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**Central Pattana Public Company Limited**

## **3Q 2009 Results Briefing:**

**CPN – Central Pattana Plc.**

**CPNRF – CPN Retail Growth Leasehold Property Fund**

### **Analyst Briefing Transcript**

**Event Date/Time: November 24, 2009 / 1100 hrs**

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*Central Pattana (“CPN”) – VP of Property Management*

*As a representative of CPNRF’s Property Manager*

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## **Presentation – Central Pattana Plc.**

### ***Moderator:***

Good morning analysts, investors and honorable guests and welcome to CPN and CPNRF' third quarter results briefing. It is my pleasure to introduce our panel members of the today briefing. The first is Khun Naris Cheyklin, the CFO and Senior Executive Vice President – Accounting, Finance and Property Management of CPN. The second is Khun Naparat Sriwanvit, the Vice President – Finance of CPN. The third is Khun Thanasombat Sanitwongse, the Vice President – Property Operation Area of CPN. And the last is Khun Vijchu Chantatab, the Executive Vice President – Investment Management of SCB Asset Management.

We will firstly start with session on CPN performance and new projects update, followed by those of CPNRF. Afterward we will conclude this briefing with question and answer session. Let me now invite Mr.Naris to share some highlights from this set of third quarter results; Mr Naris please.

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### ***Speaker: Mr.Naris Cheyklin, the CFO and SEVP of CPN***

#### **Slide 5**

Over the third quarter 2009, the company has performed in-line with the projected goal for both existing shopping centers, as well as several newly opened centers. This includes CentralPlaza Chiangwattana, which was opened on November 27, 2008, CentralFestival Pattaya Beach, which was opened on January 2009, CentralPlaza Udon Thani, which has been acquired on April 8, 2009, CentralPlaza Chonburi, which was opened on May 29, 2009, and the latest CentralPlaza Khonkean, which, from what I have observed last week, is very well-prepared and 83% of leasable area has already been leased out. The opening of CentralPlaza Khonkean would no doubt be the event that Khonkean people and surrounding area are looking forward to, and with our intention to enhance consumer appetite, we hope that we will be very welcomed there. Personally, I believe the opening of CentralPlaza Khonkean, which will be on December 3, 2009, should be filled up easily, especially with a nice weather there, and so I would take this opportunity to invite everyone to join this beautiful event on this upcoming December 3.

For the 3Q09 financial performance of the company, total revenues registered Baht 2,929.0 million, up by 25% yoy, mainly from the newly opened projects opened as previously mentioned. Net profit increased by 1% yoy to Baht 550 million, which mostly due to a rise in operating and depreciation expenses upon increasing number of projects as well as some discount given to tenants of newly opened shopping centers, especially for CentralFestival Pattaya Beach, in which, on the third quarter, has been affected by seasonally lower number of tourists. However, these financial figures have recently improved in-line with higher number of tourists and we expect better performance at the end of the year. Also, another factor contributes to an increase in expense was a rise in leasehold payment to the State Railway Authority of Thailand for CentralPlaza Lardprao land and buildings according to its renewed contract, which then limits a potential increase in profit, despite higher revenue.

An occupancy rate for retails remained stable at 96%, while an effective retails rental rate stayed at Baht 1,246 per sq.m. per month. Note that this effective rental rate has already included those of newly opened shopping centers, of which rents usually start at lower rate than those of existing shopping centers since some discount still has to be given at the beginning phase. However, a growth for average rent excluding newly opened shopping centers stood at 1.4% yoy, reflecting current sluggish economy.

Occupancy rate of office properties stayed at 86%, mainly due to a slight lower-than-expected occupancy rate at Chaengwattana office.

#### **Slide 7**

For our pipeline projects, an agreement for Chiangrai land has already been finalized and we have undertaken this land as disclosed before. This will then adds our pipeline projects from existing pipeline projects namely CentralPlaza Chiang Mai 2, CentralPlaza Rama 9 as well as the Pre-cadet school, in which we are still undergoing with the land transfer agreement.

#### **Slide 8**

Occupancy for our nine shopping centers within Bangkok still stood high at 97%, however, with a slight decrease from CentralWorld from 97% to 96% and from CentralPlaza Chaengwattana from 93% to 92%, but this would not pose concerns since we consider this as a temporary drop. For CentralWorld, we are currently working hard on increasing occupancy by replacing some unperformed restaurants with strong international restaurant with 400-500 sq.m. A Chinese restaurant will be opened in early 2010.

