION PUBLIC COMPANY LIMITED (the "Company") would like to inform the Resolution of the Board of Directors' Meeting No.3/2014 Dated August 8, 2014 as follows:

The interim dividend payments of quarter 2/2014 for shareholders will be withheld because of the instability of retail business that is affected by the economic situation.

2. BUSINESS SUMMARY

Bookstore Business

In Q2/2014 the Company opened 2 new branches located in Big C Kallaprapruek, Big C Sri Mahabhodi Prachinburi, and Lotus Nakornnayok. This led to the total of 496 branches of SBC that have been in operation so far, with 419 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 Pelangi Publishing (Thailand) Co.,Ltd, 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., 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 Q2 (3 months) of 2014 over the same period last year

Table 1 : Operating performance for Q2 (3 months) of 2014 over the same period last year.

(Unit : Million Baht)

	Q2 (3M)			
	Consolidated financial statements			
Revenues	2014	2013	Change	(%)
Revenues from sales	1,285.63	1,415.81	(130.18)	(9.19)
Income from tuition fees	45.08	37.99	7.09	18.66
Interest and dividend income	0.65	1.44	(0.79)	(54.86)
Other income	14.38	10.38	4.00	38.54
Total revenues	1,345.74	1,465.62	(119.88)	(8.18)
Expenses				
Cost of sales	841.73	957.60	(115.87)	(12.10)
Cost of services	26.44	24.44	2.00	8.18
Selling expenses	274.44	279.64	(5.20)	(1.86)
Administrative expenses	144.11	166.13	(22.02)	(13.25)
Total expenses	1,286.72	1,427.81	(141.09)	(9.88)
Gross profit	462.54	471.76	(9.22)	(1.95)
Gross Margin (%)	34.76	32.45		2.31
EBITDA	98.65	73.10	25.55	34.95
Profit from operation activities before				
Changes in operating assets and liabilities	120.47	91.59	28.88	31.53
Net profit of shareholders' equity of				
parent company	41.51	23.18	18.33	79.08
EPS (Baht)	0.11	0.06	0.05	83.33

The Company and its subsidiaries' total revenue from the second quarter of 2014, ending June 30, 2014, according to the consolidated financial statement is worth THB 1,345.74 million, a decrease of 8.18% from the same period of the previous year. The total revenue from the separated financial statement is THB 1,295.13 million, a decrease of 9.33% from the same period of the previous year. From this amount, THB 1,285.63 is accounted for the sales revenue, which also decreases by 9.20%. The decline is largely attributed to the 13.26% decrease of the same store sales of SE-ED Book Center from the previous year and the increase of the operation sale of the distribution business by 4.91% from the previous year. The increased of the revenue from the distribution is a result of the Company distributing more English language course books from popular publishers.

Sales and service cost from the consolidated financial statement of the second quarter of 2014, ending June 30, 2014 is worth THB 868.17 million, a decrease of 11.60%. The cost of sales from the separated financial statement is worth THB 836.82 million, a decrease of THB 120.77 million or 12.61%, which is the result of the sales drop. Gross margin percentage in the second quarter of 2014 is accounted for 34.76%, which increases from the previous year by 2.31%.

Selling and administrative expenses, according to the consolidated financial statement of the second quarter in 2014, ending June 30, 2014, is amounted to THB 418.55 million or an decrease of 6.11%. Sales and management cost from the separated financial statement is amounted to THB 411.13 million or a decrease of 6.29%. The reasons of the decrease are as follows:

- In 2013 there was an increase in the inventory reserves for slow-moving inventory of imported foreign books with ageing of over 5 years.
- Expenses from the rent, facilities, and common area service under a fixed-rate decreased by 5.59% from the previous year due to the closing of small unprofitable branches and the termination of warehouse rental.
- Personnel expenses decreased because of the decrease in bonus reserves in accordance with the operation results.

The Company's net profit for shareholders' equity, according to the consolidated statement for the second quarter of 2014, totals THB 41.51 million, an increase of 79.06% result the company has gained more gross profit rate from the higher trade discount from new distributed books. The company is also able to effectively manage the operation cost.

