

### Performance Overview

Thai economy in 1Q16 has not yet shown a clear sign of improvement, partly affected by the drought causing agricultural sector to suffer from lower agricultural output and prices, and the contraction of merchandise exports due to a slowdown in foreign demand. These conditions resulted in weak consumer confidence and purchasing power. Nevertheless, well-disbursed public spending and expanded services sector played crucial roles as major drivers of economic growth. Tourism sector continued to expand well with the number of foreign tourists increased by 15% from the previous year, led by a growing number of Chinese tourists and a pickup in ASEAN and European tourists. Furthermore, private consumption saw an improvement from last year while spending in department stores and supermarkets remained stable as middle- to high- income consumers stayed cautious about consumption. Hence, retail companies had to rely on markdowns to improve sales.

*Solid growth of over 19% y-o-y in total revenues and normalized profit, attributed to efficient mall management and effective operating cost control management*

In 1Q16, CPN reported solid growth in total revenues and net profit with total revenues of 7,229 MB and net profit of 2,390 MB, an increase of 16% and 11% y-o-y, respectively. Note that in 1Q15 CPN booked a non-recurring item under other income amounted to 134 MB from reversals of provisions for impairments of land at Khonkaen province, which was given higher appraised value. Excluding this non-recurring item, 1Q16 total revenues and net profit would have grown approximately by 19% y-o-y. The growth was attributable to:

- Contributions from 4 new projects launched during 2015 i.e. CentralPlaza Rayong (in May), CentralFestival Phuket (in June), CentralPlaza WestGate (in August) and CentralFestival EastVille (in November) as well as from CentralPlaza Pinklao after its completion of Phase 1 renovation in December 2015;
- Better performance at most of existing projects together with considerable growth in rent from promotional areas, driven by marketing strategies that reached defined target groups in each catchment area in order to attract those target customers to regularly visit and spend at our shopping malls. Common areas in malls were used for a variety of promotional events countrywide i.e. Royal Project's Strawberry Fair at CentralPlaza Chaengwattana as a magnet to attract mass target customers, Kumamon Wonder to bring target families at CentralFestival EastVille; and mini marathon events to draw health conscious consumers, etc. In addition, CPN also organized events such as Easter Festival and Samui walking street at our malls in main tourist destinations to stimulate sales;
- Food courts inside our new projects launched during 2015, a new food court in the Food Destination zone at our newly-renovated CentralPlaza Pinklao, and CPN's other food courts contributed to a significant increase in revenues from food and beverage;

- As for our hotel business, it continued to register higher revenues, especially at Hilton Pattaya Hotel, and
- The company continued to control its operating costs and administrative expenses. For instance, the energy and utilities conservation campaigns helped reduce utilities costs, which are normally the major component of operating costs. In addition, CPN has implemented a pooled procurement mechanism for supply chain management and marketing campaigns for all shopping centers under CPN's management in order to achieve economies of scale.

*1Q15 total revenues were up 2% with a 25% q-o-q net profit growth.*

CPN reported a 2% growth in revenues as compared with the previous quarter. This was partly due to a full-quarter operation of CentralFestival EastVille. Our net profit rose 25% from last quarter from a significantly drop in SG&A expenses.

## Operational & Financial Performance

At the end of 1Q16, the occupancy rate for CPN's retail properties stood at 93%, down 1% from 4Q15 due to lower occupancy at a few locations. At CentralPlaza Chiangmai Airport, for instance, where a contract with an anchor tenant expired and the area is now under renovation to accommodate new tenants. In addition, renovations on the ground floor for the Food Destination and on the seventh floor for the education hub of CentralPlaza Chaengwattana were also key factors hampering occupancy rate. Lastly, approximately 15% of the total area of the 1st-4th floor between department store and the office buildings of CentralPlaza Pinklao, which has been under renovation (Phase 2) since January, are now 90% completion. It should become fully operational again by June 2016.