#### **Slide 9**

For upcountry shopping centers, an occupancy rate for our five shopping centers remained at 94%, which then made an overall occupancy rate for CPN remained stable at 96%.

#### **Slide 10**

In terms of office properties, occupancy rate increased from 85% in 2Q09 to 86% in 3Q09, which contributed from a slight improvement in occupancy rate at Chaengwattana office. Also, we have already signed an MOU agreement with Tops headquarter, which will be moved from the office at CentralPlaza Lardprao office to Cheangwatana office, making an occupancy rate for Cheangwatana office in 1Q10 to be approximately 20% higher. Moreover, we also have two more potential tenants at the Cheangwatana office which will easily fill up our occupancy rate to 100% in 2010.

#### **Slide 11**

For Centara Udon Thani, an occupancy rate slightly drops from 83% to 76%, reflecting low tourist season, however, we expect higher occupancy rate for 4Q09 in-line with higher tourist number.

**Slide 12**

For contract type, fixed rent contract remained stable at 50%, while floating rate (% of sales) stayed at 22% and long term lease was at 28%. According to our policy, we are trying to increase percentage of floating rent, to in-line with international standard. Moreover, in due future, we expect to convert fixed rent contracts as many as possible to percentage of sale type, which will help reflecting our marketing strategies as well as consumer behavior.

**Slide 13**

Rental rate growth, excluding the newly opened shopping centers, stood at 1.4% yoy as mentioned previously. However, including newly opened shopping centers, average rental rate slightly decreased by 2.7% yoy, resulting from lower rental rate for new upcountry shopping centers in upcountry.

**Slide 15**

For the latest CentralPlaza Khonkean, we have designed its exterior to look like "Kra- thip" (Northeastern authentic rice container), in which the updated photos can be found on our website. Also, for an interior, we have nearly completed the furnishing and most utilities can be used by now. We already have 83% confirmed tenants, which they are now doing fitting-out, and all anchors are ready to open, especially for SF cinema, which expects to be opened on December 3, 2009.

**Slide 16**

Another nearly-opened project is The Hilton Pattaya BeachHotel, located on the top of CentralFestival Pattaya Beach. The opening is confirmed to be on 3Q10, and we are now starting recruiting staffs. We expect that, by delaying the construction 6 months, we can take advantage of high season by the time of the opening.

**Slide 17**

For CentralPlaza Rama 9 project, the photos on the slide shows that the construction is on its way and we are trying to shorten the construction period as to what we have done at CentralPlaza Khonkean to take advantage of early opening. We will have Robinson Department Store - flagship store at CentralPlaza Rama 9, which will be one of our anchors and we are also looking for other anchors as magnets for traffic that can differentiate us from other nearby shopping centers.

**Slide 18**

Moreover, despite the pre-cadet school as our future potential site, we also have CentralPlaza Chaingmai 2, which is now under the designing period and we anticipate the construction to be started in the near future. Besides, another future project is CentralPlaza Chaingrai, which is located adjacent to Big C Superstore on Phahonyothin Road. We expect this shopping center to be a traffic magnet for people from Chaing Rai, Pa-yoa, Nan, and Prae Provinces. However, CentralPlaza Chaingrai is considered as medium-size project since the market is not as big as those in Chaing Mai.

For overseas project, we are under the negotiation process with Chinese partner and an official announcement of this deal is expected to be on 1Q10. With this deal, our strategy in the next five years is to be the regional company that can expand our investment into other regional countries, especially in Asia, which have similar taste and culture to Thailand. However, this regional expansion has to base on our financial capability, such as the land price and the potential rental rate.

**Slide 19**

Move to our financial side, capex has been adjusted up from that of the previous quarter, resulting from our new potential sites, which are CentralPlaza Chaingrai and another unannounced potential sites in upcountry. For enhancement projects, most of the capex falls on the renovation of CentralPlaza Lardproa.

**Slide 20**

We expect that in 2012, the total leasable area will increase to 1.17 million sqm., excluding those from new projects such as CentralPlaza Chaingrai or CentralPlaza Chaingmai 2.

