

May 14, 2020

Subject: Management's Discussion and Analysis of Operating Results for the three-month period of 2020 ended Mar 31, 2020

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 2020 ended Mar 31, 2020 which has been reviewed in the Board of Directors' Meeting No. 2/2020 arranged on May 14, 2020 as following: -

**Table 1: Overall performance for the 3-month period of 2020 ended March 31, 2020**

Million Baht

Description	FY2020 (3 Months)	FY2019 (3 Months)	Increase (Decrease)	
			Amount	%
Net Product Sales	241.68	174.79	66.89	38.27
Net Service Sales	30.85	23.00	7.85	34.13
Other Revenue *	0.32	2.86	(2.54)	(88.81)
<b>Total Revenues</b>	<b>272.85</b>	<b>200.65</b>	<b>72.20</b>	<b>35.98</b>
Cost of Goods Sold	210.01	146.42	63.59	43.43
Cost of Service	16.96	9.16	7.80	85.15
Selling Expenses	28.06	28.65	(0.59)	(2.06)
Administrative Expenses	17.22	17.03	0.19	1.12
Loss of Exchange Rate	8.76	-	8.76	100.00
Financial Cost	3.09	3.16	(0.07)	(2.22)
<b>Total Cost</b>	<b>284.10</b>	<b>204.42</b>	<b>79.68</b>	<b>38.98</b>
Profit (Loss) before Income Tax	<b>(11.25)</b>	<b>(3.77)</b>	<b>7.48</b>	<b>198.41</b>
Income Tax	(0.14)	(0.09)	0.05	55.56
<b>Net Profit (Loss)</b>	<b>(11.39)</b>	<b>(3.86)</b>	<b>7.53</b>	<b>195.08</b>
<b>EPS (Baht/Share)</b>	<b>(0.02)</b>	<b>(0.01)</b>	<b>0.01</b>	<b>100.00</b>

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

### **Business Overview**

Performance of the Company for the three-month period of 2020 ended March 31, 2020, under the epidemic of COVID-19, compared to the same period in last year, with a positive change for revenue growth of 35.98%, from the export business channel which grew 87.32%, which accounted for more than half of the total revenue for the period. Resulting in an overall gross profit margin reduced, since the export is bulk volume. Although the company can control the selling and administrative expenses according to the cost control policy. But with the recent situation having a severe impact in almost all industries around the world, which is a significant challenge to business management; meaning of management of currency fluctuations, resulting in

the operating results for the 3 months of 2020 ending March 31, 2020. The company has a net loss of 11.39 million baht.

#### **Economic and industrial conditions affecting operations**

The epidemic of the COVID-19 virus has affected the world. Almost all businesses have to cease operations and severely affect the economy. At this time, it is not possible to assess when the situation will end or control the situation. The company has been affected since the beginning of the first quarter of 2020 because the COVID-19 virus began a severe epidemic in China. China had announced the closure of the country, with the order of the manufacturing and service sectors to stop operating; resulting in the production of the company's products to be suspended from the beginning of the quarter. In addition, in March 2020, according to the Emergency Decree under the viral epidemic situation, COVID-19, the Thai government has ordered the closure of businesses that are at risk of spreading the virus. Including department stores or modern retail stores (Moderntrade), which makes sales revenue through retail channels, retail customers are greatly reduced.

#### **Linkage of policies, strategies and goals**

The spread of the COVID-19 virus is an uncontrollable negative factor, causing the company to be vigilant; and conduct business with caution according to the rapidly changing situation. Especially the retail business channel that sells products through the modern trade department store, the company has estimated the revenue through the retail channel about 40% of the total revenue forecast. Therefore, strategy adjustment to create new market opportunities via online channels and finding a new target country abroad that is not much affected by the COVID-19 outbreak is therefore very necessary.

#### **Analysis on the performance of the company by key business units**

The company has various distribution channels. The main channels are Retail channels, Export channels and Sales channels for corporate customers which the performance is as follows: -

**Table 2: Sales summary by segments for the 3-month period of 2020 ended March 31, 2020**

*Million Baht*

<b>Segmentation</b>	<b>Jan-Mar 2020</b>	<b>Jan-Mar 2019</b>	<b>% Differential Y-o-Y</b>
Retail Channel	75.57	74.71	1.15
Corporate Customer Channel	16.75	15.69	6.76
Exporting Distribution	155.83	83.19	87.32
Services and Rental Units	21.80	20.32	7.28
Other Sales Channel	2.58	3.88	(33.51)
Others*	0.32	2.86	(88.81)
<b>Total Revenues</b>	<b>272.85</b>	<b>200.65</b>	<b>35.98</b>

**Retail Market**

The company's retail channels consist of selling through a modern trade mall, online, dealers and promotion booths. When compared to the 3 months of 2019, retail channels have increased sales by 0.86 million baht or 1.15%, which is not growing because the department store / Moderntrade closed. When considering the sub-channels of the retail business group found that target consumer believes that the MASTERKOOL brand for evaporative fan category is reliable; also products and services are accepted and therefore have orders placed online.

