

Central Pattana Public Company Limited

Management's Discussion and Analysis

Consolidated Financial Results: 2Q07 and 1H07

Overall Performance

During the first half of 2007, Central Pattana Public Company Limited ("CPN") performed reasonably well despite of the soft domestic consumption and the stagnant economy. Office and retail spaces managed to achieve 91% and 95% occupancy rates, respectively. As for financial performance, 1H07 total revenue grew 18.0% y-o-y to 3,765.5 MB, on the openings of CentralWorld and higher rental and service income achieved at all other properties. Consolidated net profit was registered at 851.1 MB, down 4.2% y-o-y whilst EBITDA grew 25.0% to 2,132.2 MB, reflecting lower margin at the initial stage of the newly opened CentralWorld.

In May 2007, a dividend payment for the FY2006 performance of 671.1 MB (0.31 Bt/share) was paid. CPN issued five-year unsecured bonds totaling 3,000 MB in June 2007 at fixed interest rate of 4.25% per annum to fund new projects.

Starting from January 1, 2007, accounting policy for investments in subsidiaries has been changed to the "Cost Method" from the previous "Equity Method". This resulted in differences between consolidated financial statements and the Company's financial statements. Such change has no impact on consolidated financial statements and dividend policy.

Net Profit

- CPN reported 2Q07 net profit of 435.3 MB, up 4.7% q-o-q, due to higher margin of the newly opened CentralWorld upon escalating occupancy rate.
- On y-o-y basis, net profit slightly improved by 1.0%, reflecting lower margin at the initial stage of CentralWorld.
- For 1H07, net profit showed a negative growth of 4.2% as a result of additional depreciation of CentralWorld's expansion phase opened in August 2006 in addition to rental discount given to selective stores during its initial stage.

Total Revenue (Rental & Service Income and F & B Sales)

- Total revenue in 2Q07 grew 4.9% q-o-q to 1,927.4 MB, primarily due to higher occupancy rate at CentralWorld, higher rental and service income at CentralPlaza Ramindra after opening the renovation phase and additional income flow from new anchor at CentralPlaza Chiangmai Airport.
- On y-o-y basis, total revenue grew 20.8% y-o-y, mainly driven by the openings of CentralWorld and higher common area and air-conditioning service income after rate adjustment in August 2006.
- For 1H07, total revenue was registered at 3,765.5 MB, up 18.0% y-o-y from increases in rental and service income at all properties and the launch of CentralWorld's newly opened phase in August 2006.

EBITDA

- 2Q07 EBITDA stood at 1,098.9 MB, up 6.4% q-o-q, attributed to increase in rental and service income and subdued operating and administration expenses.
- EBITDA was up 32.0% y-o-y, resulted from the increase in rental and service income previously mentioned and relatively slower growth of operating and administration expenses.
- On the half-year basis, EBITDA was registered at 2,132.2 MB, up 25.0% y-o-y mainly from additional contribution from the newly opened CentralWorld.

Table 1: Consolidated Result for 2Q07 and 1H07 Summary

Consolidated Result 2Q07	2Q07 (Bt mil)	YoY % Chg	QoQ % Chg	1H07 (Bt mil)	YoY % Chg
Rental & service income and F & B sales	1,927.4	20.8%	4.9%	3,765.5	18.0%
Gross profit	798.4	13.5%	3.7%	1,568.5	9.1%
EBITDA	1,098.9	32.0%	6.4%	2,132.2	25.0%
Net profit	435.3	1.0%	4.7%	851.1	(4.2%)
EPS (Bt)	0.2	1.0%	4.7%	0.39	(4.2%)

Financial Performance Summary

Total Revenue

CPN reported 2Q07 consolidated income from rental & service and food & beverage of 1,927.4 MB, representing a growth of 4.9% q-o-q. Rental & service income amounted to 1,828.7 MB, up 4.8% q-o-q, primarily due to higher occupancy rate at CentralWorld and a full quarter contribution of the new anchor operational in March 2007 at CentralPlaza Chiangmai Airport in addition to continuous increase in revenue at CentralPlaza Ramindra after completion of its asset enhancement project in December 2006. Food & beverage sales was registered at 98.7 MB, up 6.5% q-o-q from increase in sales volumes at all food courts under CPN's management.

