

November 14, 2017

Subject: Management's Discussion and Analysis of Operating Results for the nine-month period of 2017 ended September 30, 2017

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 2017 ended September 30, 2017 which has been reviewed in the Board of Directors' Meeting No. 7/2017 arranged on November 14, 2017 as following:-

Table 1: Overall performance for the nine-month period of 2017 ended September 30, 2017

Unit: Million Baht

Items	FY2017 (9 months)	FY2016 (9 months)	Increase (Decrease)	
			Amount	%
Net Product Sales	405.40	744.34	(338.94)	(45.54)
Net Service Sales	56.76	22.50	34.26	152.27
Other Revenue *	12.32	4.61	7.71	167.25
Total Revenues	474.48	771.45	(296.97)	(38.50)
Cost of Goods Sold	302.18	481.32	(179.14)	(37.22)
Cost of Service	32.26	6.03	26.23	434.99
Selling and Administrative Expenses	181.11	162.33	18.78	11.57
Financial Cost	3.87	1.50	2.37	158.00
Net Profit	(44.93)	97.79	(142.72)	(145.95)
EPS (Baht/Share)	(0.09)	0.20	(0.29)	(145)

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

Overall Performance

According to normal business conditions, the evaporative air-cooling industry is in the off season period. In addition, the weather in the summer of 2017 is not as hot as in 2016 by the average temperature of the year is lower than the 2016 average temperature around 2 degrees Celsius. Continuing to the end of Q3/2017 which was the beginning of rainy season, the needs of customers were dropped throughout the country. Also, the export markets were affected as major overseas agents are from the countries in the AEC, where have a temperature and climate that no different from Thailand. Inventory of overseas agents still has enough to sell in the quarter; resulting no further order from them. Besides, the target customers from the northern hemisphere had not much demands due to their summer time was a short period.

For the local markets, the demands were dropped due to the rainy season mentioned; furthermore there are significant external factors such as new entrants have significantly increased, and slowly recovery of Thailand economics. Although Thailand's gross domestic product (GDP) increased in the first half of the year, the household economics has not spread widely. The overall air-cooling industry, according to industry statistics of the Office of Industrial Economics, found that the sales of air conditioners and fan decreased between January and July 2017, about 15% and 17%, respectively. Also the retail markets was affected, according to the Thai Retailers Association has revealed the purchasing power from the first quarter of the year to the end of the first half of 2017 that the growth shrank noticeably. The Retail Business Index was down from 3.02% in the first quarter of this year to 2.81% in Q2/2017. Other income was the result of exchange rate gains.

These factors have affected the overall business in the past nine months of 2017, with total revenues down 38.50% from the same period last year. The company has tried to control costs and expenses while, in another way, the company needed to boost sales by launching promotional campaigns. The service cost has also changed significantly, which was the cost of installation services in energy saving projects where revenue recognition is based on the success of the work. By those mentioned factors resulted the net loss of 44.93 Million Baht

Table 2: Sales summary by segments for the quarter 3/2017 period

Unit: Million Baht

Segments	Q3/2017	Y-o-Y Difference (%)	Jan-Sep 2016	Y-o-Y Difference (%)
Retail Channel	24.12	7.80	210.11	(47.30)
Corporate Customer Channel	29.30	(48.58)	132.03	(37.28)
Exporting Distribution	3.03	(85.18)	119.47	(24.19)
Others	5.05	798.53	12.87	179.18
Total Sales	61.50	(38.73)	474.48	(38.50)

Analysis of the Company Performance

Retail Market

For the first quarter of 2017 (January-March), the retail channel sales were 63.97 million baht, a decrease of Baht 20.23 million or a decrease by 24.03% compared to the sales of the same period of 2016 which amounted 84.20 million baht, caused by fluctuating weather conditions and storms. The weather is not as hot as it was during the same period of last year resulted the overall demands on evaporative air cooler

For Q3/2017 (July-September 2017), the sales of retail market was 24.12 Million Baht, an increase of 1.76 Million Baht or 7.80% compared to the sales of 22.36 Million Baht of the same period of last year. For its promotion and marketing expenses in Q3/2017, the total expenses were 6.57 Million Baht or 26.64% of total sales. The proportion of sales and marketing expenses went down by 5.17% when compared to the promotional and marketing expenses at 5.00 Million Baht or 31.81% of the total sales of the same period in the year 2016 due to the company's focus on marketing activities at the sales point instead of stimulating sales by doing broad media.

Corporate Customer Market

Corporate Customer Market is the B2B sales model; including mobile product sales to individual corporates and project sales that require system installation. The sales in Q3/2017 were 29.30 Million Baht, a decrease of 27.68 Million Baht or decreased by 48.58% compared to the same period of last year. This was caused by the delay of purchase decision of the target customers that affected by the floods in many provinces.

However, this channel still has an opportunity to grow and generate more sales by supported reason of constant demands of energy saving and solving on environmental problems for business. .

Export Distribution

In the third quarter of 2017, the total export sales were 3.03 Million Baht, a decrease of 17.44 Million Baht or 85.18% from the same period of the previous year. The major overseas agents are in the AEC where the weather is not much different from Thailand; therefore their inventories were adequate for sales during the quarter. Also, the sales from the northern hemisphere's agents were lower than expected due to their summer period of the year was relatively short, resulted the lower demands.

There still has a growth opportunity of the export channel, so the company has prepared a plan to aggressively market to support the next sales season; aiming to gain more qualified agents to cover more countries.

