

May 14, 2018

Subject: Management's Discussion and Analysis of Operating Results for the three-month period of 2018 ended March 31, 2018

Attention: The President of the Stock Exchange of Thailand

Masterkool International Public Company Limited ("the Company") would like to announce the operating results of the Company for the three-month period of 2018 ended Mar 31, 2018 which has been reviewed in the Board of Directors' Meeting No. 3/2018 arranged on May 14, 2018 as following:-

Table 1: Overall performance for the three-month period of 2018 ended March 31, 2017

Unit: Million Baht

Items	FY2018 (12 Months)	FY2017 (12 Months)	Increase (Decrease)	
			Amount	%
Net Product Sales	147.06	195.42	(48.36)	(24.75)
Net Service Sales	21.30	7.67	13.63	177.71
Other Revenue *	5.65	3.58	2.07	57.82
Total Revenues	174.01	206.67	(32.66)	(15.80)
Cost of Goods Sold	126.36	156.81	(30.45)	(19.42)
Cost of Service	11.72	1.94	9.78	504.12
Selling and Administrative Expenses	66.10	64.12	1.98	3.09
Financial Cost	2.45	0.60	1.85	303.33
Net Profit (Loss)	(32.81)	(17.45)	(15.36)	(88.02)
EPS (Baht/Share)	(0.07)	(0.04)	(0.03)	(75.00)

* Other revenue such as interest income, foreign exchange gains, government grants, etc.

Business Overview

For the business performance of the three-month period of 2018 ended March 31, 2018 the Company's net loss was Baht 32.81 Million Baht, compared with net loss of Baht 17.45 Million Baht for the same period of the year 2017. The Company has analyzed the main factors influencing its operation affecting the operation for Q1 / 2008 were both positive and negative factors.

For the positive factors, the Company had implemented of its business plan by preparation all supporting matters for the Competitive Advantage of 2018 since the last six months of 2017 which described as follows:-

- 1) Marketing and Market Communication: The Company creates market awareness by communication with the concept “Cooling with Repelling Mosquitos” via media and online; resulting recognition of target customers and leading to sales that step up to the first brand of “Evaporative Air Cooling” (Reference to sales summary report of one of the leading Moderntrade). This may bring Masterkool to soar up to the “Top-of-Mind Brand” in the future.
- 2) Product Development: More than 15 years, the Company’s products have been recognized for cooling performance; therefore new products are addressed to concern the true needs of customers. One of product focus is product design which a simply and clean look which perfectly match with all areas at competitive prices.
- 3) Emphasizing on online communication: The Company’s online channel is a communication channel for product promotion and so on; in addition it is focused as an online distribution in order to meet the customer’s behavior which changes.

For the negative impact, the Company’s performance had been affected from the continually rain falling through since the beginning of the year 2018 which beyond control; resulting decrease of customer’s demand. Anyhow such impact had occurred through the cooling industry.

Another negative factor is the overseas countries, our agents in AEC, was affected by climate changes. The export sales decreased 42.95% when compared to the same period of 2017.

As a result, the Company's net loss was 32.81 Million Baht. The loss was partly due to the impairment loss of 5 Million Baht.

Table 2: Sales summary by segments for the three-month period of 2018 ended March 31, 2018

Unit: Million Baht

Segments	Jan - Mar 2018	Jan - Mar 2017	Y-o-Y Difference %
Retail Channel	55.60	63.97	(12.62)
Corporate Customer Channel	53.77	36.25	48.33
Exporting Distribution	58.69	102.88	(42.95)
Others	5.65	3.58	57.82
Total Revenues	174.01	206.68	(15.81)

Analysis of the Company's Performance

Retail Market

Performance overview of sales of Retail Market for the quarter 1/2018 totaled 55.60 Million Baht. When compared to the year 2017, decrease in total 8.07 Million Baht, dropped at 12.62%.

