

May 14, 2019

Subject: Management's Discussion and Analysis of Operating Results for the three-month period of 2019 ended March 31, 2019

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 2019 ended March 31, 2019 which has been reviewed in the Board of Directors' Meeting No. 4/2019 arranged on May 14, 2019 as following:-

**Table 1: Overall performance for the three-month period of 2019 ended May 14, 2019**

Million Baht

Description	FY2019 ( 3 Months )	FY2018 ( 3 Months )	Increase (Decrease)	
			Amount	%
Net Product Sales	174.79	145.20	29.59	20.38
Net Service Sales	23.01	23.16	(0.15)	(0.65)
Other Revenue *	2.86	5.65	(2.79)	(49.38)
<b>Total Revenues</b>	<b>200.66</b>	<b>174.01</b>	<b>26.65</b>	<b>15.32</b>
Cost of Goods Sold	146.42	125.81	20.94	16.64
Cost of Service	9.16	12.27	(3.44)	(28.04)
Selling Expenses	28.66	46.29	(17.63)	(38.09)
Administrative Expenses	17.03	19.81	(2.78)	(14.03)
Financial Cost	3.16	2.45	0.71	28.98
Loss before Income Tax	(3.77)	(32.62)	(28.85)	(88.44)
Income Tax	(0.09)	(0.19)	(0.10)	(52.63)
<b>Net Profit (Loss)</b>	<b>(3.86)</b>	<b>(32.81)</b>	<b>(28.95)</b>	<b>(88.24)</b>
<b>EPS (Baht/Share)</b>	<b>(0.01)</b>	<b>(0.07)</b>	<b>(0.06)</b>	<b>(85.71)</b>

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

### **Business Overview**

Important operational guidelines for the year 2019, the Board of Directors has supervised the operation, and the management has managed closely to ensure that the operation is prudent and careful. The operation of the first quarter of 2019 appeared in the consolidated financial statements for the 3 months of the year 2019; the Company had a net loss of 3.86 million baht. The operation performane in the quarter 1/2019 can be considered better results when comparing the same period of the previous year 2018 with a net loss of 32.81 million baht.

In this regard, the financial statements for the 3 months of the year 2019, the Company has set an accounting provision estimate, such as depreciation of assets, impairment of assets, etc. total value of projected reserves is 6.24 million baht.

The management improvements during the quarter 1/2019 regarding revenues, the company continues to implement its strategy by focusing on 3 key sales channels: Retail Channel, Corporate Channel, and Export Channel which each channel has a clear policy on sales targets; and beyond that, each channel must manage the overall business operation of the channel by taking into account the costs and expenses incurred.

As a result, the company has sales of 200.65 million baht, increasing by 26.64 million baht or 15.31% of sales in the same period of the previous year. Besides, the overall cost is reduced; especially the transportation cost at 4.57 million baht, decreased by 38.49% when comparing in the same period of 2018 which is 7.43 million baht; along with close control the expenses of other items, causing the overall administrative expenses to decrease. For the increased cost of sales is in proportion to the revenue.

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

Although the economic situation of Thailand is still slowing, which is another main factor that is important to the operation, but the factors that have a significant impact and can result in both positive and negative results are climate conditions. The climate since early 2019 was influenced by the El Nino phenomenon. As a result, the average temperature of Thailand is higher than the normal value during January to February 2019, together with the amount of rain in Thailand that is 10-30% lower than the normal value. Therefore the market demands of cooling products such as air conditioners, evaporative cooler and fans were higher.

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

With climate factors affecting the overall operation in both positive and negative, as mentioned above the company must therefore keep closely monitoring. Adjustment of the policy as well as management strategies according to the situation; especially for the retail business channel that sells products through modern trade stores which the market sensitivity high on the climate. In the year 2019, the company plans to sell 120 modern-trade stores throughout the year. From the implementation of the said guidelines in the first 3 months of 2019, it is beneficial to the sale due to the opening of sales throughout the year; PC staffs at the department store have expertise in both product features and product selling techniques.

The company continuously looks for opportunities to create new marketing bases; both for corporate channel and export channel.

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

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

**Table 2: Sales summary by segments for the three-month period of 2019 ended May 14, 2019**

*Million Baht*

Segmentation	Jan-Mar 2019	Jan-Mar 2018	% Differential Y-o-Y
Retail Channel	78.59	79.68	(1.37%)
Corporate Customer Channel	15.69	17.89	(12.30%)
Exporting Distribution	83.19	58.69	41.74%
Services and Rental Units	20.32	12.10	67.93%
Others	2.86	5.65	(49.38%)
<b>Total Revenues</b>	<b>200.65</b>	<b>174.01</b>	<b>15.31%</b>

### **Retail Market**

The retail channel of the company consists of selling through modern trade stores, online, dealers and product booths. When comparing the 3-month period of 2018, the retail channel sales decreased by 1.09 million baht or 1.37%. When considering the retail business found that sales through Modern Trade had sales of 48.46 million baht, even comparable to the same period of last year at 47.66 million baht, implying an increase in average sales growth of each branch 108.29%

On the other hand, sales through that dealer Due to the small market in the region, the behavior has changed by choosing to find products from Modern Trade Department, especially during various promotions. May affect the overall sales through the dealer channel Therefore, the sales management through the dealer therefore focuses on the dealer that has potential and is ready to be able to drive sales continuously.