Due to the aforementioned factors, the net profit, from the separated financial statement, totals THB 35.53 million or a 74.52% increase from the previous year.

3.2 Operating performance for first six month as 2014 over the same period last year

Table 2 : Operating performance for first six month as 2014 over the same period last year.

(Unit : Million Baht)

Q2 (6M)				
Consolidated financial statements				
Revenues	2014	2013	Change	(%)
Revenues from sales	2,470.62	2,698.47	(227.85)	(8.44)
Income from tuition fees	75.06	65.73	9.33	14.19
Interest and dividend income	0.70	2.94	(2.24)	(76.19)
Other income	26.22	24.13	2.09	8.66
Total revenues	2,572.60	2,791.27	(218.67)	(7.83)
Expenses				
Cost of sales	1,632.17	1,815.70	(183.53)	(10.11)
Cost of services	52.17	49.09	3.08	6.27
Selling expenses	537.78	550.17	(12.39)	(2.25)
Administrative expenses	274.13	308.59	(34.46)	(11.17)
Total expenses	2,496.25	2,723.55	(227.30)	(8.35)
Gross profit	861.34	899.41	(38.07)	(4.23)
Gross Margin (%)	33.84	32.54		1.30
EBITDA	149.12	136.52	12.60	9.23
Profit from operation activities before				
Changes in operating assets and liabilities	183.13	169.84	13.29	7.83
Net profit of shareholders' equity of				
parent company	52.95	53.05	(0.10)	(0.19)
EPS (Baht)	0.13	0.13	0.00	0.00

The Company and its subsidiaries' total revenue according to the consolidated financial statement of the second quarter of 2014, ending June 30, 2014, totals THB 2,572.60 million, a 7.83% drop from the same period of the previous year. The total revenue from the separated financial statement totals THB 2,488.33 million, a 8.67% decrease from the previous year. From this sum, THB 2,465.27 million is the sales revenue which decreases by 8.63%.

The decrease is mainly the result of the drop in the same store sales of SE-ED Book Center by 12.79%. This is the effect from the continuous decrease in the customers' purchasing power and the stagnation of the country's overall retail business. However, the revenue from the distribution business grows by 4.91% from the previous year due to the significant increase in sales to educational institutions.

Sales and service cost according to the consolidated financial statement of the second quarter of 2014, ending June 30, 2014, totals THB 1,684.34 million or a 9.68% decrease. The sales cost from the separated financial statement totals THB 1,626.95 million, a decrease by 10.39% Gross margin of the first six months of 2014 is accounted for 33.84% or an increase by 1.30% from the previous year.

Selling and administrative expenses, according to the consolidated financial statement of the second quarter of 2014, ending June 30, 2014, totals THB 811.91 million, or a decrease of 5.46%. Sales and management cost, according to the separated financial statement, totals THB 797.75 million or a decrease of 5.56%, which is the result of the factors as mentioned in the case of the first three months.

- In 2013 there was an increase in the inventory reserves for slow-moving inventory of imported foreign books with ageing of over 5 years.
- In 2013 the Company realized the loss from the highly fluctuating British pound exchange rate.
- Expenses from the rent, facilities, and common area service under a fixed-rate decreased by 4.77% from the previous year due to the closing of small unprofitable branches and the termination of warehouse rental.
- Personnel expenses decreased because of the decrease in bonus reserves in accordance with the operation results;

The Company's net profit for shareholders' equity, according to the consolidated financial statement of the second quarter of 2014 totals THB 52.95 million or a decrease of 0.20%, Even though the company's gross profit increases by 1.57%, the company is still trying to improve its fixed cost.

The net profit according to the separated financial statement totals THB 47.36 million or a decrease from the same period of the previous year by 8.79%.

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 Friday, August 8, 2014 concluded that the interim dividend payments of quarter 2/2014 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 2014 and 2013 as follow:

Year 2014 operating result

- The interim dividend payments of quarter 2/2014 for shareholders will be withheld because of the instability of retail business that is affected by the economic situation.

