

14 August 2020

Subject: Management's Discussion and Analysis of Operating Results for the six-month period of 2020 ended 30 June 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 six-month period of 2020 ended 14 August 2020 which has been reviewed in the Board of Directors' Meeting No. 4/2020 arranged on 14 August 2020 as following: -

Table 1 : Overall performance for the 6-month period of 2020 ended 14 August 2020

Unit: Million Baht

Description	FY2020 (6 Months)	FY2019 (6 Months)	Increase (Decrease)	
			Amount	%
Sales Revenue	530.11	429.58	100.53	23.40
Service Income	50.08	49.87	0.21	0.42
Profit from Exchange Rate	-	5.74	(5.74)	(100.00)
Other Revenue *	0.84	3.27	(2.43)	(74.31)
Total Revenues	581.03	488.46	92.57	18.95
Cost of Goods Sold	418.08	306.16	111.92	36.56
Cost of Service	27.09	26.12	0.97	3.71
Selling Expenses	65.62	74.19	(8.57)	(11.55)
Administrative Expenses	29.38	33.37	(3.99)	(11.96)
Loss of Exchange Rate	1.59	-	1.59	100.00
Financial Cost	5.34	6.02	(0.68)	(11.30)
Total Cost	547.10	445.86	101.24	22.71
Profit (Loss) before Income (Expense) Income Tax	33.94	42.60	(8.66)	(20.33)
Income (Expense) Income Tax	(0.30)	(0.85)	(0.55)	(64.71)
Net Profit (Loss)	33.64	41.75	(8.11)	(19.43)
EPS (Baht/Share)	0.07	0.087	(0.017)	(19.54)

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

Business Overview

The six-month performance of the year 2020, compared to the same period last year, showed a positive shift in terms of revenue growth of 18.95%, coming from export business with one double revenue; with export income of 257.08 million baht, compared to the revenue from exports in the same period of the previous year, 124.07 million baht, representing a growth rate of 107.21%.

For retail business channels, the selling through department stores (modern trade) has been greatly affected due to the modern trades are closed under the public administration in situations related to the situation of the Coronavirus Disease (COVID-19) outbreak. Anyhow, the company has by way of nationwide sales and online sales; therefore some revenues were back. Overall, the retail business channel had revenue of 238.93

million baht in the six-month period of the year; representing a decrease of 11.15% when compared to the same period of the previous year 268.92 million baht.

The overall of gross profit when compared with the same period of the past year decreased; due to the proportion of exports is greater than the proportion of sales through other channels. The export is a type of product sales in bulk volume which gross margin is not as high as other channels. The company therefore managed to reduce and control expenses seriously at the same time. Especially, administrative expenses, which decreased 11.96%, finance costs decreased 11.3%, resulting in the company gross profit for the period of 33.94 million baht.

Even though the coronavirus (COVID-19) epidemic situation has continued and escalated in every industry and in most areas of the world, but the company was not significantly affected; due to the rapid adjustment to generate income from other channels such as sales through dealers, and online sales in substitution for sales through closed department stores. Together with the adaptation to the situation to strictly emphasize on cost control making the business strong enough to operate in a crisis and resulting in the company net profit of 33.64 million baht for the six-month period of the year 2020 ending 30 June 2020.

Economic and industrial conditions affecting operations

In the global coronavirus disease (COVID-19) epidemic situation, most businesses need to temporarily stop their operations, and many businesses shut down, affecting the economy severely even after several months. Besides, it is still not possible to assess the situation when this situation will end or be controlled.

The company was affected in the first quarter of the year, when the spread of the viral disease intensified in China. The Chinese government announced the closure of the country and ordered the manufacturing sector and some services stopped operating. As a result, the production of the company's products had to be interrupted. However, the company has already prepared some products for sale since the end of 2019. Therefore, products can be sold more through online channels, including TV Shopping, Web Shopping and other online channels.

Linkage of policies, strategies and goals

The COVID-19 epidemic is an uncontrollable regime, forcing the company to be cautious about its actions, which must be prudent, filled with more specific, situation-based management. The retail business that sells products through the modern trades has stopped, the online channel created opportunities in new markets as well as expanding international market to countries that ineffective from the spread of COVID-19.