For online retail channels during the first 3 months of that year Still likely to continue to grow By the company selling through the company website Along with sales through the main shopping channel, Lazada, Shopee and JD Central.

### **Corporate Market**

Sales channels for corporate customers, the company continues to expand its target customer base. Although sales decreased by 2.20 million baht or 12.30% decrease from the same period of the year 2018, but the management according to the Business Unit guidelines that must control both the cost and expenses of the business unit; as a result, this sales channel is still a profitable channel, which the company has to accelerate to expand the customer base in the corporate market to get enough to cover the planned sales target. In order to strengthen the business, and reduce the volatility risk of the company's revenue fluctuation; because it is a channel that can generate recurring revenue from services with expertise in technology to solve hot weather problems, application of ozone system for energy saving and environmental protection.

### **Export**

During the first three months of the year 2019, the international business channel or export channel generate the highest-selling. The company has sales in the quarter 1/2019 at 83.19 million baht, or 41.47% increase of sales in the same period of the last year which sales of 58.69 million baht. The sales were continuously shown since the end of the year 2018, with the expansion of the Southern Hemisphere market.

## **Comparative analysis to the budgeting plan**

Action plan for the first 3-months of year 2019, the company has been allocated sales to key channels that are retail channel 40%, export channel 40%, corporate channel and others 20%, which an overview for the period was as expected.

For future plans, the Company needs to expand the market base for corporate sales channel, corporate in order to cover the targets under the Business-to-Business model which has a longer sales cycle due to the need for expertise in technology and tailor-made designs. Moreover, pushing products with no restrictions on sales seasons is needed for the modern trade channel to reducing the risk of revenue fluctuations.

### Financial Status

**Table 3: Summary statement of financial position as of May 14,2019**

Million Baht

Statement of Financial Position	Consolidated financial statements			
	31 Mar 2019	31 Dec 2018	+ /(-)	%
Cash and cash equivalents	17.50	27.02	(9.52)	(35.23)
Temporary investment	5.06	4.56	0.50	10.96
Trade and other receivables – related parties	190.85	103.14	87.71	85.04
Trade and other receivables – other parties	3.21	4.53	(1.32)	(29.14)
A/R under finance lease agreements due within one year	0.41	0.16	0.25	156.25
Inventory	182.64	179.78	2.86	1.59
<b>Total Current Assets</b>	<b>399.67</b>	<b>319.19</b>	<b>80.48</b>	<b>20.14</b>
Deposits with financial institutions that are pledged	70.75	70.75	0.00	0.00
Finance lease receivables	0.09	0.14	(0.05)	(35.71)
Property, plant and equipment	52.37	53.09	(0.72)	(1.36)
Intangible assets	4.41	4.77	(0.36)	(7.55)
Deferred tax assets	0.00	0.02	(0.02)	(100.00)
Revenue Department receivable	3.90	3.90	0.00	0.00
Other non-current assets	7.05	6.86	0.19	2.77
<b>Total non-current assets</b>	<b>138.57</b>	<b>139.53</b>	<b>(0.96)</b>	<b>(0.69)</b>
<b>Total assets</b>	<b>538.24</b>	<b>458.72</b>	<b>79.52</b>	<b>17.34</b>
Bank over drafts and short - term loans from financial institution	217.06	191.45	25.61	13.38
Trade and other payables – related parties	0.75	0.59	0.16	27.12
Trade and other payables – other parties	110.78	56.23	54.55	97.01
Contractual liabilities	8.45	9.88	(1.43)	(14.47)
Revenue Department Payable	4.67	1.16	3.51	302.59
Product Warranty Estimated Liabilities	5.88	5.80	0.08	1.38
Long-term liabilities due within 1 year	2.05	2.14	(0.09)	(4.21)
Short-term loans from related parties	10.00	10.00	0.00	0.00
<b>Total current liabilities</b>	<b>359.64</b>	<b>277.25</b>	<b>82.39</b>	<b>29.72</b>
Estimated long-term quality guarantee	0.23	0.23	0.00	0.00
Finance lease liabilities	1.17	0.58	0.59	101.72
Employee benefit obligations	11.60	11.26	0.34	3.02
Deferred tax liabilities	1.24	1.17	0.07	5.98
<b>Total non-current liabilities</b>	<b>14.24</b>	<b>13.24</b>	<b>1.00</b>	<b>7.55</b>
<b>Total liabilities</b>	<b>373.88</b>	<b>290.49</b>	<b>83.39</b>	<b>28.71</b>