This is an overall operational performance of our existing shopping centers, under developing projects as well as our future projects. Let me turn it over to Ms. Naparat to walk you through details on the financials; Ms. Naparat please.

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***Speaker: Ms. Naparat Sriwanvit, Senior Vice President of Finance, CPN***

**Slide 22**

On slide 22, revenues grew in-line with our projection by 26% yoy, mainly came from new projects. However, profit did not grow as highly as revenues since, as Mr. Naris said, the expense was quite high due to additional depreciation from the new projects and higher sublease payment of CentralPlaza Lardproa, while revenue grows in-line with growing occupancy rate.

**Slide 23**

The revenue breakdown for 3Q09 was similar to those in 2Q09, with major contribution from shopping malls, and growth from the newly opened projects.

**Slide 24-25**

Selling and administration expense also grew in-line with the growing revenues, mainly from the opening of the newly opened shopping centers.

**Slide 27**

For capital structure, 3Q09 net interest bearing debt to equity stood at 1.1%, however, after CentralPlaza Pinkloa project being leased to CPNRF on November 2009, we anticipated a drop in net

interest bearing debt to equity to 0.7%, below the company's comfortable level of 1.0%. Other ratios, such as interest coverage remained high at 12.2 times.

### **Slide 28**

Our debt structure still emphasized more on long term debt at 91% of total debts, while short term debt accounted for 9%. Average cost of debt remained low at 4.4% pa., reflecting low market interest rate and lower interest rate for our new projects. Moreover, for the ratio of fixed and floating interest rates, we are trying to maintain high proportion on fixed-interest-rate debt, which was currently around 65-70% of total debts.

This comes to the end of CPN presentation. I will pass it over to Mr.Vijchu for CPNRF's third quarter results.

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## **Presentation – CPN Retail Growth Leasehold Property Fund**

***Speaker: Mr. Vijchu Chantatab, EVP of Investment Management of SCB Asset Management***

Good morning investors of CPNRF and CPN.

### **Slide 5**

In this quarter presentation, I would like to add a new section in; "the Capital Increase", which has just been completed in November 2009.

On early November 2009, CPNRF has invested in CentralPlaza Pinklao project with a total investment of Baht 5,680 million and investment period of 15 years. This investment has made the total fund size to increase from Baht 10,910 million to Baht 15,764 million. Besides, we have borrowed Baht 1,000 million at rate MLR -1.75% to MLR -1.00% with a 12-year tenor, which is matched with asset life of CentralPlaza Pinklao project. Note that this is the first time for property fund to use loan as a part of capital increase and according to the SEC, property fund cannot use loan more than 10% of its NAV. By using debt in our capital increase, unitholders will get a benefit from a higher yield as a result of higher gearing ratio. The investment has completed on November 4, 2009, and newly issued units have been registered at the SET on November 9, 2009.

### **Slide 6**

Firstly, the benefit of capital increase for both fund and unitholder is that CPNRF has been able to invest in a prime asset of CPN, which is able to generate consistent cash flow. Secondly, there will be no dilution to existing unitholder since our goal is to invest in asset that can generate revenue without diluting yield and IRR of fund. More detail on DPU accretive to unitholder can be found on CPNRF's prospectus. Thirdly, capital increase also enhances fund size, which reflects better economy of scale in terms of diversifying operating expenses as well as higher liquidity of fund. Fourthly, by having more assets in the fund, we can improve risk diversification of the fund by diversifying location of each asset as revenue flows from different sources. Another benefit, as mentioned previously, is the benefit from

gearing of Baht 1,000 million, which will bring higher yield for unitholders. Lastly, the main objective of fund is to bring CPNRF to a higher standard property fund, in terms of asset quality and size of fund, in both Thailand and within region. By doing so, we have to achieve both organic growth, which is growth in revenue from existing assets, as well as growth through an acquisition.