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)
Year 2013	1/2014	24/04/2014	22/05/2014	0.18	70.55
	Total			0.18	70.55

5. FINANCIAL POSITION

5.1 Asset Component

Table 4 : Asset Component

(Unit : Million Baht)

Description	Consolidated financial statements					
	June 30, 2014		December 31, 2013		Change	
	Amount	% to Total Assets	Amount	% to Total Assets	Amount	(%)
Assets						
Current assets						
Cash and cash equivalents	129.88	4.96	160.20	6.16	(30.32)	(18.93)
Current investments	13.50	0.52	22.00	0.85	(8.50)	(38.64)
Trade accounts receivable	166.78	6.36	102.15	3.93	64.63	63.27
Inventories	327.12	12.48	373.68	14.38	(46.56)	(12.46)
Other current assets	42.08	1.61	40.09	1.54	1.99	4.96
Total current assets	679.36	25.93	698.12	26.86	(18.76)	(2.69)
Non-current assets						
Restricted bank deposits and other						
Investments	13.31	0.51	14.58	0.56	(1.27)	(8.71)
Investments in subsidiaries	25.94	0.99	25.68	0.99	0.26	1.01
Property, plant and equipment	1,655.53	63.18	1,612.84	62.05	42.69	2.65
Leasehold right on land	6.54	0.25	6.70	0.26	(0.16)	(2.39)
Leasehold right on buildings	80.88	3.09	87.41	3.36	(6.53)	(7.47)
Intangible assets	10.23	0.39	7.98	0.31	2.25	28.20
Prepaid book copyright and translation fee	21.38	0.82	23.15	0.89	(1.77)	(7.65)
Rental guarantee and deposit	108.92	4.16	108.18	4.16	0.74	0.68
Deferred tax assets	16.01	0.61	14.49	0.56	1.52	10.49
Other non-current assets	2.23	0.09	0.33	0.01	1.90	575.76
Total non-current assets	1,940.97	74.07	1,901.34	73.14	39.63	2.08
Total assets	2,620.33	100.00	2,599.46	100.00	20.87	0.80

5.2 Liabilities and shareholders' equity Component

Table 5 : Liabilities and shareholders' equity Component

(Unit : Million Baht)

Description	Consolidated financial statements					
	June 30, 2014		December 31, 2013		Change	
	Amount	% to Total	Amount	% to Total	Amount	(%)
	Assets		Assets			
Liabilities and shareholders' equity						
Current liabilities						
Short-term loans from financial institutions	0.00	0.00	100.00	3.85	(100.00)	(100.00)
Trade and other payables	1,159.74	44.26	1,264.43	48.64	(104.69)	(8.28)
Current portion of long-term loans	42.17	1.61	20.70	0.80	21.47	103.72
Income received in advance recognizable within one year	38.99	1.49	39.73	1.53	(0.74)	(1.86)
Income tax payable	12.48	0.48	7.09	0.27	5.39	76.02
Current portion of provision for long-term employee benefits	4.49	0.17	9.20	0.35	(4.71)	(51.20)
Other current liabilities	39.96	1.52	57.60	2.22	(17.64)	(30.63)
Total current liabilities	1,297.83	49.53	1,498.75	57.66	(200.92)	(13.41)
Non-current liabilities						
Income received in advance	6.51	0.25	9.08	0.35	(2.57)	(28.30)
Long-term loans from director	0.50	0.02	0.50	0.02	0.00	0.00
Long-term loans, net of current portion	312.61	11.93	75.28	2.90	237.33	315.26
Provision for long-term employee benefits, net of current portion	35.28	1.35	36.71	1.41	(1.43)	(3.90)
Other non-current liabilities	8.71	0.33	8.64	0.33	0.07	0.81
Total non-current liabilities	363.61	13.88	130.21	5.01	233.40	179.25
Total liabilities	1,661.44	63.41	1,628.96	62.67	32.48	1.99
Shareholders' equity						
Share capital						
Registered						
391,944,529 ordinary shares of Baht 1 each						
Issued and paid-up	391.95	15.07	391.95	15.08	3.00	0.77
391,944,418 ordinary shares of Baht 1 each						
Share premium	391.95	14.96	391.95	15.08	0.00	0.00
Retained earnings	149.42	5.70	149.42	5.75	0.00	0.00
Appropriated-statutory reserve	39.19	1.50	39.19	1.51	0.00	0.00
Unappropriated	181.69	6.93	198.97	7.65	(17.28)	(8.68)
Other components of shareholders' equity	130.01	4.96	130.33	5.01	(0.32)	(0.25)
Equity attributable to owners of the Company	892.26	34.05	909.86	35.00	(17.60)	(1.93)
Non-controlling interests of the subsidiaries	66.63	2.54	60.64	2.33	5.99	9.88
Total shareholders' equity	958.89	36.59	970.50	37.33	(11.61)	(1.20)
Total liabilities and shareholders' equity	2,620.33	100.00	2,599.46	100.00	20.87	0.80

