

No. ACC 2019/002

17 July 2019

Subject : Management Discussion and Analysis for the year ended 31 December 2018

To : President

The Stock Exchange of Thailand

Index Living Mall Public Company Limited (the "Company") would like to submit management discussion and analysis for its result of operations from the financial statement for the year-ended 31 December 2018 as follows:

Revenue Structure

The following table presents the Company's total revenues breakdown by business segment for the year- ended 31 December 2017 and 2018 with the following details:

	Consolidated Financial Statement For the year ended 31 December			
	2017		2018	
	THB mm	%	THB mm	%
Revenue from sale of goods	8,908.3	93.9	9,174.2	93.9
Revenue from rental and rendering	467.2	4.9	484.1	5.0
Total revenue from sale of goods and rental and rendering service	9,375.5	98.8	9,658.2	98.9
Other income ¹	112.6	1.2	109.6	1.1
Total Revenue	9,488.1	100.0	9,767.8	100.0

Note: ¹Other incomes include dividend income, interest income, gain from exchange rate, and other income.

Revenue from sale of goods

The following table presents the Company's revenue from sales of goods breakdown by distribution channels for the year- ended 31 December 2017 and 2018 with the following details:

	Consolidated Financial Statement For the year ended 31 December			
	2017		2018	
	THB mm	%	THB mm	%
Revenue from the sale of goods				
1.Domestic sales				
1.1. Retail stores	7,100.55	79.7	7,438.1	81.1
1.2. Projects	1,080.9	12.1	1,082.8	11.8
1.3. Dealer	152.2	1.7	133.1	1.5
1.4. Online	34.5	0.4	84.8	0.9
Total Revenue from Domestic Sales	8,368.1	93.9	8,738.9	95.3
2.Overseas sales				
2.1. Franchise and Dealers ¹	324.6	3.6	106.9	1.2
2.2. OEM	94.9	1.1	43.4	0.5
2.3. ILM Malaysia ²	13.2	0.1	175.4	1.9
2.4. Overseas Projects	107.5	1.2	109.6	1.2
Total Revenue from Overseas Sales	540.1	6.1	435.3	4.7
Total Revenue from Sales of Goods	8,908.3	100.0	9,174.2	100.0

Note :¹Revenue from sales of goods through franchises and distributors is revenue from sales of goods from the Company to franchisees and distributors. However, the Company had done a business restructuring. In the past, Index Living Mall Consulting DMCC ("ILMC"), which is a non-listed group under Patamasatayasonthi's control, did the franchise business. On 1 June 2018, the Company terminated Master Franchise Agreement with ILMC; then, gave the rights to Index Living Mall Inter Company Limited ("ILM Inter"). Therefore, the Company recognizes royalty fee from franchisees in term of revenue from rental and rendering service too since then.

Furthermore, revenue from sales of goods through franchises and distributors between 1 January 2017 to 11 December 2017 included sales of goods to Index Living Mall Malaysia ("ILM Malaysia") because during that time ILM Malaysia was an associated company.

² The Company increased its holding in ILM Malaysia from 30.0% to 51.0% on 12 December 2017. This made ILM Malaysia to be the Company's subsidiary. Therefore, the Company recognized ILM Malaysia's operation by using full consolidation method since 12 December 2017, while using equity method, which recorded result of operation as gain/loss from investment in associated company, when ILM Malaysia was an associated company.

Revenue from sales of goods for our retail stores, the Company's main source of revenue, is 81.1% of the total revenue from sales of goods for the year-ended 31 December 2018. In addition, Index Living Mall

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stores' and Index Furniture Center stores' revenue accounted more than 95.0% of revenue from sales of goods for our retail stores for the same period. The Company had opened 35 branches of Index Living Mall and Index Furniture Center across the country.

For the year-ended 31 December 2017 and 2018, the Company's total revenue from sales of goods equals THB 8,908.3 million and THB 9,174.2 million, respectively, which increased THB 265.9 million, or accounting for 3.0% growth. The increase was mainly due to (1) the increase in revenue from the sale of goods at our retail stores since the Company adjusted its sale strategy, competing more with product diversity rather than price reduction, and introducing new furniture brands such as Younique opened in September 2017 with a sales revenue of THB 14.4 million in 2017 to THB 227.9 million in 2018, accounting for 1,479.9% YoY growth. Moreover, the same store sales growth for our retail stores for 2018 was 3.3% comparing to 2017 (2) the increase in sales through online platforms as the Company developed its website and increasingly sells goods through other platforms and (3) Company's ability to maintain revenue from domestic project sales, similar to that of 2017. Nonetheless, the increase in the aforementioned revenue is partially offset by the decrease in revenue from overseas sales, mainly due to (1) the closure of franchise stores in Vietnam which the last store closed in December 2018 and (2) the closing of ILM Malaysia which is a subsidiary of the Company in Malaysia.

