

Management Discussion & Analysis for three month period ended June 30, 2019

Industry Overview

Furniture industry is still stagnant, office furniture is more promising.

Furniture industry in 2019 is still stagnant due to unfavorable economic situation in residential sector. However, office furniture is still positive and shows promising growth.

Company in Overview

Focusing on social media channel

Consumer behavior has been changing in new digital era, MODERN has thus focused more on social media channel to communicate and enhance the operation.

The Chiwamitra Cancer Hospital at Ubon Ratchathani Province, invested through Modernform Health and Care PCL, our subsidiary, has a soft launch and start to operate since July 2019. Official launch will be organized soon.

Financial Performance Second Quarter of 2019

Revenue decreased by 12.2 percent to Baht 689.9 million with gross profit margin of 31.6 percent, a decrease of 0.6 percent

MODERN and subsidiaries recorded Baht 689.9 million from sales, rental, architectural design service and construction, representing 12.2 percent decrease of Baht 95.6 million from the same period in 2018. The gross profit margin was at 31.6 percent, decreased of 0.6 percent from the same period in 2018.

Net loss equaled Baht 19.3 million

At the second quarter of 2019, net loss of MODERN and subsidiaries amounted to Baht 19.3 million, compared with net profit from the same period in 2018 at 36.3 million. The main reason is from the Reserve for additional long-term employee benefit expenses of Baht 46.8 million according to the Labor Protection Act (No.7). The law is effective from May 5, 2019 for employee who worked for 20 years or more entitled to receive compensation not less than 400 days at the latest wage rate, as a result the Company recognizes the accounting loss.

At the second quarter of 2019, MODERN received shares of incomes from investment in associate and subsidiary companies total Baht 12.0 million, a decrease of 30.9 percent from the same period in 2018.

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Business units and subsidiaries performance**Office and residential furniture business**

Sales decreased by 15.2 percent to Baht 460.3 million

At the second quarter of 2019, invoicing sales of office and residential furniture decreased by 15.2 percent from the same period in 2018 to Baht 460.3 million.

Furniture fittings, solid surface, carpet tile and flooring business

Sales decreased by 4.4 percent to Baht 118.6 million

At the second quarter of 2019, sales of furniture fittings, solid surface, carpet tile and LVT flooring decreased by 4.4 percent from the same period in 2018 to Baht 118.6 million.

Office rental business

Rental income at Baht 22.6 million, an increase of 5.6 percent

At the second quarter of 2019, the business generated Baht 22.6 million rental incomes, or 5.6 percent increase compared to the same period in 2018.

Healthcare product and medical equipment business

Revenues of Baht 80.4 million, a decrease of 8.7 percent

At the second quarter of 2019, the business recorded revenues of Baht 80.4 million from sales, architectural design service and construction, a decrease of 8.7 percent from the same period in 2018.

Architectural design business

Revenues of Baht 8.0 million, a decrease of 11.6 percent

At the second quarter of 2019, the architectural and landscape design business recorded revenue Baht 8.0 million or 11.6 percent decrease from the same period in 2018.

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Financial status of MODERN and subsidiaries

Cash, cash equivalents and short-term investments decreased

As of June 30, 2019, MODERN and subsidiaries recorded Baht 276.9 million for cash, cash equivalents and short-term investments, decreased by Baht 75.0 million. Consolidated shareholders' equity accounted for Baht 2,290.0 million, decreased by Baht 100.3 million from the end of 2018 due to decreased retained earnings from dividend payment..

Baht 225.3 million of financial institution debts

MODERN and subsidiaries registered Baht 225.3 million of financial institution debts, decreased by Baht 121.4 million, compared to Baht 346.7 million at the end of 2018. The Company still maintains good liquidity and high retained earnings.