#### **Slide 8**

As for financial performance, the latest distribution shown in the table is the distribution for the third quarter plus one month (totaling 4 months before the capital increase) since we believe the remaining revenues and other benefits from exiting assets should be all distributed to existing unitholders. Therefore, the distribution for 3Q09 was Baht 0.3046 per unit, slight higher than the usual of approximately Baht 0.22 per unit. By looking at performance in 3Q09, net investment income increased to Baht 263.2 million from Baht 251.7 million in 3Q08 and Baht 257.3 million in 2Q09, which representing an increase of 4.6% yoy and 2.3% qoq, respectively. The 4-month distribution was Baht 332.5 million, calculated by using Baht 263.2 million from 3Q09 plus 1-month distribution from October 2009, which was then equal to Baht 0.3046 per unit and annualized yield of 9.9%.

#### **Slide 9**

Property income of Baht 335.8 million in 3Q09 showed an efficient income stream from properties as compared to Baht 329.7 million in 3Q08 and Baht 331.7 million in 2Q09. On the other hand, interest income decreased to Baht 2.0 million from Baht 7.3 million in 3Q08 and Baht 3.6 million in 2Q09, reflecting current lower market interest rate. Overall, total income remained stable at Baht 337.7 million. Moreover, property expense declined to Baht 69.5 million from Baht 74.7 million in 3Q08 and Baht 72.7 million in 2Q09, mainly due to efficiency cost control. Therefore, total net investment income in 3Q09 increases to 263.2 million Baht, improving for both yoy and qoq.

#### **Slide 10**

Balance sheet as at 3Q09 has not changed much from that as at 2Q09. Investment in property remained the same as at the previous quarter as valued by appraiser. However, investment in securities and cash has changed slightly. Note that investment in securities referred to those in low risk securities such as government bond or T-bill. Overall, total asset grew effectively as projected from Baht 11,919.4 million as at the end of 2Q09 to Baht 11,946.1 million as at the end of 3Q09. This resulted in slightly higher net asset in 3Q09 of Baht 11,365.7 million, compared to Baht 11,354.0 million in 2Q09. NAV per unit also rose, reflecting efficiency of fund, from Baht 10.4021 per unit in 2Q09 to Baht 10.4129 per unit in 3Q09.

#### **Slide 11**

By comparing variety of yields in this slide, we can see that CPNRF still offers good opportunity to investors in terms of high yield of 9.93% compared to 4.53% for SET dividend yield, 3.93% for 10-year government bond, 3.73% for 5-year government bond, or even less than 1% for deposit. CPNRF should, therefore, be an attractive alternative for investors who looking for consistent cash flow and low volatility.



**Slide 12**

By looking at CPNRF distribution payment, it can be seen that we continuously distributed consistent cash flow over periods. However, the latest distribution has jumped slightly due to longer period for distribution as mentioned previously.

*Speaker: Mr. Thanasombat Sanitwongse, Vice President – Property Operation Area of CPN*

**Slide 14**

For the performance of CentralPlaza Rama 2 and CentralPlaza Rama 3, operation was considered good as the market was active and traffic remained high. However, occupancy rate has slightly declined from 98.1% in 2Q09 to 97.2% in 3Q09 due to difficulty in filling up tenants as a result of sluggish economy.

**Slide 15**

As for new and renewed lease profile, total new and renewed lease profile for CPNRF portfolio stood at 12,439 sq.m., with an average of 4.7% pa. increase in rental rate. This increase in rental rate came from 4.9% pa. increase in rental rate in CentralPlaza Rama 2 and 4.6% pa. increase from CentralPlaza Rama 3.

**Slide 16**

Tenants with expiring lease still continue to renew their lease in 3Q09. For CentralPlaza Rama 3, tenants of 29% of occupied area have expiring lease and 15% of those has already renewed their lease, leaving 14% to renew their lease in 4Q09. There will be zoning change for CentralPlaza Rama 3, which will start in 2010. For CentralPlaza Rama 2, 5% of occupied area are expiring lease tenants, which will have to renew their lease in 4Q09.

**Slide 17**

Rental Structure between fixed rent and floating rent remained similar to that of 2Q09.

**Slide 18**

Tenant mix in 3Q09 also stayed roughly the same as in 2Q09. Nevertheless, the change in tenant mix of CentralPlaza Rama 3 should start next year, by adding more F&B on the 6<sup>th</sup> floor.

**Slide 19**

For anchor tenants, most of their lease term remained unchanged, except for Fitness First, which has just renewed its lease.