Financial analyses

Total Asset As of June 30, 2014 the company and its subsidiaries had a total asset of THB 2,620.33 million, an increase of THB 20.87 million or 0.80% from the end of last year. Causes of changing of total assets:

- Cash and cash equivalent items as of June 30, 2014 totals THB 129.88 million, a decrease of THB 30.32 million or 18.92% due to the construction payment of the distribution center (a new warehouse on Bang Na – Trad Road k.m.21).
- Temporary investment decreased by THB 8.50 million, which is a result of the sale of some of the temporary investments to support the warehouse construction;
- Trade account receivables and other receivables amount to THB 166.78 million, an increase of THB 64.63 million or 63.27%. This is mostly due to the increase of wholesale receivables to educational institutions and shops in the new semester.
- The remaining inventory amounts to THB 327.12 million, a decrease of THB 46.56 million or 12.46%. Mostly it is from the decrease of foreign books during the beginning of the school semester.
- Property, plant and equipment equals THB 1,655.53 million, an increase of THB 42.69 million or 2.65%. This is mostly due to the expenses of new warehouse construction that is almost finished, the furnishing cost, the cost of racks, property improvement, water pumps and other equipment used in the warehouse.
- Leasehold right on land totals THB 80.88 million, a decrease by THB 6.53 million or 7.47% from a land leasehold amortization.

Total liabilities As of June 30, 2014 the Company and its subsidiaries had a total liability of THB 1,661.44 million, an increase of THB 32.48 million or 1.99%. Causes of changing of total liabilities are as follows:

- Loans from the financial institutions decrease by THB 100.00 million or 100% because the Company has paid off the loan.
- Trade and other payables amount to THB 1,159.74 million, a decrease of THB 104.69 million or 8.28%. This is due to the decrease of trade account payables of SE-ED Book Center as a result of the payment policy change which encourage faster payment in exchange for a higher trade discount.
- Current liabilities amount to THB 39.96 million, a decrease of THB 17.64 million or 30.63%. This is due to the retention for construction payment of the new warehouse.

- Long-term loans from financial institutions amount to THB 354.78 million, an increase of THB 258.80 million. The credit that is due within 1 year applies for the loan in the amount of THB 35.76 million. The objective of the loan is to pay for the warehouse construction.

Shareholders' equity As of June 30, 2014 the Company and its subsidiaries had a total shareholders' equity of THB 892.26 million, of which the shareholders' equity of parent company is worth THB 958.89 million or a decrease of THB 11.61 million. Causes of changing of Shareholders' equity are as follows:

- Net profit of shareholders' equity of parent company from the operation result of Q2 of 2014 amounts to THB 52.95 million.
- Retained earnings decreased due to the dividend payment totaling THB 70.55 million in year 2013, which is divided as follows THB 0.18 per share totaling THB 70.55 million.

