

November 14, 2018

Subject: Management's Discussion and Analysis of Operating Results for the nine-month period of 2018 ended September 30, 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 nine-month period of 2018 ended September 30, 2018 which has been reviewed in the Board of Directors' Meeting No. 6/2018 arranged on November 14, 2018 as following:-

Table 1: Overall performance for the nine-month period of 2018 ended September 30, 2018

Unit: Million Baht

Items	FY2018 (6 Months)	FY2017 (6 Months)	Increase (Decrease)	
			Amount	%
Net Product Sales	393.52	396.19	(2.67)	(0.68)
Net Service Sales	63.23	56.76	6.49	11.43
Other Revenue *	4.83	12.32	(7.49)	(60.80)
Total Revenues	461.60	465.27	(3.67)	(0.80)
Cost of Goods Sold	331.36	296.54	34.82	11.74
Cost of Service	38.73	32.26	6.47	20.00
Cost of Distribution	132.04	126.12	5.92	4.69
Administrative Expenses	47.44	51.43	(3.99)	(8.41)
Financial Cost	8.90	3.87	5.03	130.00
Net Profit (Loss)	(97.90)	(44.93)	52.97	(117.89)
EPS (Baht/Share)	(0.20)	(0.09)	0.11	(122.22)

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

Business Overview

For the business performance of the nine-month period of 2018 ended September 30, 2018 the Company's net loss was Baht 97.90 Million Baht. The Company has analyzed the main factors influencing its operation affecting the operation for the period as following:-

Commencing on the beginning of 2018, the Company had launched the new model of evaporative air coolers which are MIK-28EX and MIK-14EX that led to sales by their unique design by minimal style. Moreover, the MIK-28EX is distinguished than others and had been innovated with Mosquito Repellant Ultrasonic Wave for product differentiation. The Company had also released and advertisement through television channel and radio channel for making product awareness to the market; resulting an increased expense on sales promotion when compared to the same period of 2017.

Overall revenues had affected from rainfall climate since the year-begin makes all market demand decreased.

Economic and Industrial Condition Affecting Operations

As mentioned above, the continuous rainfall affected the market demands dropped down and affected to overall cooling industry. Reference to a leading modern-trade store the evaporative product has struggled from this climate and many retailers or vendors faced with overstock situation.

For export market conditions, the major foreign clients are the ASEAN Economic Community (AEC), which is closely related to Thailand. The effect of climate change is the same. The overall value of exports in the first six-months of 2018 was declined. Therefore, additional distribution agents were recruited resulting nine months of 2018 was 20 percent higher than in the same period of 2017.

Linkage of the Company Policies, Strategies, and Goals

Climate change is the main factor affecting the overall performance. Therefore, the Company has adjusted the policy and strategy from the Growth Strategy of the Modern Trade to the Market Stability. For the impact on the export channel, the company continually assesses its situation and revises its strategy to recruit more distributors from other countries during the third quarter of the year.

Analysis the Performance of the Major Business Channel

The company has a variety of channels. The main channels are: Retail Channel, Corporate Sales Channel, and Export Channel. The results are as follows:-

Table 2: Sales summary by segments for the nine-month period of 2018 ended September 30, 2018

Unit: Million Baht

Segments	Jan – Sep 2018	Jan – Sep 2017	Difference %
Retail Channel	227.73	236.01	(3.51)
Corporate Customer Channel	55.33	56.48	(2.04)
Exporting Distribution	131.90	110.15	19.75
Services	46.76	37.31	25.33
Others	4.83	12.32	(60.80)
Total Revenues	466.55	452.27	3.16

Retail Market

The sales sub-channels for Retail Market are selling through Moderntrade, Dealer, Online, and Sales-Promotion Booth. Compared to the same period of 2017, the retail channel sales for the first nine months of 2018 decreased at a rate of 3.51% due to weather conditions that were the main factor affecting the demand of consumers. Only sales through Online Channel have increased; sales of the 9-month period of

2018 was 28.49 Million Baht, representing an increase of 47.99% from the sales of 19.25 Million Baht in the same period of the year.