Overall operation of both CentralPlaza Rama 2 and CentralPlaza Rama 3 still performed well. Moreover, expiring tenants continued to renew their leases, which will help increase rental rate to 5-6% each year.

**Mr. Naris:** As a property manager, I would like to add from what Mr. Thanasombat said on the renovation of CentralPlaza Rama 3. CentralPlaza Rama 3 has been opened since 1997, and it is now in due time for renovation. This renovation will not be a major one, but in the form of phase by phase renovation, which will be held next year. Currently this year, we have already renovated restrooms, and the plan for 2010 is to re-zoning the fashion section. This section contains small shops, in which most of them are long term lessee, and the current design of this section are not so stylish. This renovation will help this fashion section to be trendier and more convenient by improving design as well as adding escalators.

### Questions & Answers

**Question:** For the newly opened projects, how much discount has to be given, and how much is the discount given to Central World currently?

**Answers: Ms.Napararat:** Less discount are needed to be given upon better traffic. For CentralPlaza Chaengwattana, the discount is now lower to 1 figure and we expect the discount on 4Q09 to be around 5-6%. For CentralFestival Pattaya Beach, some discount still has to be given due to lower number of tourist, however, on 4Q09, we expect the discount to be lower than 10%. For CentralPlaza Chonburi, the discount given is not as high, which is around 3-5%. For CentralWorld, the discount rate on 3Q09 was 25%, however, on October 2009, the discount rate has decreased to 19%, and we are now trying to maintain discount rate on 4Q09 to be between 15-20%.

**Answers: Mr.Naris:** Most of the restaurants at Central World, at the moment, are easily filled up, especially in the evening; therefore, discount rate will not be given to most of the restaurants. Also, we are trying to decrease discount rate for leading fashion brands with increasing revenue, even give no discount to some. Therefore, with these help to decrease discount rate, we expect total discount rate in 2010 to continue declining. Moreover, we also have higher traffic, especially during weekend, as well as higher number of tourists as a result of our billboard at the airport.

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**Question:** For CentralPlaza Chaengwattana, the discount has been increased on 3Q09, has it been decreased on October?

**Answer: Ms. Naparat:** Yes, the discount rate has been continuously dropped since 3Q09, and it is now around 5-6% on the beginning of 4Q09.

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**Question:** For CentralPlaza Lardproa renovation, there is an option to entirely close the shopping center, why would you choose this choice?

**Answer: Mr. Naris:** Initially, our plan for CentralPlaza Lardproa renovation was to renovate part by part, and we had follow that plan accordingly. However, the construcion team has offered an option to entirely close the shopping mall for a shorter construction period. So we are now under study the effects of these two options. Roughly, the pros side of the part by part renovation is for the shopping center to still continue to operate and there will still be a traffic flow from both tenants and visitors. In

case if each part of renovation affect one fifth of the shopping center, approximately 20% of tenants would be affected, but the common area will still be able to operate normally, and this was the plan that we have done since last year. Nevertheless, the cons side of this is that we will have to give some discount to tenants during a longer period of the construction. On the other hand, if we entirely close the shopping center, the direct effect would be a loss in revenue during the construction period. However, the pros side is that, after the construction finishes, we will have an entirely new look of CentralPlaza Lardprao as well as higher new rental rate. Nevertheless, the plan is expected to be finalized at the end of this year, and will be officially announced at the beginning of 2010.

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**Question:** For CentralPlaza Lardprao renovation, if we entirely close for 6 months, will there be any discount given to tenants? Moreover, how much the new rental rate will increase after the renovation finishes?

**Answer: Mr. Naris:** There will be no discount given to tenants since all the leases will be expired by then and most of the contracts at the moment are temporary. Therefore, the only loss will be a loss in rental revenue during the renovation. However, if we do the part by part renovation, apart from loss in revenue from the zone that is under the construction, we will also have to give some discount, which will be around 20-30%, to tenants that will be affected by the construction nearby. For the new rental rate after the renovation, we have not finalized the rate yet.

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**Question:** Have the renovation of CentralPlaza Lardprao started yet?

**Answer: Mr. Naris:** No, regardless of how the renovation will be done, the renovation will start on 2Q10, which will start with the M&E construction first.

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**Question:** For CPNRF, what is the payout ratio for the distribution in 3Q09 of Baht 0.3046 per unit?