Analysis on the performance of the company by key business units

The company has various distribution channels. In which the main channels are retail channel, export channel, and sales channel for corporate customers. The operating results are as follows:

Table 2 : Sales summary by segments for the 3-month period of 2020 ended 30 June 2020

Unit: Million Baht

Sales Channel	Jan-Jun 2020	Jan-Jun 2019	% Y-o-Y
Retail Channel	238.93	268.92	(11.15)
Corporate Customer Channel	34.10	36.59	(6.81)
Export Channel	257.08	124.07	107.21
Service and Warranty	50.08	49.87	0.42
Other Income*	3.74	9.01	(58.49)
Total Revenue	583.93	488.46	19.55

Retail Market

The Company's retail channels consist of selling through the moderntrades, dealers and sales booth. When compared to the six-month period of 2019, the retail channel has a decrease of 29.99 million baht in sales, or 11.15% decrease due to all moderntrade stores are closed. After considering the individual retail channels, it was found that consumers still keep Masterkool's brand in their mind for reliable evaporative fans. Products and services are accepted; therefore, orders are made through online channels, also through dealers.

The company then adjusted the marketing strategy of online channels by conducting a continuous promotion campaign in conjunction with the main shopping web channels such as Lazada, Shopee, JD Central, etc., giving a 6-month overview when compared with the same period of 2019, the company can bring revenue back into retail business 238.93 million baht.

Corporate Customer Market

The company continues to expand the corporate customer market, but due to the epidemic situation of viral infections resulting in a decrease in sales of approximately 2.49 million baht or a decrease of 6.81% compared to the same period of year 2019 due to the private sector's investment slowdown in the COVID-19 crisis. The company focuses on controlling of both costs and expenses of this business unit to make this unit as a channel for generating sales and profits in future.

When the situation returns to normal, the company must also accelerate the expansion of its customer base in the corporate market enough to cover its planned sales target to strengthen the business and reduce the Company's overall income volatility because the channel can generate recurring revenue from service with expertise solutions, and application of ozone system for energy saving and environmental protection.

Export Market

In the six-month period of 2020, the export channel showed significant sales growth compared to the same period last year. This sales unit had sales for the period equal to 257.08 million baht, or an increase of 107.21% of the sales in the same period of the previous year with sales of 124.07 million baht, by a continuation of sales from the expansion of the market in countries that were not affected by the virus outbreak.

Comparative analysis to the budgeting plan

For the six-month period of 2020, the company has divided the sales percentage of the main channels; that are 40% of the retail channel, 40% of the export channel, and 20% of the corporate customer sales channel. and service sector, in which the overall picture for the period appeared, it was found that the export channel achieved a proportion that exceeds the projected rate.

For future action plans, expanding the marketing base for the corporate customer sales channel is still necessary to reduce the risk of overall income fluctuation. For the retail business, it is necessary to expand the line of products with no seasonal restrictions, in order to be comprehensive and meet the needs of wider consumers, while supporting online sales channels.

Financial Status

Table 3: Summary statement of financial position as of 30 June 2020

Unit: Million Baht

Statement of Financial Position (Consolidated)	30.8.2020	31.12.2019	+ / (-)	%
Cash and cash equivalents	35.71	38.01	(2.30)	(6.05)
Trade and other receivables – related parties	5.12	4.65	0.47	10.11
Trade and other receivables – other parties	236.07	95.80	140.27	146.42
A/R under finance lease agreements due within one year	0.07	0.16	(0.09)	(56.25)
Asset under contract	1.13	2.51	(1.37)	(54.98)
Inventories	135.70	198.32	(62.62)	(31.58)
Other current financial assets	0.57	0.00	0.57	100.00
Total Current Assets	414.37	339.45	74.92	22.07
Deposits with financial institutions that are pledged	73.75	70.75	3.00	4.24
Financial lease receivables - Net amounts due within one year	0.00	0.01	(0.01)	(100.00)
Property, plant and equipment	45.85	56.00	(10.15)	(18.12)
Rights-of-use assets	22.41	0.00	22.41	100.00
Intangible assets	3.41	3.71	(0.30)	(8.09)
Revenue Department receivable	3.90	3.90	0.00	0.00
Other non-current assets	7.13	8.07	(0.94)	(11.65)
Total non-current assets	156.45	142.44	14.01	9.84
Total assets	570.82	481.89	88.93	18.45
Bank over drafts and short - term loans from financial institution	182.61	150.35	32.26	21.46
Trade and other payables – other parties	112.85	71.20	41.65	58.50
Contractual liabilities	3.14	36.64	(33.50)	(91.43)
Revenue Department Payable	0.41	0.28	0.13	46.43
Product Warranty Estimated Liabilities	6.23	5.66	0.57	10.07
Financial leased liabilities due within one year	9.44	2.35	7.09	301.70
Accrued corporate income tax	0.09	0.09	0.00	0.00
Total current liabilities	314.77	266.57	48.20	18.08
Estimated long-term quality guarantee	0.00	0.03	(0.03)	(100.00)
Finance lease liabilities - Net amounts due within one year	11.23	2.35	8.88	377.87
Employee benefit obligations	16.11	15.03	1.08	7.19
Deferred tax liabilities	0.85	0.81	0.04	4.94
Total non-current liabilities	28.19	18.22	9.97	54.72
Total liabilities	342.96	284.79	58.17	20.43
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
Retained earnings (loss)				
- Appropriated for legal reserve	8.26	8.26	0.00	0.00
- Un-appropriated retained earnings	(86.50)	(117.25)	(30.75)	(26.23)
Total shareholders' equity	227.86	197.10	30.76	15.61
Total liabilities and shareholders' equity	570.82	481.89	88.93	18.45