The company adjusted its online marketing strateg by conducting promotional campaigns continuously with the main web shopping channels such as Lazada, Shopee, JD Central, etc., resulting in a 3-month overview compared to the same period of the year 2019, allowing the company to sustain the retail business. during the first 3 months of the year.

**Corporate Market**

For the corporate market sales channel, the company continues to expand the target customer base. Although sales increased slightly or only increased by 6.76% compared to the same period of 2019 due to the slowdown of private investment. However, the company still believes that Management according to the business unit guidelines that must control both the costs and expenses of the business unit. Make this organization's customer sales channel still a way to create sales and profits.

When the situation returns to normal, the company must accelerate the expansion of its customer base in the corporate market to cover the planned sales targets to strengthen business and able to reduce the revenue fluctuation of the company because this channel is able to generate continuous revenue (Recurring Revenue) from providing services with expertise in technology to solve hot air problem, application of ozone systems for energy saving, and environmental protection.

**Export**

During the 3 months of the year 2020, the international business channel, which is an export channel, has sales growth significantly compared to the same period last year. The company has sales for the period equal to 155.83 million baht or 87.32% increase of sales in the same period of the previous year which has sales of 83.19 million baht, which is the continuous sales from expanding the marketing base previously.

**Comparative analysis to the budgeting plan**

The 3-month plan of the year 2020, the company has been allocated sales of new channels 40% and export channels 40%. Sales channels, corporate customers and service groups 20%. It appears that the export channels can do in excess of the projected.

For future operations plans, expanding the market base for retail customers, the company still needs to reduce the risk as a whole and for the business channels that need to expand the line of Products that do not have seasonal restrictions, in order to be more comprehensive and to meet the needs of consumers while supporting online.

## Financial Status

**Table 3: Summary statement of financial position as of March 31, 2020**

Million Baht

Statement of Financial Position	Consolidated financial statements			
	31 Mar 2020	31 Dec 2019	+ / (-)	%
Cash and cash equivalents	22.61	38.01	(15.40)	(40.52)
Temporary Investment	0.92	0.00	0.92	100.00
Trade and other receivables – related parties	4.05	4.65	(0.60)	(12.90)
Trade and other receivables – other parties	199.44	95.80	103.64	108.18
A/R under finance lease agreements due within one year	0.14	0.16	(0.02)	(12.50)
Asset under contract	5.22	2.51	2.71	107.97
Inventory	196.40	198.32	(1.92)	(0.97)
<b>Total Current Assets</b>	<b>428.78</b>	<b>339.45</b>	<b>89.33</b>	<b>26.32</b>
Deposits with financial institutions that are pledged	70.75	70.75	0.00	0.00
Financial lease receivables - Net amounts due within one year	0.00	0.01	(0.01)	(100.00)
Property, plant and equipment	48.17	56.00	(7.83)	(13.98)
Rights-of-use assets	25.06	0.00	25.06	100.00
Intangible assets	3.47	3.71	(0.24)	(6.47)
Revenue Department receivable	3.90	3.90	0.00	0.00
Other non-current assets	8.26	8.07	0.19	2.35
<b>Total non-current assets</b>	<b>159.61</b>	<b>142.44</b>	<b>17.17</b>	<b>12.05</b>
<b>Total assets</b>	<b>588.39</b>	<b>481.89</b>	<b>106.50</b>	<b>22.10</b>
Bank over drafts and short - term loans from financial institution	208.78	150.35	58.43	38.86
Trade and other payables – other parties	128.54	71.20	57.34	80.53
Contractual liabilities	18.95	36.64	(17.69)	(48.28)
Revenue Department Payable	5.17	0.28	4.89	1746.43
Product Warranty Estimated Liabilities	5.89	5.66	0.23	4.06
Financial leased liabilities due within one year	8.62	2.35	6.27	266.81
Accrued corporate income tax	0.09	0.09	0.00	0.00
<b>Total current liabilities</b>	<b>376.04</b>	<b>266.57</b>	<b>109.47</b>	<b>41.07</b>
Estimated long-term quality guarantee	0.02	0.03	(0.01)	(33.33)
Finance lease liabilities - Net amounts due within one year	13.05	2.35	10.70	455.32
Employee benefit obligations	15.57	15.03	0.54	3.59
Deferred tax liabilities	0.89	0.81	0.08	9.88
<b>Total non-current liabilities</b>	<b>29.53</b>	<b>18.22</b>	<b>11.31</b>	<b>62.07</b>
<b>Total liabilities</b>	<b>405.57</b>	<b>284.79</b>	<b>120.78</b>	<b>42.41</b>
Ordinary capital 576,000,000 shares, value 0.25 baht per share	144.00	144.00	0.00	0.00
Paid-up capital	120.00	120.00	0.00	0.00
Share premium	183.03	183.03	0.00	0.00
Surplus from share-based payment	3.06	3.06	0.00	0.00
<b>Retained earnings (loss)</b>				
- Appropriated for legal reserve	8.26	8.26	0.00	0.00
- Un-appropriated retained earnings	(131.53)	(117.25)	14.28	12.18
<b>Total shareholders' equity</b>	<b>182.82</b>	<b>197.10</b>	<b>(14.28)</b>	<b>(7.25)</b>
<b>Total liabilities and shareholders' equity</b>	<b>588.39</b>	<b>481.89</b>	<b>106.50</b>	<b>22.10</b>