**Answer: Mr. Vijchu:** Baht 0.3046 per unit accounts for 95% of net income available for distribution.

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**Question:** What is the capex for the renovation of CentralPlaza Rama 2 and CentralPlaza Pinklao? Where will this capex come from and will it affect yield of CPNRF?

**Answer: Mr. Vijchu:** We still have not yet finalized the capex for both CentralPlaza Rama 2 and CentralPlaza Pinklao renovations, but we have already allocated capital for them, therefore, it will not affect yield of the fund. More detail on projected capex for CentralPlaza Pinklao can be found in CPNRF prospectus, however, the precise figures will have to be announced again in due time.

**Question:** About the office for Tops Headquarter, which will be moved from Central Plaza Lardprao office to CentralPlaza Chaengwattana office, will there be any new tenants to replace Tops Headquarter in CentralPlaza Lardprao office? And when will Tops Headquarter move out?

**Answer: Mr. Naris:** Yes, we will replace Tops Headquarter with education and beauty shops, which has higher rental rate. Since most of education and beauty shops pose less important on location, some of them will be moved from shopping center to the office tower, which will then enable us to increase the rental rate of the space in shopping center.

Tops Headquarter will be moved out on 1Q10, so we will start moving education and beauty shops to the office tower during the renovation. The renovation would not affect the office building much since majority of the renovation for office tower will be on an exterior, therefore, the office building will not be entirely closed during the renovation.

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**Question:** How much is the increase in rental rate for CentralPlaza Ramindra after the renovation has finished?

**Answer: Mr. Naris:** The rental rate has increased approximately 10% after the renovation has finished. However, we cannot compare this with CentralPlaza Lardprao renovation.

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**Question:** How much is the sublease payment for CentralPlaza Lardprao before and after the renewal of sublease contract with the State Railway Authority of Thailand?

**Answer: Ms. Naparat:** The payment before the contract renewal was approximately Baht 60 million per year and it is now approximately Baht 450 million.

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**Question:** At CentralPlaza Chaingmai 2, will there be Central Department Store or Robinson Department Store?

**Answer: Mr. Naris:** There will be Central Department Store at the CentralPlaza Chaingmai 2.

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**Question:** When will there be a further development of CentralPlaza Chaingmai 2?

**Answer: Mr. Naris:** The construction should be started around mid 2010.

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**Question:** When will the construction for CentralPlaza Chaingrai finish? And has the Capex Slide already included the construction cost for CentralPlza Chaingrai?

**Answer: Mr. Naris:** Currently, we have already finalized the construction plan and we expect the construction to be finished around the beginning to mid of 2011. Moreover, the construction cost for CentralPlaza Chaingrai has already included in Capex.

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**Question:** For the Srinakarin project, how much was the investment cost? And have these sunk costs been written down yet?

**Answer: Mr. Naris:** We have not put down much investment cost on that project, barely just the cost for land adjustment.

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**Question:** What is the current condition and improvement for CPN's China project?

**Answer: Mr. Naris:** For China project, we are currently under the negotiation process for the site. An official announcement of this project will be on the first or second quarter of 2010. The budget for this project has not yet been finalized.

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**Question:** Since the distribution for CPNRF of 9.93% has already included the principle, how much is the yield for pure distribution?

**Answer: Mr. Vijchu:** According to CPNRF prospectus for the capital increase, yield for 2010 is approximately 11%. However, whether or not there will be a capital decrease, it would depend on the appraisal value, which will be appraised every year. Nevertheless, as the time goes, the assets life will be shorter, which will be reflected in the appraisal value of the assets, and the decrease in capital will have to be adjusted with this assets value. To calculate an approximate capital decrease, including CentralPlaza Pinklao project, we could simplify using straight-line approach, which will yield approximately 3% for the principle out of 11% yield.

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**Moderator:**

Thank you for your attention on our third quarter results announcement briefing. For more information on CPN and CPNRF, please visit CPN and CPNRF corporate websites at [www.cpn.co.th](http://www.cpn.co.th) and [www.cpnrf.com](http://www.cpnrf.com), respectively, or directly contact Investor Relations Department. Thank you.

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For more information, please contact CPN Investor Relations: [ir@cpn.co.th](mailto:ir@cpn.co.th)

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