Assets

As of 30 June 2020, the company has total assets of 570.82 million baht, compared with the asset value as of 31 December 2019, which is 481.89 million baht, the company has total assets of 88.93 million baht, or an increase of 18.45%. The main details are as following:

- Trade and other receivables - other parties: The value as of the end of the period 30 June 2020 increased by 140.27 million baht or 146.42% from sales operations of both products and services
- Inventories: The value as of the end of the period on June 30, 2020, decreased by 62.62 million baht or 31.58% decrease in line with the sales of products in the past.

Liabilities

As of 30 June 2020, The company has total liabilities of 342.96 million baht, which is compared to the total liabilities as of December 31, 2019, which is 284.79 million baht, the company has total liabilities of 58.17 million baht, or an increase of 20.43%

- Bank overdrafts and short-term loans from financial institutions: The value at the end of the period on 30 June 2020 is 182.61 million baht, an increase of 32.26 million baht or an increase of 21.46%, which comes from overdrafts and short-term loans to be used as working capital.
- Trade payables and other payables - Other parties: The value as of the end of the period on 30 June 2020 is 112.85 million baht, an increase of 41.65 million baht or an increase of 58.50%, which is the purchase price of goods according to normal trade conditions from both domestic and foreign manufacturers and distributors. The company will pay when the payment is due.
- Liabilities under finance lease agreements due within one year: The value at the end of the period 30 June 2020 is 11.23 million baht, an increase of 8.88 million baht or 377.87%, which is a service in the form of a lease used.

Shareholders' Equity

As of 30 June 2020, the company has total shareholders' equity of 227.86 million baht, an increase of 30.76 million baht or an increase of 15.61% compared to shareholders' equity as of 31 December 2019, which has shareholders' equity equal to 197.10 million baht. The increase in equity comes from the Company's operating results for the six months of 2020 with a net profit of 33.64 million baht.

Table 4: Financial Ratio

	Financial Ratio (Consolidated)		
	Jan-Jun 2020	Jan-Jun 2019	+ / (-)
Liquidity Ratio			
Current ratio	1.32	1.27	0.05
Quick ratio	0.89	0.53	0.36
Profitability Ratio			
Gross profit margin %	23.27%	30.70%	(7.43)
EBIT margin %	5.85%	8.88%	(3.03)
Net profit margin %	5.76%	8.55%	(2.79)
Efficiency Ratio			
Return on equity (ROE) %	15.83%	19.65%	(3.82)
Return on asset (ROA) %	6.39%	7.93%	(1.54)
Total assets turnover	1.11	0.93	0.18
Financial Policy Ratio			
Debt to equity ratio	1.51	1.44	0.07

Liquidity Ratio

From the factors affecting the operating results of the six-month period of 2020, the liquidity ratio increased 0.05 times compared to the ratio at the end of the period 30 June 2019, which came from the sale and payment of debt according to the time limit.

The ratio of the quick turnover ratio increased by 0.36 times compared to the ratio at the end of the period 30 June 2019 due to increased sales. The company still has a total inventory of 135.70 million baht that the company can sell in the future because the company's products are durable products that do not easily deteriorate.

Profitability Ratio and Efficiency Ratio

Based on the six-month performance of the year 2020, the gross profit margin decreased 7.43% on the back of the large-volume selling price structure of export channels which affects operating profit margins; and the net profit margin for the six-month period of 2020 declined 3.03% and 2.79%, respectively, compared to the same period last year.

Financial Policy Ratio

The company had a higher debt to equity ratio from the previous year. The debt to equity ratio for the six-month period of 2020 was 1.51 times, an increase of 0.07 times compared to the same period in 2019 as a result of bank overdrafts and short-term loans that were used as working capital in business.

(Mr. Noppachai Veeraman)
Managing Director