Statement of Financial Position	Consolidated financial statements			
	31 Mar 2019	31 Dec 2018	+ / (-)	%
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</b>				
- Appropriated for legal reserve	8.26	8.26	0.00	0.00
- Un-appropriated retained earnings	(149.99)	(146.12)	(3.87)	(2.65)
<b>Total shareholders' equity</b>	<b>164.36</b>	<b>168.23</b>	<b>(3.87)</b>	<b>(2.65)</b>
<b>Total liabilities and shareholders' equity</b>	<b>538.24</b>	<b>458.72</b>	<b>79.52</b>	<b>17.34</b>

### Assets

As of March 31, 2019, the company has total assets of 538.24 million baht, which compared with the value of assets as of December 31, 2018 with the value of 458.72 million baht. The main details include:-

- Trade and other receivables - other parties: Value at the end of the period March 31, 2019, equal to 190.85 million baht, an increase of 87.71 million baht, representing an increase of 85.04% from the sale of products and services.
- Inventories: The value at the end of the period March 31, 2019 increased by 2.86 million baht, representing an increase of 1.59% because the company has brought blank fan products for homes, which are products that are not subject to the sales season to build a marketing base that can generate sales throughout the year.
- Financial lease receivables due within 1 year: value at the end of the period March 31, 2019, decreased by 1.32 million baht, representing a decrease of 29.14% according to normal business operations, which is characterized by the use of ozone systems for energy saving, etc.

### Liabilities

As of March 31, 2019, the company has total liabilities of 373.88 million baht, which compared with the total liabilities as of December 31, 2018 with the value of 290.49 million baht, the company has total liabilities increased 83.39 million baht, representing an increase of 28.71%, which The main details include:-

- Overdrafts and short-term loans from financial institutions: The value as of the end of March 31, 2019 was 219.06 million baht, an increase of 25.61 million baht or 13.38% which came from overdraft and short-term loans. Used as working capital in the business.
- Trade and other payables - other parties: Value as of the end of March 31, 2019, equals to 110.78 million baht, an increase of 54.55 million baht or 97.01%, which is a normal product payment from both manufacturers and suppliers in the country and abroad which the company will pay when the payment is due.

### Shareholders' Equity

As of March 31, 2019, the Company had shareholders' equity totaling Baht 164.36 million, which decreased by Baht 3.87 million or representing a decrease of 2.65% compared to the shareholders' equity as at December 31, 2018, which has shareholders' equity holding shares equal to 168.23 million baht. The decrease in shareholders' equity is due to the operating loss for the 3 months period 2019.

**Table 4: Financial Ratio**

Financial Ratio	Consolidated financial statements		+/( -)
	Jan-Mar 2019	Jan-Mar 2018	
<b>Liquidity Ratio</b>			
Current ratio	1.11	1.15	(0.04)
Quick ratio	0.60	0.50	0.10
<b>Profitability Ratio</b>			
Gross profit margin %	21.34%	17.98%	3.36
EBIT margin %	(1.91)%	(19.37)%	17.46
Net profit margin %	(1.92)%	(18.85)%	16.93
<b>Efficiency Ratio</b>			
Return on equity (ROE) %	(2.35)%	(19.50)%	17.15
Return on asset (ROA) %	(0.72)%	(7.15)%	6.78
Total assets turnover	0.37	0.38	(0.01)
<b>Financial Policy Ratio</b>			
Debt to equity ratio	2.27	1.73	0.54

**Liquidity Ratio**

Based on factors that affect the operating results for the 3 months of 2019, the liquidity ratio is down 0.04 times compared to the ratio at the end of the period March 31, 2018, but the current assets to current liabilities are still able to convert assets turn into cash.

As for the liquidity ratio, the speed increased by 0.10 times compared to the ratio at the end of the period March 31, 2018, due to increased sales. Besides the company still has inventory worth a total of 182.64 million baht that the company can sell in the future because the company's products are durable goods that do not deteriorate easily.

**Profitability Ratio and Efficiency Ratio**

From the operating results for the 3 months of the year 2019, the company had a gross profit margin of 3.36% from the control of the sales price structure. The operating profit margin and the net profit margin, even showing that the company is still not profitable; but compared to the same period of the previous year the company has improved operational efficiency. The operating profit margin for the 3 months of 2019 was (1.91%) compared to the same period of the previous year which was equal to (19.37%) and the net profit margin was (1.92%) compared to the same period of the previous year which is equal to (18.85%).

**Financial Policy Ratio**

The company's debt to equity ratio increased from the previous year. The debt-to-equity ratio for the 3 months of 2019 was 2.27 times, which increased by 0.54 times compared to the same period in 2018 as a result of the liquidity that was due in the past 2018. The company has overdraft and short-term loans used as working capital in the business.



(Mr. Noppachai Veeraman)

Managing Director