Financial Status

Table 3: Summary statement of financial position as of September 30, 2017

Statement of financial position (million baht)	Consolidated financial statements			
	31 Sep 2017	31 Dec 2016	+/(–)	%
Cash and cash equivalents	25.00	47.44	(22.44)	(47.30%)
Temporary investment	0.12	55.57	(55.45)	(99.78%)
Trade and other receivables – related parties	2.26	0.88	1.38	156.82%
Trade and other receivables – other parties	158.97	145.96	13.01	8.91%
A/R under finance lease agreements due within one year	14.42	8.26	6.16	74.58%
Inventory	229.31	183.62	45.69	24.88%
Deposits as financial institutions pledged as collateral	62.39	50.03	12.36	24.71%
Receivables for finance lease contracts	4.16	8.95	(4.79)	(53.52%)
Property, plants and equipment	57.40	49.69	7.71	15.52%
Intangible assets	5.28	5.02	0.26	5.18%
Deferred tax assets	7.70	7.70	-	-
Other non - current assets	4.52	5.58	(1.06)	(19.00%)
Total assets	571.53	568.70	2.83	0.50%
Bank over drafts and short - term loans from financial institution	124.22	2.83	121.39	4289.40%
Trade and other payables – related parties	0.03	-	0.03	100.00%
Trade and other payables – other parties	114.13	154.74	(40.61)	(26.24%)
Product Warranty Estimated Liabilities	4.28	4.41	(0.13)	(2.95%)
Current portion of long - term loan from financial institution	0.05	0.10	(0.05)	(0.50%)
Current portion of liabilities under finance lease contracts	1.89	1.87	0.02	1.07%
Income tax payable	-	10.48	(10.48)	(100%)
Revenue Department Payable	-	0.03	(0.03)	(100%)
Long - term loan from financial institutions	-	0.03	(0.03)	(100%)
Long - term of liabilities under finance lease contracts	2.27	3.07	(0.80)	(26.06%)
Employee benefit obligation	2.13	1.89	0.24	12.70%
Total liabilities	249.00	179.45	69.55	38.76%
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	3.74	4.52	120.86%
- Un-appropriated retained earnings	8.18	79.42	(71.24)	(89.70%)
Total shareholders' equity	322.53	389.25	(66.72)	(17.14%)
Total liabilities and shareholders' equity	571.53	568.70	2.83	(0.50%)

Assets

As of September 30, 2017, the Company had total assets of 571.53 Million Baht compared with 568.70 Million Baht as of December 31, 2016 or an increase of 2.83 Million Baht or 0.50%. Details include:-

- Short-term investments decreased when compared to the balance as at the end of 31 December 2016 due to the maturity of these investments. Therefore, the Company has used them as the working capital during the quarter 3/2017
- Inventories were 229.31 Million Baht or 40.12% of total assets which decreased when compared to the balance as at June 30, 2017, the inventories were 245.70 Million Baht, a decrease of 16.39 Million Baht or 6.67%; but the inventories can be sold in the future due to products are a permanent type of use; not much impact regarding of obsolete or outdated products

Liabilities

As of September 30, 2017, total liabilities were 249.00 Million Baht, compared to 179.45 Million Baht as at December 31, 2016, with an increase of 69.55 Million Baht or 38.76%. Details include:-

- Bank overdrafts and short-term loans from financial institutions increased by Baht 121.39 Million Baht as compared to the outstanding balance as at 31 December 2016. The Company has purchased goods for sale; and payment of goods had been paid to the financial institution in due. When compared to the first half of 2017, the figures were down 118.40 Million Baht due to the payment of such goods.
- Accounts payable and other payables - other businesses decreased by 40.61 Million Baht as compared to the outstanding balance as at December 31, 2016 by repayment of its due debts.

Shareholders' Equity

As at September 30, 2017, the Company had shareholders' equity of 322.53 Million Baht, or 56.43% of total assets, decreased by 66.72 Million Baht or 17.14% compared to the shareholders' equity as at 31 December 2016 which the shareholders' equity was 389.25 Million Baht, resulting from the operating loss in the first nine months of the current year (January - September 2017), and dividend payment of 21.79 Million Baht in 2017.

Table 4: Financial Ratio

Financial Ratio	Consolidated financial statements		+ / (-)
	Jan - Sep 2017	Jan - Dec 2016	
Liquidity Ratio			
Current ratio	1.76	2.53	(0.77)
Quick ratio	0.82	1.48	(0.66)
Profitability Ratio			
Gross profit margin %	29.51%	36.83%	(7.32)
EBIT margin %	(9.47)%	15.59%	(25.06)
Net profit margin %	(9.47)%	12.68%	(22.15)
Efficiency Ratio			
Return on equity (ROE) %	(13.93)%	25.12%	(39.05)
Return on asset (ROA) %	(7.86)%	17.20%	(25.06)
Financial Policy Ratio			
Debt ratio	0.77	0.46	0.31

Liquidity Ratio

Current ratio and quick ratio decreased of 0.77 and 0.66 respectively from the prior year as the Company had current liabilities and inventories and trade creditors; combining with well management of inventories by close monitoring and planning

Current ratio and quick ratio decreased of 0.77 times and 0.66 respectively, at the highest rate of 40.12% compared to the total assets, due to sales in the first nine months of 2017 failed to meet the target. However, such inventories can be sold through various channels in the future.

Profitability Ratio and Performance Ratio

The operating performance for the first nine months of 2017 generated gross margin, operating margin and net profit margin declined 7.32%, 26.06% and 22.15%, respectively. The operating performance was decreased due to the net loss of 44.93 Million Baht for the first nine months of the year.

Financial Policy Ratio

The Company's debt to equity ratio increased from the previous year. It is directly related to the Company's results of operations in the first nine months of 2017 which missed the target.

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 the exchange.



(Noppachai Veeraman)

Managing Director