



SE-EDUCATION PUBLIC COMPANY LIMITED

And its subsidiaries

Management Discussion and Analysis

Performance Report for the six-month period ended 30 June 2015

Overview

In Q2/2015, the Company continues to be affected by economic slowdown continues. Due to a decrease of net purchasing power, and increasing household debt, it resulted in the decline of the Company's sales all over the country, complying with the conditions of retail business in general. Further, due to changes in technology, consumers became to spend less time reading.

To alleviate the situation, the Company has improved the performance of the branches. The Company closed the seven small unprofitable branches in 1H/2015 and 40 branches in 2014. In addition, the Company canceled the rental contract of the old warehouse, which usually raised rental fees every year. To reduce the financial burden in the long run, the Company had the new warehouse constructed. It officially opened in 2014. The Company had to made interest payment on its long term loans for construction of this warehouse. The Company's loss also was caused by Thai Baht weakening. However, the Company was able to gain higher profit because of an increase of trade discount from new books in the Company's distribution business, loss reduction from closing down unprofitable bookstore, and an increase of sales of books to educational institutions; though total net sales of the Company decreased.

In 1H/2015 the Company had opened four new branches of SE-ED Book Center. Total number of the active branches as of June 30, 2015 was 407 branches, included seven counter services.

SE-ED's profit in Q2/2015 for the six-month is THB 77.02 million.

According to consolidated financial statements in 1H/2015, net profit of the Company is THB 77.02 million, increasing THB 17.84 million, which accounted for 33.70%. The net profit in separate financial statements is THB 63.40 million, increasing THB 16.05 million, which accounted for 33.88%, can be summarized as follows:

- The Company has successfully improved the performance of branches by closing down unprofitable branches, resulting in a decrease of the expenses of sell and management by 7.17%, which is lesser than a decrease of sales ratio.
- Because the Company has successfully improved product proportion, gross margin had increased. It resulted in the turnover rate had improved, especially the foreign books for educational institutes.
- Loss from the decrease of amortization, due to closing down many branches in Q2/2014.

The Company was affected by both Thai Baht weakening and interest paid for long-term loans.

Net profit for the major shareholders is THB 70.79 million.

According the consolidated financial statements in 1H/2015, the Company had net profit for the major shareholders in the number of THB 70.79 million, increased by THB 17.84 million or 33.70% as follows:

- Adding up more sales channels for selling English textbooks to educational institutes.
- The expenses of sell and management decreased by 7.17% because of improving the performance of branches, resulting in a decrease of rental, service, and facilities costs. By closing the small unprofitable branches, the employee expenses had decreased in accordance with the number of the closed branches.

Finance cost is THB 17.74 million.

In 1H/2015, the interest expenses of the Company according to the consolidated financial statement equal THB 17.74 million, increased from the same period last year by THB 7.90 million or 213.98%. These expenses are the result of the interest paid for long-term loans from financial institutes, which are circulating capitals of the Company. The total amount of the said loans to be paid is as follows:

(Unit : Million Baht)

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Obligation to be paid within one year	71.52	21.30	92.82
1-3 years	214.56	41.38	255.94
More than 3 years	154.32	9.10	163.42

Table 1 : Operation results for the six-month period ended 30 June 2015 and 2014

(Unit : Million Baht)

	Consolidated financial statement			
	1H/2015	1H/2014	Increase (decrease)	%
Revenue from sales of goods	2,379.06	2,545.68	-166.62	-6.55%
Cost of sales	1,546.45	1,684.34	-137.89	-8.19%
Gross profit	832.61	861.34	-28.73	-3.34%
Gross profit margin	35.00%	33.84%		1.16%
EBITDA	177.42	149.12	28.30	18.98%
Equity holders of the Company	70.79	52.95	17.84	33.70%
Net earnings per share	0.18	0.14	0.05	33.70%

Note: EBITDA is earnings before Interest and Tax, plus Depreciation & Amortization.

Higher margin 1H/2015 In 1H/2015, gross profit was THB 832.61 million, decreased to the same period last year by THB 28.73 million or 3.34%. However, gross margin in 1H/2015 was 35.00%, increased by 1.16% from the same period last year.

- Gross profit decreased by THB 28.73 million according to the decreased sales of 6.55% from to the same period last year, due to a decrease of 9.77% in retail sales.
- However gross margin in 1H/2015 was 35.00%, increased by 1.16% from to the same period last year, due to an increase of 21.78% in foreign books sales and an increase in book distribution, especially course books for institutions.

In 1H/2015, cost of sales and services decreased by THB 137.89 million Cost of sales and services according to consolidated financial statements is THB 1,546.45 million, decreased by THB 137.89 million or 8.19%, which related to a decrease of 6.55% in sales.

EBITDA increased by THB 28.73 million or 18.98% EBITDA increased by THB 28.73 million since the performance of branches had improved and the small unprofitable branches were closed. The net profit increased because of an increase of trade discount. Even though the Company has to repay long-term loans for the construction of the new warehouse.

Table 2 : Statement of financial position As at 30 June 2015 and 31 December 2014

(Unit : Million Baht)

	Consolidated financial statement			
	30 June 2015	31 December 2014	Increase (decrease)	%
Current assets	823.43	926.29	-102.86	-11.10%
Non-current assets	1,826.83	1,875.48	-48.65	-2.59%
Total assets	2,650.27	2,801.78	-151.51	-5.41%
Current liability	1,151.79	1,264.13	-112.34	-8.89%
Non-current liability	505.23	551.74	-46.51	-8.43%
Total liability	1,657.03	1,815.87	-158.85	-8.75%
Total shareholder's equity	993.24	985.90	7.34	0.74%
Total liability and shareholder's equity	2,650.27	2,801.78	-151.51	-5.41%

**Current assets
decreased by THB
102.86 million or
11.10%**

Current assets decreased by THB 102.86 million, due to an decrease of THB 101.12 million or 31.00%, because the Company had sold the investment units of the Fund to pay long-term loans.