Table 1: Operational Statistics

Retail properties	No. of Projects	Net leaseable area (sqm.)	Occupancy Rate (%)		
			1Q15	4Q15	1Q16
CPN in BMA	13	896,204	93%	93%	93%
CPN in Provinces	16	689,681	95%	95%	94%
Total	29	1,585,886	94%	94%	93%

Non-core Properties	No. of Projects	Net leaseable area (sqm.)	Occupancy Rate (%)		
			1Q15	4Q15	1Q16
Office	7	170,342	98%	98%	98%
Residential	1	1,568	38%	30%	37%
Hotel *	2	561 rooms	78%	75%	80%

\*Occupancy rate of Hotel Business was an average of 3 months (January – March)

## **Total Revenues**

### *Revenues from rent and services*

1Q16 consolidated revenues from rent and services registered 6,213 MB, an increase of 18% y-o-y, mainly from:

- Contributions from 4 new projects launched during 2015;
- Increased revenues from a new look CentralPlaza Pinklao with higher rental rate and occupancy after completing Phase 1 renovation in December 2015;
- Rental revenues increased more than 22% from promotional areas used for events in all of our 29 malls; and
- Higher revenues generated by existing malls nationwide i.e. at CentralPlaza Chiangrai, CentralFestival Samui, CentralPlaza Ubonratchathani, CentralFestival Pattaya Beach, and CentralPlaza Grand Rama 9, etc.

A q-o-q comparison showed a 3% revenue improvement, contributed by:

- Full-quarter contribution from CentralFestival EastVille, which became operational in 4Q15;
- Improvement in revenues from CentralPlaza Pinklao after completing Phase 1 renovation in December 2015; and
- Contributions from existing malls, especially the ones located in tourist destinations such as CentralFestival Chiangmai, CentralFestival Hatyai, and CentralFestival Phuket.

Excluding the 4 new projects launched in 2015, same store rental revenues for 1Q16 increased approximately by 2% y-o-y. This was still considered low due to the fact that this year CPN has involved rezoning and changing of tenants at various projects. In addition, CPN continued to provide temporary discounts to assist tenants at certain locations. However, the average rental rates for new and renew contracts should be approximately 5% higher than the previous rates. Note that the average rental rate in 1Q16 for all retail properties was at 1,571 Baht/sqm/mth.

### *Revenues from food and beverage*

In 1Q16, the food court business saw revenues improvement of 40% y-o-y to 313 MB. New food courts at our four recently-opened malls and the one inside the Food Destination at CentralPlaza Pinklao (following completion of Phase 1 renovation), and other existing outlets helped boost higher sales. In addition, promotional events and increasing traffic from Thai and tourists also resulted in an impeccable outcome in 1Q16.

Compared to the previous quarter, 1Q16 revenues from food and beverage showed an increase of 2% q-o-q, driven by full-quarter performance of a food court at CentralFestival EastVille and a new food court at CentralPlaza Pinklao. Also, good performances of food courts at CentralFestival Pattaya Beach, CentralFestival Samui, CentralFestival Phuket, and CentralPlaza Bangna were the prevailing factors.

### *Revenues from hotel operation*

Hotel operation, which is considered as CPN's complementary business, posted 277 MB revenues (+3% y-o-y). This was mainly from strong performance of Hilton Pattaya Hotel ("Hilton"). At the same time, Centara Hotel & Convention Centre Udonthani ("CUD") used sales promotion to stimulate demand from tourist groups. Hence, combined occupancy rate increased as compared to last year.

On a q-o-q basis, revenues from hotel operation increased by 2% with good business continuing from last year's festive season to the holiday season in the first quarter for Chinese, Korean, Hong Kong tourists including Thai tourists, helped driving up combined occupancy rate as compared to previous quarter.

### **Total Costs**

#### *Costs of rent and services*

Costs of rent and services constituted utilities, security & cleaning services, on-site personnel, land rental, depreciation & amortization, repair & maintenance costs and insurance premium and property tax of properties owned to earn rentals.

In 1Q16, costs of rent and services amounted to 3,093 MB, which increased by 19% y-o-y, which was in line with an 18% increase in revenues. This was primarily driven by cost of rent and services and depreciation expenses from new malls launched in 2015. The higher cost items mainly arose from an increase of 22 MB personnel costs and 261 MB depreciation expense. Utilities costs increased by 96 MB. However, the number declined by 31 MB (-4% y-o-y) on a same-store basis. The effectiveness of energy conservation measures began to bear fruit as power consumption in common areas declined.

On a q-o-q basis, costs of rent and services decreased by 3%, mainly due to a decrease of 84 MB from repair and maintenance costs. Utilities costs also came down by 21 MB, thanks to cooler weather helped reducing energy cost for air-conditioning system. The electricity tariff (Ft tariff) declined in both November 2015 and January 2016, we note.