For the Modern Trade channels, the Company has adjusted the channel management by focusing on market stability, which is based on the addition of other products that can be sold throughout the year, including the Drinking Water Dispenser, which has been on the market since August 2018.

Corporate Market

For the corporate market, sales were close to the previous year; which its normal sales cycle throughout the year. The Company expected that the Corporate Market still has opportunity to grow; but sales were not growing as expected due to inadequate market prospected list.

For this channel, the company focuses on building a continuous marketing base. The company is confident that this channel will grow in the future.

Export

Sales in the first half of 2018 decreased compared to the same period of the year 2017. The company has assessed the situation and adjusted the sales strategy by recruiting additional distributing agents from other continents or other hemispheres; such as New Zealand, Mexico, and Canada. As a result, sales for the first nine months of 2018 amounted to 131.90 Million Baht, an increase of 21.75 Million Baht or 19.75% of the same period of last year sales of 110.15 Million Baht.

Comparative Analysis to Forecasted Data

Since October of 2017, the company has set a business goal of 25% revenue growth and separated sales revenue channels into Retail Channel 50%, Sales from Corporate Channel 20%, and Sales from Export 30%. For the first nine months of 2018, the sales revenue was only 3.16% growth which generated by following channels: Retail sales 48.81%, corporate sales 11.86% and Export 28.27%, and other income from Rental Business and Services 11.06%.

Corporate Channel has a long sales cycle by its Business-to-Business model; therefore the Company continued searching on more prospects and market to cover its sales target. For short-term solutions; the Company has pushed sales on service and rental business.

The total sales for the first nine months of 2018 were 466.55 Million Baht, representing an increase by 3.16% from the same period of the last year sales of 452.27 Million Baht. The Company continued on controlling of all expenses.

Financial Status
Table 3: Summary statement of financial position as of September 30,2018

Unit: Million Baht

Statement of Financial Position	Consolidated Statement			
	30 Sep 2018	31 Dec 2017	+/(-)	%
Cash and cash equivalents	13.30	10.87	2.43	22.36
Temporary investment	-	0.12	(0.12)	(100.00)
Trade and other receivables – related parties	4.17	2.78	1.39	50.00
Trade and other receivables – other parties	94.34	123.01	(28.67)	(23.31)
A/R under finance lease agreements due within one year	8.13	16.98	(8.85)	(52.12)
Inventory	173.90	230.14	(56.24)	(24.44)
Deposits as financial institutions pledged as collateral	70.75	71.70	(0.95)	(1.32)
Receivables for finance lease contracts	0.22	2.83	(2.61)	(92.23)
Property, plants and equipment	50.88	58.32	(7.44)	(12.76)
Intangible assets	6.42	6.82	(0.40)	(5.87)
Deferred tax assets	6.54	7.56	(1.02)	(13.49)
Other non - current assets	8.39	10.89	(2.50)	(22.96)
Total assets	437.04	542.02	(104.98)	(19.37)
Bank over drafts and short - term loans from financial institution	172.29	171.03	1.26	0.74
Trade and other payables – related parties	0.42	-	0.42	100.00
Trade and other payables – other parties	55.45	73.88	(18.43)	(24.95)
Product Warranty Estimated Liabilities	5.51	5.47	0.04	0.73
Current portion of long - term loan from financial institution	-	0.02	(0.02)	100.00
Current portion of liabilities under finance lease contracts	2.39	2.67	(0.28)	(10.49)
Income tax payable	1.27	0.62	0.65	104.84
Revenue Department Payable	-	-	-	-
Short – term loan from related person	10.00	-	10.00	100.00
Long - term of liabilities under finance lease contracts	0.94	2.72	(1.78)	(65.44)
Employee benefit obligation	7.65	6.58	1.07	16.26
Total liabilities	255.92	262.99	(7.07)	(2.69)
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	(133.23)	(35.33)	97.90	277.10
Total shareholders' equity	181.12	279.03	(97.91)	(35.09)
Total liabilities and shareholders' equity	437.04	542.02	(104.94)	(19.36)

