

August 14, 2018

Subject: Management's Discussion and Analysis of Operating Results for the six-month period of 2018 ended June 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 six-month period of 2018 ended June 30, 2018 which has been reviewed in the Board of Directors' Meeting No. 4/2018 arranged on August 14, 2018 as following:-

Table 1: Overall performance for the six-month period of 2018 ended June 30, 2018

Unit: Million Baht

Items	FY2018 (6 Months)	FY2017 (6 Months)	Increase (Decrease)	
			Amount	%
Net Product Sales	321.93	348.03	(26.10)	(7.50)
Net Service Sales	39.01	49.87	(10.86)	(21.78)
Other Revenue *	3.67	7.84	(4.17)	(53.19)
Total Revenues	364.61	405.74	(41.13)	(10.14)
Cost of Goods Sold	282.91	257.38	25.53	9.92
Cost of Service	24.50	25.61	(1.11)	(4.33)
Cost of Distribution	102.99	103.08	(0.09)	(0.09)
Administrative Expenses	34.43	35.30	(0.87)	(2.46)
Financial Cost	5.95	2.40	3.50	147.92
Net Profit (Loss)	(87.25)	(18.58)	68.67	(369.59)
EPS (Baht/Share)	(0.182)	(0.039)	(0.143)	(366.67)

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

Business Overview

For the business performance of the six-month period of 2018 ended June 30, 2018 the Company's net loss was Baht 87.25 Million Baht. The Company has analyzed the main factors influencing its operation affecting the operation for the six-month period of 2018 as following:-

During the first six months of 2018 (January - June 2018), the Company has implemented its business plans and operation plans completely. Firstly, the Company has managed its Moderntrade team and sales through mobile application for ensuring quickest responses to market and customers. Secondly, the new products which are Model 12EX and 28EX had been designed with minimal style for making its distinguish than others and had been innovated with Mosquito Repellant Ultrasonic Wave for product differentiation.

The marketing communications and advertising had also been published through both advertising media and online; resulting Masterkool brand and product are recognized and lead to sales as well.

However, the business performance was affected by the climate change which beyond our control. During the first six months of 2018, the continued rainfall affected whole cooling industry, especially evaporative air cooling as climate is a key factor that effect market demands and decision-making of customers. Besides, the Export market had been affected by the rainfall climate; especially AEC countries which are the Company's key potential. The export value decreased 4.63 Million Baht compared to the same period of last year.

The gross margin for the first six months of the year decreased 3.74% due to clearance sales of the previous models of products. The above said factors have affected the overall business performance in the first half of 2018, resulting in a net loss of 87.25 Million Baht

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

Unit: Million Baht

Segments	Jan - Jun 2018	Jan - Jun 2017	Y-o-Y Difference %
Retail Channel	131.52	178.57	(26.35)
Corporate Customer Channel	117.62	102.90	14.31
Exporting Distribution	111.80	116.43	(3.98)
Others	3.67	7.84	(53.19)
Total Revenues	364.61	405.74	(10.14)

Analysis of the Company's Performance

Retail Market

The overall outlook of the Retail Channel for the six-month in 2018 (January-June) was 131.52 Million Baht, decreased from the same period in last year by 47.05 million baht or 26.35%.

The major sales channel for Retail Market is selling through Moderntrade. The company had prepared all concerns by following its business plan since the fourth quarter of 2017. The point-of-sales selection was made by ranking of the top-selling 240 stores; which decreased approximately 52% compared to 500 stores of the year 2017. In the beginning of 2018, marketing communications and promotion through various channels had been launched to increase the Company's competitive advantages; resulting to sales which climbing up to the best seller brand of evaporative air cooling during the first six-months.

However, under uncontrollable weather and continuous rainfall, the air-cooling market was shrinking due to lower demand of customers. In this circumstance, sales from the Company's dealers were also affected; the dealers' inventories are adequate for selling throughout the first half of 2018.

Online Channel, which is a new channel under the Retail Channel in the year, created sales of 4.74 Million Baht for the first six-month period. For other step of the Online Channel, more products would be launched for sales such as Ozone shoe deodorizer, Ozone vegetable washer, etc.

Corporate Market

The corporate market is the sales channel with Business-to-Business model which has a long sales cycle; therefore the Company has continuously increased its customer base. The Company gets more sales from customers which were proposed our solutions since the previous year. The Company's market base commencing turned to sales; resulting sales increased by 14.72 Million Baht or 14.31% from the same period of the last year.

The key operational strategy of the Corporate Channel is to ensuring products and services by proposing solutions to customers. Besides, the company continues to offer renting and leasing systems to customers for easier decision-making. .

Export

The International Business Department generates sales on export for the six-month in 2018 totaled 111.80 Million Baht, decreased by 4.63 Million Baht or 3.98% 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 during the first quarter of 2018. Anyhow, export revenue was slightly growth in the quarter 2/2018.

The company is in the process of selecting more distributors who has potential in sales and channel to expand the overseas market; covering more potential area and offering various models of product to meet the customer needs of each country.