**Non-current assets
decreased by THB
48.65 million or 2.59%.**

Non-current assets decreased by THB 48.65 million, mainly because the fixed asset decreased by THB 41.57 million from depreciation of the new warehouse.

**Current liability
decreased by THB
112.34 million or
8.89%**

Current liability decreased by THB 112.34 million as follows:

- Trade accounts payable and other Payables decreased by THB 110.14 million, which related to a decrease of sales and the settlement that was due.
- Other current liabilities decreased by THB 7.85 MB due to reimbursement of the construction insurance of the new warehouse.
- Income tax payable increased by 9.58 million according to the increasing profit.

Non-current liability decreased by THB 46.51 million or 8.43%

Non-current liability decreased by THB 46.51 million as follows:

- Provision for long term employee benefits, net of current portion decreased by THB 12.16 million. from the repayment to the financial institutions.
- Deferred income decreased by THB 1.44 million.

Shareholder's equity increased by THB 7.34 million or 0.74%

Shareholder's equity increased by THB 7.34 million because the Company's profit increased.

table 3 : Statement of cash flows for the six-month period ended 30 June 2015 and 2014

	Consolidated financial statement			
	1H/2015	1H/2014	Increase (decrease)	%
Cash flows from (used in) operation activities	12.48	(39.67)	52.15	-131.44%
Cash flows from (used in) investing activities	80.63	(78.89)	159.52	-202.20%
Cash flows from (used in) financing activities	(112.52)	88.25	(200.77)	-227.50%
Cash flows increase (decreased)	(19.42)	(30.32)	10.90	-35.95%

Cash flows from operation activities in 1H/2015 was THB 12.48 million

- Profit from operation that was cash equaled THB 205.64 million as follows:
 - Net profit before income tax in 1H/2015 was THB 94.75 million.
 - Adjustments to reconcile profit before tax totals THB 110.89 million including depreciation and amortization of THB 61.97 million; allowance of dilapidated slow moving and lost of inventories THB 15.01 million; Allowance for doubtful accounts and estimated goods return of THB 15.87 million; interest payment of THB 14.81 million; amortization for land leasehold right of THB 5.89 million; expense for donation of goods and equipment of THB 2.34 million; loss on sales and written-off equipment of THB 2.14 million; adjustment from un-utilized coupon payable of THB (3.98) million; reversed allowance for impairment of assets of THB (2.38) million

- Cash decreased by THB 103.30 million from a decrease of trade payable, corresponding to the decreased sales and from the payment to the major account payables.
- Cash decreased by THB 107.25 million, from a increased of trade and other receivables, resulted from selling books to educational institutes and book centers located in universities.
- Cash increased by THB 60.22 million from inventories corresponding to the increased sales in foreign books.
- Cash from unearned revenue decreased by THB 4.83 million from receiving the decreasing education service fee.
- Cash decreased by THB 5.60 million from current assets increase from prepaid expenses insurance premiums.
- Cash increased from the decrease of the deposits for renting by THB 2.59 million and receiving the deposits back after closing the branches.
- Cash decreased by THB 4.62 million from provision of employee long term benefits, cash awards.
- Cash decreased from the decrease of the other current liabilities by THB 3.87 million.
- Cash decreased by THB 14.89 million from interest paid from long term loans.
- Cash decreased from paying THB 12.63 of the income tax according to operation results of the Company.

Cash flows from in investing activities in 1H/2015 was THB 80.63 million.

- Cash from selling capitals increased by THB 104.09 million from sales of investment funds.
- Cash decreased by THB 25.88 million from buying equipment for the warehouse.

Cash flows used financing activities in 1H/2015 was THB (112.52) million

- Cash decreased from repaying to financial institutions by THB 41.97 million.
- Cash decreased from paying dividend income in 2014 which was paid in May, 2015 by THB 70.55 million.

table 4 : Financial ratio for the six-month of Q2/2015 and Q2/2014

Financial ratios		Consolidated financial statement	
		1H/2015	1H/2014
Return On Equity (ROE)	%	10.93	8.09
Return on Asset (ROA)	%	5.96	3.92
Debt to Equity Ratio	times	1.67	1.73
Interest Coverage Ratio	times	16.00	28.39

Note:

- ROE (Return on Equity) = Net profit (Parent Company only) divided by shareholder's equity (averaged) from Parent Company only
- ROA (Return on Assets) = Net profit before financial and tax expenses divided by total assets (averaged)
- Debt to Equity ratio = total debts divided by shareholder's equity (minor shareholder's equity included)
- Debt service Coverage Ration = Profit from operating activities before changes in operating assets and liabilities + interest + income tax expenses divided by interest from operation and investment
- Return On Equity = Net profit (Parent Company only) divided by shareholder's equity (averaged) from Parent Company only

ROE was 10.93% increased by 2.84% while ROA was 5.96% increased by 2.04%

Return on Equity (ROE) was 10.93%, increased by 2.84% while Return on Assets (ROA) was 5.96%, increased by 2.04% according to better operation results.

Debt to Equity Ratio was 1.67 times, decreased by 0.06 times

Debt to Equity Ratio decreased by 0.06 times, due to repayment of long term loans from financial institutions due by Period according to the due payment.

***Interest Coverage
Ratio was 16.00 times,
decreased by 12.39
times***

Interest Coverage Ratio decreased by 12.39 times because the Company had used the final credit from long term loans and the remaining THB 250 million in 2014/Q4 according to terms and conditions in the contract. This had resulted in higher interest charges.

Signature.....

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Deputy Managing Director and Company Secretary

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