#### *Costs of food and beverage*

Costs of food and beverage constituted costs of operating in-mall food centers, as well as depreciation and repair & maintenance costs of food center equipment and furniture, and decoration costs.

In 1Q16, costs of food and beverage was 244 MB (+37% y-o-y), which was in line with our 40% revenue growth, mainly derived from new malls launched in 2015. On a q-o-q basis, costs of food and beverage was at a similar level while revenues increased by 2%.

### *Costs of hotel operation*

In 1Q16, costs of hotel operation rose by 5% y-o-y to 88 MB, mainly from higher personnel costs at Hilton. The hotel hired temporary workers to accommodate its high occupancy seen during 1Q16. It also paid higher commissions to travel agents, given that the Chinese tourists prefer to book through this channel.

A q-o-q comparison saw a 5% cost increase, which was in line with higher revenues owing to higher occupancy at both hotels in the first quarter.

### **Administrative Expenses**

Total administrative expenses constituted expenses on personnel, marketing & promotion, office supplies, professional fees, and depreciation and amortization of office equipment and hotel properties.

Total administrative expenses in 1Q16 were 977 MB (+13% y-o-y). This was primarily due to additional personnel expenses following the launches of 4 malls in 2015 as well as 3 new condominium projects that started presales in January. Marketing expenses also went up, mainly from new malls. Despite launching 4 malls during the period, the administrative expenses increased at a slower pace than revenues, which reflected CPN's ability to control its expenses. It also came from our continuous cooperation with the Central group in terms of pooled procurement and marketing campaigns for all of CPN's malls in order to gain economies of scale.

On a quarterly basis, total administrative expenses recorded a 28% drop in the first quarter. This is normal as expenses for advertising and promotion events are seasonally high during festive season. Personnel expenses for yearly reserve for staff bonus are also usually high the fourth quarter. Lastly, marketing expenses related to opening of CentralFestival EastVille was noticeably lower in 1Q16 as compared to 4Q15.

### **Gross Profit Ratio & Operating Profit Ratio**

1Q16 Gross Profit ratio (excluding other income) was 49.7%, down from 50.3% over same period last year. The decrease reflected depreciation expense rising at faster pace than revenues for the shopping centers launched in 2015. However, Operating Profit ratio (excluding non-recurring items) rose from 38.8% to 39.2%, which was partly attributed to management income from CPNRF increasing after the completion of Phase 1 renovation at CentralPlaza Pinklao. In parallel, SG&A to total revenues ratio decreased compared with the same period previous year.

Compared to the previous quarter, Gross Profit ratio increased from 46.9% to 49.7% and Operating Profit ratio increased from 31.8% to 39.2%. The improvement arose from higher revenues from rent and services against lower costs as repair and maintenance, utilities, personnel, and administrative expenses declined across the board. In addition, management income and share of profit from CPNRF improved as mentioned earlier.

## Net Profit

1Q16 CPN recorded net profit of 2,390 MB, (+11% y-o-y and +25% q-o-q). Excluding the non-recurring item, net profit would have gained 19% y-o-y. The continuing growth was attributable to the following factors:

- Higher revenues generated from projects launched in 2015 including from CentralPlaza Pinklao after the completion of Phase 1 renovation in December 2015 with higher rental rate and occupancy. Existing projects around the country also experienced operational improvement;
- Noteworthy growth in revenues from food and beverage, and continuing growth of hotel business, especially at Hilton; and
- Efficient cost and expense control management reflected in utilities costs on a same store basis declining by 4% y-o-y. SG&A to total revenues ratio reduced from 15% to 14% y-o-y, which resulted in higher Operating Profit margin. Despite the fact that finance costs rose from additional borrowings during the period, the company still managed to report higher net profit in line with rising revenues y-o-y and q-o-q.