Assets

As of September 30, 2018, the Company had total assets of 437.04 Million Baht, a decrease of 19.37% when compared to 542.02 Million Baht as of December 31, 2017. Details include:-

- Short-term investment: The outstanding balance at the end of the period ended December 31, 2017 amounted to 0.12 Million Baht and had no outstanding balance as at September 30, 2018 due to the short-term investment had reached the maturity date.
- Trade and other receivables – other parties: As at September 30, 2018 the value at the end of the period was 4.17 Million Baht, an increase of 1.39 Million Baht or 50% compared to 2.78 Million Baht at December 31, 2017. The receivables are a result of transactions inside the normal of business of offering goods and services.
- Current portion of financial lease receivable and finance lease receivables decreased by 52.12% and 92.23% respectively, when compared to December 31, 2017. The receivables are in line with normal lease of energy saving system.
- Inventories were 173.90 Million Baht or 39.79% of total assets which decreased 56.245 Million Baht when compared to the balance as at December 31, 2017 with the inventories were 230.14 Million Baht, a decrease of 24.448% which are a result from stock clearance sales. Anyhow, the 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.

Liabilities

As of September 30, 2018, total liabilities were 255.92 Million Baht, compared to 262.99 Million Baht as at December 31, 2017, with a decrease of 7.07 Million Baht or 2.69%. Details include:-

- Bank overdrafts and short-term loans from financial institutions: As compared to the outstanding balance as at 31 December 2017 amounting to Baht 171.03 million, an increase of Baht 1.26 million or an increase of 0.74 percent. These short-term loans and short-term loans are used as working capital.
- Trade and other payables – other parties: Totaled 55.45 Million Baht, decreased by 18.43 Million Baht or 24.95% as compared to the outstanding balance of 73.88 Million Baht as at December 31, 2017 for payment of product purchasing due. For the 2018 order, there was only a minimum order quality of water dispensers for distributing through Moderntrade Channel.

Shareholders' Equity

As at September 30, 2018, the Company had shareholders' equity of 181.12 Million Baht, or 41.446% of total assets, decreased by 97.91 Million Baht or decreased by 35.09% 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 first nine-months of 2018 (January – September 2018).

Table 4: Financial Ratio

Financial Ratio	Consolidated financial statements		+ / (-)
	Jan-Sep 2018	Jan-Dec 2017	
Liquidity Ratio			
Current ratio	1.19	1.51	(0.32)
Quick ratio	0.48	0.61	(0.13)
Profitability Ratio			
Gross profit margin %	18.98%	27.41%	(8.43)
EBIT margin %	(21.43%)	(9.92%)	(11.51)
Net profit margin %	(21.21%)	(9.66%)	(11.55)
Efficiency Ratio			
Return on equity (ROE) %	(54.05%)	(16.10)%	(37.95)
Return on asset (ROA) %	(22.40%)	(8.29%)	(14.11)
Financial Policy Ratio			
Debt ratio	1.41	0.94	0.47

Liquidity Ratio

The factors that affected the performance for the first nine months of 2018 result the liquidity ratio and the quick ratio decreased 0.32 times and 0.13 times respectively, compared with the ratio as of December 31, 2017. However, the Company has total inventories of 173.90 Million Baht could be sold through various channels in the future.

Profitability Ratio and Performance Ratio

The operating performance for the first nine-months of 2018 generated gross margin, operating margin and net profit margin declined 8.43%, 11.51% and 11.55%, respectively. The operating performance ratios were decreased due to the operating results for the nine-month period of 2018 had missed the target and the company had a net loss of Baht 97.90 million.

Financial Policy Ratio

The Company's debt to equity ratio increased from the previous year. The debt to equity ratio for the nine-month period of 2018 was 1.41 times, directly attributable to the Company's results of operations for the nine-month period ended June 30, 2018 which not as expected.



(Noppachai Veeraman)

Managing Director