Revenue from Rental and Rendering Business

Revenue from rental and rendering business includes revenue from space rental and rendering services, revenue from after sales service, and revenue from franchise business. More than 85.8% of the total revenues from rental and rendering services in 2018 were from revenue from space rental and rendering services.

For the year-ended 31 December 2017 and 2018, the Company's revenue from rental and rendering services equals THB 467.2 million and THB 484.1 million, respectively, which increased THB 16.9 million, or accounting for 3.6% growth. The increase is mainly due to (1) the increase in tenants in Little Walk Bangna, The Walk Ratchapruek, and Index Mall Bang Yai and (2) the full-year operation of Index Mall Rama II and the opening of Little Walk Pattaya. However, the aforementioned increase is partially offset by (1) the decrease in revenue from space rental and rendering services in The Walk Kaset Nawamin as the occupancy rate had decreased from the same period in the previous year and (2) the decrease in the rental and rendering service revenue growth margin per square meter in 2018.

Cost and Gross Profit from Sales of Goods

For the year-ended 31 December 2017 and 2018, the Company's cost of goods sold equals THB 5,096.9 million and THB 5,118.9 million, respectively, with an increase of THB 22.0 million, or accounting for 0.4% growth. In addition, the gross profit from sales of goods increased by THB 243.9 million or accounting for 6.4% increased from 2017. The gross profit margin from sales of goods increased from 42.8% in the year-ended 31 December 2017 to 44.2% in the year-ended 31 December 2018.

The increase in gross profit and gross profit margin from sales of goods in 2018 was consistent with the increase in the Company's sales revenue. Furthermore, the increase in the Company's gross profit from sales of goods in 2018 is mainly from the increase in revenue from Younique and the adjustment in sale strategy, competing more with product diversity rather than price reduction, and the increased efficiency of manufacturing process.

Cost and Gross Profit from Rental and Rendering Business

For the year ended 31 December 2017 and 2018, the Company's cost of rental and rendering business equals to THB 255.5 million and THB 276.1 million, respectively, which increased by THB 20.6 million, or accounting for 8.1% growth. The gross profit from rental and rendering business in 2018 decreased by THB 3.7 million, or accounting for 1.8% decreased, from 2017. The Company's gross profit margin for rental and rendering business decreased from 45.3% for the year-ended 31 December 2017 to 43.0% for the year-ended 31 December 2018.

The decrease in gross profit and gross profit margin from the rental and rendering business in 2018 is mainly due to occupancy rate in The Walk Kaset Nawamin decreasing and Index Mall Rama II decreasing significantly as the basement area was significantly affected by the flood at the beginning of 2018. Moreover, the Company's acknowledgement of the increased cost from opening new spaces and branches in 2018 includes Index Mall Bangna and Little Walk Pattaya, in addition to the decrease in the average rental and rendering business revenue per square meter.

Distribution Costs

For the year-ended 31 December 2017 and 2018, the Company's distribution cost equals THB 2,174.1 million and THB 2,400.0 million, respectively, increased by THB 225.9 million, or accounting for 10.4% growth, or 24.4% and 26.2% of total revenue from sales of goods, respectively. The increase in distribution cost is mainly due to (1) the recognition of ILM Malaysia's distribution cost from 12 December 2017 onwards (2) costs related to the opening of new branches and (3) cost of television and online advertisement of the Company's products.

Administrative Expenses

For the year-ended 31 December 2017 and 2018, the Company's administrative expenses equal THB 1,034.8 million and THB 1,145.0 million, respectively, increased by THB 110.2 million, or accounting for 10.6% growth, or 11.0% and 11.9% of total revenue from sales of goods and rental and rendering services, respectively. The increase in administrative expenses is mainly because of (1) the hiring of more top managements to strengthen and increase the efficiency of the Company's operation and (2) the increase in transportation cost which corresponds to the increase in sale revenue and the adjustment of shipping rate in May 2018.

Loss from discontinued operation plan of subsidiary

The board of directors approved the closure of ILM Malaysia and recorded impairment in related asset, adjustment of demolition fee and fines from the termination of contracts amounting THB 161.5 million in the consolidated financial statement for the year-ended 31 December 2018. ILM Malaysia had stopped all operation in January 2019 and is currently in the legal process of dissolution.