The major sales channel for Retail Market is selling through Moderntrade. In the beginning of 2018, the company has opened only branches that have top sales values in the year 2017; and carried out all plans which set such as improving marketing communication, preparing online promotion, and improving sales and inventory management processes through mobile applications.

Although the industrial overview of the evaporative air-cooling in the quarter 1/2018 was not active as the previous year as market demand drop which caused by continually rain throughout the quarter, the Company's sales through Moderntrade Channel for the quarter 1/2018 totaled 47.70 Million Baht and increase by 5.63 Million Baht or 13.38% compared to the same period of the previous year.

With reference to the details of the sales statistic report of one of the leading Moderntrade, the Company's sales were the highest sales value compared to other competitors. Anyhow the sales had not met target.

Corporate Market

The corporate market is the sales channel with Business-to-Business model which has a long sales cycle. Anyhow, the past few years, the Company has market bases which turned to sales; resulting sales increased by 17.52 Million Baht or 48.33% from the same period of the last year.

The key factor of this channel is to ensure target customers feel no risk in investment; so the Company has offering a rental model for ozone solutions. Economic conditions are also another important factor to make target customer easily make decision. For these reasons, the company believes in the growth of this market in the future.

Export

The International Business Department generates sales on export for the quarter 1/2018 totaled 58.69 Million Baht, decreased by 44.19 Million Baht or 42.95% compared to the same period of the previous year. The major agents for exporting were mainly from AEC countries which affected from the climate changes; there were sufficient inventories for selling in their countries.

The company is in the process of selecting more distributors who has potential in sales and channel to expand the overseas market.

Financial Status

Table 3: Summary statement of financial position as of March 31,2018

Unit: Million Baht

งบแสดงฐานะการเงิน	งบการเงินรวม			
	31 มี.ค 2561	31 ธ.ค 2560	+ / (-)	%
Cash and cash equivalents	14.86	10.87	3.99	36.71%
Temporary investment	-	0.12	(0.12)	(100.00%)
Trade and other receivables – related parties	3.43	2.78	0.65	233.81%
Trade and other receivables – other parties	187.63	123.16	64.47	52.35%
A/R under finance lease agreements due within one year	13.63	16.98	(3.35)	(19.73%)
Inventory	279.45	230.14	49.31	21.43%
Deposits as financial institutions pledged as collateral	70.75	71.70	(0.95)	(1.32%)
Receivables for finance lease contracts	1.98	2.83	(0.85)	(30.04%)
Property, plants and equipment	57.69	58.32	(0.63)	(1.08%)
Intangible assets	6.83	6.67	0.16	2.40%
Deferred tax assets	7.61	7.56	0.05	0.66%
Other non - current assets	8.41	10.89	(2.48)	(22.77%)
Total assets	652.27	542.02	110.25	20.34%
Bank over drafts and short - term loans from financial institution	220.18	171.03	49.15	28.74%
Trade and other payables – related parties	0.10	-	0.10	100.00%
Trade and other payables – other parties	156.52	73.88	82.64	111.86%
Product Warranty Estimated Liabilities	5.04	5.47	(0.43)	(7.86%)
Current portion of long - term loan from financial institution	-	0.02	(0.02)	(100.00%)
Current portion of liabilities under finance lease contracts	2.52	2.67	(0.15)	(5.62%)
Income tax payable	0.09	-	0.09	100.00%
Revenue Department Payable	2.56	0.62	1.94	312.90%
Short – term loan from related person	10.00	-	10.00	100.00%
Long - term of liabilities under finance lease contracts	2.11	2.72	(0.61)	(22.43%)
Employee benefit obligation	6.94	6.58	0.36	5.47%
Total liabilities	406.06	262.99	143.07	54.40%
Issued and paid-up share capital	120.00	120.00	-	-
Premium on share capital	183.03	183.03	-	-
Surplus on share-based payment transactions	3.06	3.06	-	-
Retained earnings				
- Appropriated for legal reserve	8.26	8.26	0.00	0.00%
- Un-appropriated retained earnings	(68.14)	(35.33)	32.81	92.87%
Total shareholders' equity	246.22	279.03	(32.81)	(11.76%)
Total liabilities and shareholders' equity	652.28	542.02	110.26	20.34%