Table 2: Consolidated Results Summary

Consolidated Earnings (MB)	1Q15	4Q15	1Q16	% YoY (1Q15 vs 1Q16)	% QoQ Change
Revenue from rent and services	5,271	6,033	6,213	18%	3%
Retail	5,169	5,920	6,105	18%	3%
Office	98	112	108	10%	(3%)
Other supportive businesses	4	0	0	(92%)	0%
Revenue from hotel operations	268	264	277	3%	5%
Revenue from food and beverage	223	306	313	40%	2%
Other income	459	511	426	(7%)	(17%)
<b>Total revenues</b>	<b>6,221</b>	<b>7,113</b>	<b>7,229</b>	<b>16%</b>	<b>2%</b>
<b>Total revenues excluding non-recurring items</b>	<b>6,086</b>	<b>7,113</b>	<b>7,229</b>	<b>19%</b>	<b>2%</b>
Cost of rent and services	2,602	3,175	3,093	19%	(3%)
Retail	2,554	3,130	3,047	19%	(3%)
Office	45	45	45	0%	0%
Other supportive businesses	4	0	0	(92%)	0%
Cost of hotel operation	83	83	88	5%	5%
Cost of food and beverage	178	246	244	37%	(1%)
<b>Total costs</b>	<b>2,864</b>	<b>3,505</b>	<b>3,424</b>	<b>20%</b>	<b>(2%)</b>
<b>Operating profit</b>	<b>2,501</b>	<b>2,265</b>	<b>2,835</b>	<b>13%</b>	<b>25%</b>
<b>Operating profit excluding non-recurring items</b>	<b>2,367</b>	<b>2,265</b>	<b>2,835</b>	<b>20%</b>	<b>25%</b>
<b>Net profit</b>	<b>2,147</b>	<b>1,911</b>	<b>2,390</b>	<b>11%</b>	<b>25%</b>
<b>Net profit excluding non-recurring items</b>	<b>2,013</b>	<b>1,911</b>	<b>2,390</b>	<b>19%</b>	<b>25%</b>
<b>EPS (Bt)</b>	<b>0.48</b>	<b>0.43</b>	<b>0.53</b>	<b>11%</b>	<b>23%</b>
<b>EPS (Bt) excluding non-recurring items</b>	<b>0.45</b>	<b>0.43</b>	<b>0.53</b>	<b>19%</b>	<b>25%</b>
Gross Profit Margin (excl. other income)	50.3%	46.9%	49.7%	(0.6%)	3%
Operating Profit Margin	38.8%	31.8%	39.2%	0.3%	7%

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## **New Developments**

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Under its 5-year plan (2016-2020), CPN aims to increase its revenues at a compound annual growth rate (CAGR) of 15% per annum through asset enhancement to add value to existing malls, regular rental increase, and new project development. CPN targets to grow its portfolio by adding 2-3 new projects a year. In light of Thailand's urbanization, CPN will expand its business in Bangkok & vicinities, and the provinces. CPN, moreover, looks out for opportunities to offer new formats of retail business including innovative design and decoration to reinforce its eye-catching appearances, which would provide fresh unique experiences that can respond to local customers and foreign visitors' changing lifestyles. In addition, CPN has conducted additional studies on opportunities for investments in Southeast Asia, focusing on countries with good investments and growth potential with an aim to ensure future growth of business with stability and sustainability.

### **Retail Property Development**

#### **Domestic Expansion**

Currently, CPN's three new projects are under construction and design phase, namely CentralPlaza Nakhon Si Thammarat (south of Thailand), CentralPlaza Nakhon Ratchasima (northeast of Thailand), and Central Phuket Phase 2 including the asset enhancement of two existing projects, namely CentralPlaza Pinklao Phase 2 and CentralPlaza Bangna Phase 3.

#### **Overseas Expansion**

For the past five years, CPN has been contemplating overseas investment, especially in Asian countries with high economic potential to expand its business base while diversifying investment risks. CPN has looked into overseas investment opportunities including the renovation of existing projects as well as new development projects in areas with great potential. At this stage, CPN has signed a Joint Venture Agreement with I-R&D Sdn. Bhd. ("IRD") (formerly, I-City Properties Sdn. Bhd. as the contract party), an I-Berhad wholly-owned subsidiary, to form a joint venture, in which CPN through subsidiaries holds a sixty-percent (60%) stake and IRD holds a forty-percent (40%) stake. The Joint Venture will develop a RM 830 million (or approximately Baht 8,300 million) regional shopping mall at i-City, Shah Alam, Selangor DarulEhsan, Malaysia. CPN envisions retail commerce in Malaysia to be filled with opportunities and great potential. Furthermore, CPN has studied additional investment opportunities in Southeast Asian countries, with a focus on Vietnam and Indonesia.