Finance Costs

For the year-ended 31 December 2017 and 2018, the Company's finance cost equals THB 183.7 million and THB 169.6 million, respectively, decreased by THB 14.1 million, or accounting for 7.7% decreased, which is mainly due to the adjustment to the management of funds, using short-term loans and repay long-term loans for the time period.

Tax Expenses

For the year-ended 31 December 2017 and 2018, the Company's tax expenses equal THB 123.2 million and THB 60.7 million, respectively, decreased by THB 62.5 million, or accounting for 50.7% decreased, which is mainly due to the deduction of allowance for impairment of investment amounting THB 69.9 million and losses that are not recorded as deferred tax assets of ILM Malaysia amounting THB 58.1 million.

Net Profit and Net Profit Margin

For the year-ended 31 December 2017 and 2018, the Company's net profit equals THB 497.3 million and THB 430.9 million, respectively, decreased by THB 66.3 million, or accounting for 13.3% decreased. In addition, the net profit margin decreased from 5.2% for the year-ended 31 December 2017 to 4.4% for the year-ended 31 December 2018.

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While the Company's gross profit from sales of goods increased, the Company has changed the recording method of revenues and expenses of ILM Malaysia in the financial statement from 12 December 2017 onwards which ILM Malaysia experienced losses in addition to the increase in distribution cost and administrative expenses. Moreover, the Company has recorded losses from discontinued operation plan of subsidiary amounting THB 161.5 million.

In consideration of the net profit before deducting the losses on fair value of previously-held equity interest prior to the change of status from associate to subsidiary amounting THB 31.1 million in the fourth quarter of 2017 and losses from discontinued operation plan of subsidiary amounting THB 161.5 million in 2018. The Company's adjusted net profit before deduction of losses in 2017 and 2018 equals THB 528.4 million and THB 592.5 million, respectively, increased by THB 64.1 million or accounting for 12.1% growth. Additionally, the adjusted net profit margin before deduction of losses increased from 5.6% for the year-ended 31 December 2017 to 6.1% for the year-ended 31 December 2018.

Analysis of Financial Situation

Assets

As at 31 December 2017 and 2018, the Company's total assets amounting to THB 12,315.1 million and THB 12,282.2 million, decreased by THB 32.9 million or accounting for 0.3%, mainly due to (1) the selling of current investments and available-for-sale investment (2) the decrease in total value of inventories from the gradual installation and delivery of projects (3) impairment of goodwill from the investment in ILM Malaysia as the Company is closing ILM Malaysia. However, the aforementioned decrease is partially offset by the increase in value of leasehold rights, investment properties, and property, plant, and equipment from the installation of solar cells, investment in expanding branches and investment in installing new machinery, and increase in other receivables from the increase in the rebate from suppliers.

Liabilities

As at 31 December 2017 and 2018, the Company's total liabilities amounting to THB 7,661.8 million and THB 7,709.7 million, increased by THB 48.0 million or accounting for 0.6% growth, mainly due to the increase of (1) short-term loans from financial institutions for investing in Index Living Mall Bang Krui - Sai Noi and Chaiyaphruk branch (2) other payables from construction cost of Index Living Mall Bang Krui - Sai Noi and Chaiyaphruk branch and Little Walk Pattaya, rental fee for leasehold rights for additional branch from

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related party and advertisement costs. Nonetheless, the aforementioned increase is partially offset by the decrease of (1) net repayment of long-term loans from financial institutions and (2) trade account payables from the Company's deceleration in the purchase of new products and manage the current products in the inventories.

Shareholders' Equity

As at 31 December 2017 and 2018, the Company's shareholders' equity equals THB 4,653.3 million and THB 4,572.4 million which decreased by THB 80.9 million or accounting for 1.7% mainly due to the payment of dividends of THB 500.0 million, and the decrease in non-controlling interests from the Company's closure of ILM Malaysia.

The Company has recorded the surplus on the business combination under common control within equity represents the difference of the book values of certain entities or business under common control under their cost as of the date of their acquisitions which accounted for THB 286.4 million since 2015 onwards. The surplus is a result of a shareholding restructuring within the group in 2015 that IDF purchased a stake in Bangkok Casa Company Limited ("CASA") at price of THB 218.1 million. The difference between book value at pro-rata to IDF's stake in CASA and purchased price at the acquisition date is THB 74.3 million. In addition, the Company purchased a stake in IDF at price of THB 960.0 million. The difference between book value at pro-rata to the Company's stake in IDF and purchased price at the acquisition date is THB 212.2 million.

Please be informed accordingly,

Yours Sincerely,



(Mrs. Kanokwanrat Srimaneesiri)

Chief Financial Officer