**Assets**

As of March 31, 2020, the company has total assets of 588.39 million baht, compared to the value of assets as of December 31, 2019 with the value of 481.89 million baht. The company has total assets increased by 106.5 million baht or equivalent to an increase of 22.10%. The main details consist of: -

- Trade and other receivables - other parties: Value at the end of the period March 31, 2020, equal to 22.61 million baht, a decrease of 15.40 million baht, representing a decrease of 40.52% from the sale of products and services.
- Trade and other receivables - other parties: the value at the end of the period as of March 31, 2020 increased by 103.64 million baht, representing an increase of 108.18% according to the sale of goods and services.
- Inventories: the value at the end of the period as of March 31, 2020 decreased by 1.92 million baht, representing an increase of 0.97% due to preparing goods for selling in the year.

**Liabilities**

As of March 31, 2020, the company has total liabilities of 405.57 million baht, compared to the total liabilities as of 31 December 2019 with the value of 284.79 million baht. The company has total liabilities increased 120.78 million baht or 42.41% increase, the main details are: -

- Bank overdrafts and short-term loans from financial institutions: the value at the end of the period on 31 March 2020 was 208.78 million baht, an increase of 58.43 million baht or 38.86% increase which came from overdrafts and loans. This short-term is used as working capital.
- Trade and other payables - other parties: The value at the end of the period on 31 March 2020 was 128.54 million baht, an increase of 57.34 million baht or an increase of 80.53%, which is the payment for goods under normal trade conditions from manufacturers. And distributors both at home and abroad The company will pay when it's due.

**Shareholders' Equity**

As of March 31, 2020, the Company had total shareholders' equity of 182.82 million baht, a decrease of 14.28 million baht or a decrease of 7.25% compared to shareholders' equity as of 31 December 2019, which had shareholders' equity Holding shares equal to 197.10 million baht. The decrease in shareholders' equity was due to the company's net loss for the 3 months of 2020, totaling 11.39 million baht.

**Table 4: Financial Ratio**

Financial Ratio	Consolidated financial statements		+/( -)
	Jan-Mar 2020	Jan-Mar 2019	
<b>Liquidity Ratio</b>			
Current ratio	1.14	1.28	(0.14)
Quick ratio	0.62	0.53	0.09
<b>Profitability Ratio</b>			
Gross profit margin %	16.72%	21.34%	(4.62)
EBIT margin %	(4.13)%	(1.91)%	2.22
Net profit margin %	(4.18)%	(1.95)%	2.23
<b>Efficiency Ratio</b>			
Return on equity (ROE) %	(6.00)%	(1.96)%	4.04
Return on asset (ROA) %	(2.13)%	(0.80)%	1.33
Total assets turnover	0.51	0.41	0.10
<b>Financial Policy Ratio</b>			
Debt to equity ratio	2.21	1.44	0.77

**Liquidity Ratio**

Due to factors affecting the operating results for the 3-month period of 2020, the liquidity ratio decreased by 0.14 times when compared to the ratio at the end of the period 31 March 2019, which came from the sale and payment of debt in due time.

As for the quick ratio, it increased by 0.09 times when compared to the ratio at the end of the period 31 March 2019 due to the increase in sales. And the company still has a total inventory of 196.40 million baht that the company can sell in the future because the company's products are durable goods that are not deteriorated easily.

**Profitability Ratio and Efficiency Ratio**

From the 3-month performance of the year 2019, the company's gross profit margin decreased by 4.62% due to the large sales price structure of export channels. Which affects the operating profit margin and the net profit margin for the 3 months of 2020 decreased 2.22% compared to the same period last year. And the net profit margin is (4.18) % compared to the same period of the previous year which is equal to (1.95) %.

**Financial Policy Ratio**

The company has increased debt to equity ratio from the previous year. The debt-to-equity ratio for the 3-month period of 2020 is 2.21 times, which increased 0.77 times compared to the same period in 2019 as a result of bank overdraft and short-term loans used as working capital.

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