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

Unit: Million Baht

Statement of Financial Position	Consolidated Statement			
	30 Jun 2018	31 Dec 2017	+/(-)	%
Cash and cash equivalents	6.91	10.87	(3.96)	(36.43)%
Temporary investment	-	0.12	(0.12)	-
Trade and other receivables – related parties	3.43	2.78	0.65	4.49
Trade and other receivables – other parties	211.09	123.16	87.93	71.39%
A/R under finance lease agreements due within one year	10.57	16.98	(6.41)	(37.75%)
Inventory	186.69	230.14	(43.45)	(18.88%)
Deposits as financial institutions pledged as collateral	70.75	71.70	(0.95)	(1.32%)
Receivables for finance lease contracts	1.06	2.83	(1.77)	(62.54%)
Property, plants and equipment	53.27	58.32	(5.05)	(8.66%)
Intangible assets	6.59	6.67	(0.08)	(1.20%)
Deferred tax assets	6.61	7.56	(0.95)	(12.57%)
Other non - current assets	8.4	10.89	(2.49)	(22.87%)
Total assets	566.43	542.02	24.41	4.50%
Bank over drafts and short - term loans from financial institution	248.74	171.03	77.71	45.44%
Trade and other payables – related parties	0.26	-	0.26	100.00%
Trade and other payables – other parties	99.05	73.88	25.17	34.07%
Product Warranty Estimated Liabilities	5.01	5.47	(0.46)	(8.41%)
Current portion of long - term loan from financial institution	-	0.02	(0.02)	(100.00%)
Current portion of liabilities under finance lease contracts	2.45	2.68	(0.23)	(8.58%)
Income tax payable	0.34	0.62	(0.28)	(45.16%)
Revenue Department Payable	-	-	-	0.00%
Short – term loan from related person	10.00	-	10.00	100.00%
Long - term of liabilities under finance lease contracts	1.51	2.71	(1.20)	(44.44%)
Employee benefit obligation	7.30	6.58	0.72	10.94%
Total liabilities	374.66	262.99	111.67	42.46%
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	(122.58)	(35.33)	87.25	246.96%
Total shareholders' equity	191.77	279.03	(87.26)	(31.27%)
Total liabilities and shareholders' equity	566.43	542.02	24.41	4.50%

Assets

As of June 30, 2018, the Company had total assets of 566.43 Million Baht, an increase of 4.50% 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 186.69 Million Baht or 32.96% of total assets which increased 43.45 Million Baht when compared to the balance as at December 31, 2017 with the inventories were 230.14 Million Baht, an increase of 18.88%. 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.
- Trade and other receivables – other parties: The values as of June 30, 2018 was in amount of 211.39 Million Baht, which increased by 87.93 Million Baht when compared to the end of December 31, 2017, representing an increase of 71.39% for normal trade operations.

Liabilities

As of June 30, 2018, total liabilities were 374.66 Million Baht, compared to 262.99 Million Baht as at December 31, 2017, with an increase of 111.67 Million Baht or 42.46%. Details include:-

- Bank overdrafts and short-term loans from financial institutions increased by 77.71 Million Baht as compared to the outstanding balance of 171.03 Million Baht as at December 31, 2017 for working capitals.
- Trade and other payables – other parties totaled 99.05 Million Baht, increased by 25.17 Million Baht or 34.07% 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 June 30, 2018, the Company had shareholders' equity of 191.77 Million Baht, or 33.86% of total assets, decreased by 87.26 Million Baht or 31.27% 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 six-months of 2018 (January – June 2018).

Table 4: Financial Ratio

Financial Ratio	Consolidated financial statements		+ / (-)
	Jan-Jun 2018	Jan-Jun 2017	
Liquidity Ratio			
Current ratio	1.14	1.51	(0.37)
Quick ratio	0.64	0.61	0.03
Profitability Ratio			
Gross profit margin %	14.83%	21.83%	(7.00)
EBIT margin %	(24.17)%	(8.27)%	(15.90)
Net profit margin %	(23.93)%	(8.44)%	(15.49)
Efficiency Ratio			
Return on equity (ROE) %	(45.50)%	(6.25)%	(39.25)
Return on asset (ROA) %	(15.40)%	(3.22)%	(12.18)
Financial Policy Ratio			
Debt ratio	1.95	0.94	1.01

Liquidity Ratio

With comparison the year 2017, the liquidity ratio decreased 0.37 times and the quick ratio decreased 0.03 times. For the quick ratio slightly increased, resulted by the inventories have decreased in comparison with total assets; accounted for 32.96% of the total assets due to sales of the first six-months of 2018 and clearance sales of the previous-year products. However, these remaining inventories can be sold through several channels in the future.

Profitability Ratio and Performance Ratio

The operating performance for the first six-months of 2018 generated gross margin, operating margin and net profit margin declined 7%, 15.90% and 15.49%, respectively. The operating performance was decreased due to the net loss of 87.25 Million Baht in the first-half of 2018.

Financial Policy Ratio

The Company's debt to equity ratio increased from the previous year at 1.01 times. It is directly related to the Company's results of operations in the first six-months of 2018 which not as expected.



(Noppachai Veeraman)

Managing Director