5.3 Cash flow

Table 6 : Cash flow for first six month of 2014 over the same period last year

	(Unit : Million Baht)			
	Consolidated financial statements			
	6M/2014	6M/2013	Change	(%)
Cash flow received (used) from operation activities	(39.67)	57.95	(97.62)	(168.46)
Cash flow received (used) from investing activities	(78.89)	(89.22)	10.33	(11.58)
Cash flow received (used) from financing activities	88.25	(31.29)	119.54	(382.04)
Cash flow increase (decrease)	(30.31)	(62.56)	32.25	(51.55)

Cash Flow from operation activities in the first six month of 2014 was worth THB (39.67) million as listed below:

- Income from operation increased in the amount of THB 183.13 million:
 - The net profit before corporate income tax totals THB 71.53 million.
 - Adjustments to reconcile profit before tax in the amount of THB 111.60 million, including depreciation and amortization totaling THB 63.83 million, expense from lost, depreciated, and slow-moving goods totaling THB 8.42 million, expenses from doubtful debts and returned goods totaling THB 8.20 million, Loss on sales and write off of equipment THB 7.89 million, Interest expense 7.07 million, expense from lost goods totaling THB 6.04 million, amortized leasehold right on land and buildings

totaling THB 6.70 million, provision for long-term employee benefits THB 3.96 million, expense from donation of goods and equipment THB 2.78 million, loss from stock destruction THB 1.63 million, Share of profit from investment in associate THB (2.25) million and adjustment coupon account payables totaling THB (1.50) million.

- Cash decrease from trade account receivables and other receivables increased by THB 72.74 million, It comes from the book sales to schools and stores during the beginning of the school semester.
- Cash increase from the remaining inventory decreased by THB 27.69 million. Mostly this is due to the decrease in inventory of foreign books as a result of the book sales to educational institutions and shops during the beginning of the semester of school semester.
- Cash decrease from trade account and other payables in the amount of THB 129.44 million, which is the result of the decrease of account payables of SE-ED Book Center.
- Cash decreases from the provision for long-term employee benefit amount of THB 10.10 million. The payment is for the honorary prizes given to employees with a ten-year anniversary of employment and for the retirement fund of retired employees.
- Cash decreases from other current liabilities decrease by THB 16.15 million because the Company paid the retention payment for the new warehouse construction.
- Cash decreases from income tax payment of THB 8.73 million according to the decrease in tax profit.
- Cash decreases from the interest payment paid for the loans from financial institutions in the amount of THB 7.15 million.

Cash flow spent on investment activities in the first six months of 2014 totaling THB (78.89) million as listed below:

- Cash decreases from the assets purchase in the amount of THB 88.57 million. This is mostly due to the building furnishing expenses at the warehouses, the cost of racks, water pumps, computers, concrete, property improvement, electrical system, water supply system, painting and bookshelves.
- Cash increases from the decrease of temporary investments in the amount of THB 8.87 as a result of the investment sales to pay for the construction of the new warehouse.

Cash flow used in financing activities in the first six months of 2014 totaling THB 88.25 million

- Cash decreases Mostly it is spent for the dividend payments from the profit from the operation in 2013 which was paid in May 2014 at the rate of THB 0.18 per share, totaling THB 70.55 million.
- Cash increases from the long-term loan from financial institutions in the amount of THB 279.50 million.
- Cash decreases from the short-term loan payment for financial institutions in the amount of THB 100.00 million.

5.4 Financial Ratios

Table 7 : *Financial ratios calculated according to the Office of the Securities and Exchange Commission's formulae. (From the consolidated financial statements)*

LIQUIDITY RATIOS		6M/2014	6M/2013
Current Ratio	Time	0.52	0.55
Quick Ratio	Time	0.24	0.30
PROFITABILITY RATIOS			
Gross Profit Margin	%	33.84	32.54
Net Profit Margin	%	2.06	1.90
Rate of Return to Equity	%	8.09	16.68
Return on Asset	%	3.92	6.40
FINANCIAL POLICY RATIO			
Debt to Equity Ratio	Time	1.73	1.74
Interest Capability Ratio	Time	8.40	25.90

Signature.....

(Mr. Viboolsak Udomvanich)

Deputy Managing Director and Company Secretary

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