### **Residential Property Development**

Recognizing the potential of mixed-use development of shopping complex projects, CPN plans to develop residence projects in optimal support of its core shopping-complex business. At present, CPN is developing residential projects (three condominiums) on CPN's shopping complex land adjacent to the Chiangmai, Khonkaen and Rayong projects, worth around 1,626 MB

(excluding land value). Presales has started since January 2016 with well-received response from customers. As of March 31, 2016 CPN achieved 100% take-up for Chiangmai project, 61% for Rayong project and 77% for Khonkaen project. All projects are now under construction in 2Q16, and will take about two years to complete and be ready for transfer in 2018.

**Table 3: New developments**

**Retail properties**

Location		Project	Progress	Completion	Net Leaseable Area (sqm.)
<b>Domestic</b>	<b>Provinces</b>	CentralPlaza Nakhon Si Thammarat	Under Construction	July 2016	26,000
		CentralPlaza Nakhon Ratchasima	Under Construction	2017	56,000
		Central Phuket Phase 2	Design Phase	2017	63,000
<b>Overseas</b>	<b>Selangor, Malaysia</b>	Central i-City	Under Construction	2018	89,700

**Residential properties**

Location		Project	Progress	Completion	Type
<b>Domestic</b>	<b>Provinces</b>	ESCENT Chiangmai	Under Construction	2018	26-storey Condominium
		ESCENT Khonkaen	Under Construction	2018	24-storey Condominium
		ESCENT Rayong	Under Construction	2018	25-storey Condominium

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**Capital Structure**

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*Net interest-bearing debt to equity at 0.33 times.*

As of March 31, 2016, outstanding interest-bearing debts was 21,567 MB, comprising of 74% fixed and 26% floating interest rates, increased by 42% from prior-year mainly to finance the investment in certain part of CentralFestival Phuket ("CFP") in 2015 and decreased by 5% from last quarter due to scheduled debt repayment and debenture redemption.

Net interest-bearing debt to equity ratio dropped from 0.39x in 4Q15 to 0.33x in light of reduction in outstanding loan balance and growth in retained earnings. CPN still maintained the net gearing below 1x, which reflected our high flexibility in sourcing funding for future business expansion as well as the company's robust financial status.

The capital structure with low debt-to-equity ratio does not only provide CPN high flexibility in sourcing funding for future business expansion but also reflects the company's robust financial status.

*1Q16 weighted average cost of debt 3.31% p.a.*

Finance costs in 1Q16 amounted to 180 MB, increased by 87% y-o-y, mainly due to higher borrowings and issuance of debentures during the year to fund the CFP acquisition. A weighted average cost of debt at the end of 1Q16 improved from 3.89% p.a. in 1Q15 to 3.31% p.a. in 1Q16.

On a q-o-q basis, finance costs increased by 6% due to the issuance of 3 tranches of debentures in last December and booking full-quarter interest expenses in this quarter.

**Table 4: Financial Position**

Financial Position (MB)	End of 1Q15	End of 4Q15	End of 1Q16	% Change Q-o-Q	% Change Y-o-Y
Current assets					
Cash and current investments	2,828	4,326	5,358	24%	89%
Other current assets	2,704	3,011	2,571	(15%)	(5%)
Total current assets	5,532	7,337	7,929	8%	43%
Non-current assets					
Investment properties <sup>(1)</sup>	63,421	74,796	74,742	(0%)	18%
Leasehold rights	11,519	11,644	11,482	(1%)	(0%)
Property & equipment (PP&E)	2,074	1,939	1,883	(3%)	(9%)
Other non-current assets	7,171	7,328	7,542	3%	5%
Total non-current assets	84,186	95,708	95,650	(0%)	14%
<b>Total assets</b>	<b>89,718</b>	<b>103,045</b>	<b>103,579</b>	<b>1%</b>	<b>15%</b>
Current liabilities	13,632	15,530	16,707	8%	23%
Non-current liabilities	32,135	40,714	37,652	(8%)	17%
<b>Total liabilities</b>	<b>45,767</b>	<b>56,244</b>	<b>54,358</b>	<b>(3%)</b>	<b>19%</b>
<b>Total equity</b>	<b>43,951</b>	<b>46,801</b>	<b>49,221</b>	<b>5%</b>	<b>12%</b>

<sup>(1)</sup> Investment Properties are booked at cost and depreciated with the straight-line basis over the life of the assets. The estimated fair value is 157,349 MB (157,100 MB: 31 December 2015), stated in the disclosure notes to the main financial statement no. 9 under "Investment Properties".