Assets

As of March 31, 2018, the Company had total assets of 652.27 Million Baht, an increase of 20.34% when compared to 542.02 Million Baht as of December 31, 2017. Details include:-

- Short-term investments decreased of 0.12 Million Baht when compared to the balance as at the end of December 31, 2017 due to these investments had reached the maturity date.
- Inventories were 279.45 Million Baht or 42.84% of total assets which increased 49.31 Million Baht when compared to the balance as at December 31, 2017 with the inventories were 230.14 Million Baht, an increase of 21.43%. Anyhow, these inventories can continuously be sold in the future due to products are durable type of goods that not much affected by deterioration and/or obsolescence.
- Deposits with financial institutions as pledged assets for collaterals: The values as of March 31, 2018 was in amount of 70.75 Million Baht, which decreased by 0.95 Million Baht when compared to the end of December 31, 2017, representing a decrease of 1.32% for working capitals on goods purchasing.

Liabilities

As of March 31, 2018, total liabilities were 406.06 Million Baht, compared to 262.99 Million Baht as at December 31, 2017, with an increase of 143.07 Million Baht or 54.40%. Details include:-

- Bank overdrafts and short-term loans from financial institutions increased by 49.12 Million Baht as compared to the outstanding balance of 171.03 Million Baht as at December 31, 2017 for working capitals on goods purchasing.
- Trade and other payables – other parties totaled 156.52 Million Baht, increased by 82.64 Million Baht or 111.86% as compared to the outstanding balance of 73.88 Million Baht as at December 31, 2017 for payment of product purchasing due.

Shareholders' Equity

As at March 31, 2018, the Company had shareholders' equity of 246.22 Million Baht, or 37.75% of total assets, decreased by 32.81 Million Baht or 11.76% compared to the shareholders' equity as at December 31, 2017 which the shareholders' equity was 279.03 Million Baht, resulting from the operating loss in the quarter 1/2018 (January – March 2018).

Table 4: Financial Ratio

Financial Ratio	Consolidated financial statements		+ / (-)
	Jan-Mar 2018	Jan-Dec 2017	
Liquidity Ratio			
Current ratio	1.26	1.51	(0.25)
Quick ratio	0.55	0.61	(0.06)
Profitability Ratio			
Gross profit margin %	17.98%	21.83%	(3.85)
EBIT margin %	(19.37)%	(8.27)%	(11.10)
Net profit margin %	(18.85)%	(8.44)%	(10.41)
Efficiency Ratio			
Return on equity (ROE) %	(13.33)%	(6.25)%	(7.08)
Return on asset (ROA) %	(5.03)%	(3.22)%	(1.81)
Financial Policy Ratio			
Debt ratio	1.65	0.94	0.71

Liquidity Ratio

With comparison the year 2017, the liquidity ratio decreased 0.25 times and the quick ratio decreased 0.06 times. For the quick ratio decreased, resulted by the inventories have increased in comparison with total assets; accounted for 42.84% of the total assets due to sales of the quarter 1/2018 was not as expected. However, these inventories can be sold through several channels in the future.

Profitability Ratio and Performance Ratio

The operating performance for the three months of 2018 generated gross margin, operating margin and net profit margin declined 3.85%, 11.10% and 10.41%, respectively. The operating performance was decreased due to the net loss of 32.81 Million Baht in the quarter 1/2018.

Financial Policy Ratio

The Company's debt to equity ratio increased from the previous year at 0.71 times. It is directly related to the Company's results of operations in the quarter 1/2018 which not as expected.



Foreign Exchange Rate

The Company's products mostly imported and mainly paid in US dollars. The Company focused on the assessment of exchange rate fluctuations and managed by fix forward option to avoid loss from the exchange rate fluctuations. Anyhow, the Company had no policy to make profit from such currency exchange

(Noppachai Veeraman)

Managing Director