Compared to the same period of last year, 2Q07 income from rental & service and food & beverage grew 20.8%, supported by the openings of CentralWorld in August 2006 and new retail space at CentralPlaza Rattanathibet in December 2006, higher common area and air-conditioning service income after rate adjustment in August 2006, and continuous increase in rental rates achieved at all properties. Food & beverage sales dropped 10.1% y-o-y, following the closure of food courts at CentralWorld and CentralPlaza Ratchada-Rama 3 for renovation.

Other income in 2Q07 amounted to 161.0 MB, gaining 20.9% q-o-q and 50.0% y-o-y, primarily from higher management fee from CPN Retail Growth Fund ("CPNRF") and development fee from Thai Business Fund 4 for the construction management of the renovation phase of CentralWorld in addition to higher property tax income (charge back income) on higher occupancy at CentralWorld.

Total Cost

Total cost of rental & service and food & beverage include utilities, depreciation and amortization on rented properties, on-site personnel, repair & maintenance and property tax. In 2Q07 total cost amounted to 1,129.0 MB, up 5.7% q-o-q, primarily as a result of higher utility costs from the higher occupancy rate at CentralWorld and an additional depreciation of the renovation phase of CentralPlaza Ramindra.

On a y-o-y basis, total cost grew 26.4%, mainly due to additional depreciations of the renovation phase of CentralWorld and CentralPlaza Ramindra commenced in August and December 2006, respectively and the new parking building and retail space at CentralPlaza Rattanathibet completed in December 2006 in addition to the increase in utility costs at CentralWorld upon rising occupancy rate.

Cost of food & beverage stood at 74.9 MB, up 8.0% q-o-q, but down 10.4% y-o-y which were in line with the food & beverage sales as previously mentioned.

Total Operating and Administration Expenses

Total operating and administration expenses include expenses on personnel, advertising and promotion, office supplies, professional fees, depreciation and amortization on office equipments. In 2Q07, CPN recorded operating and administration expenses of 301.5 MB, representing a slight growth of 1.5% q-o-q.

Compared to the same period of last year, total operating and administration expenses increased 48.2%, driven by a significant increase in advertising and promotion spending after the opening of CentralWorld and higher personnel expenses from organization restructuring, salary base adjustment and increase in personnel in order to support business expansion.

Net Profit

CPN reported 2Q07 net profit of 435.3 MB, gaining 4.7% q-o-q mainly from the increase in total revenue and relatively flat in operating and administration expenses as previously mentioned. On a y-o-y basis, net profit showed a slight growth of 1.0%, reflecting relatively low margin at the initial stage of the newly opened CentralWorld.

Profitability

Gross Profit Margin

2Q07 gross profit margin was 41.1%, relatively flat q-o-q, but dropped from 44.1% in 2Q06, mainly due to lower margin at CentralWorld as a result of additional depreciation of the renovation phase and rental discounts given to tenants, which is considered as normal business for the initial stage of newly opened malls.

Net Profit Margin

2Q07 net profit was 20.6%, relatively flat q-o-q, but decreased from 24.6% in 2Q06, due to CentralWorld's lower gross profit margin, and increased advertising and promotion expense after the opening of CentralWorld.

Return on Equity

In 2Q07, return on equity stood at 14.1%, up from 13.6% in 1Q07, primarily as a result of higher contribution from the newly opened CentralWorld upon the rising occupancy rate and the steady costs and expenses. The ratio was down compared to the 15.1% of 2Q06 mainly from lower margin at the initial stage of CentralWorld.

Financial Position as at June 30, 2007

Assets

As at June 30, 2007, the consolidated assets amounted to 35,759.1 MB, a slight increase of 1,422.6 MB from that of the end of FY2006. Total current assets grew by 1,662.0 MB, or 37.4% from the end FY2006, mainly on proceeds from issuance of 3,000-MB unsecured bond in June 2007. Property and equipment slightly increased, due to land acquisition and construction at various projects. Other non-current assets declined by 419.9 MB from the end of FY2006 upon usage of withholding tax.

Liabilities

CPN recorded consolidated liabilities of 23,007.3 MB, an increase of 1,245.0 MB, or 5.7% from the end of FY2006 primarily on increases in non-current liabilities. During the first half of 2007, loans totaling 1,557.1 MB were repaid and five-year unsecured bond totaling 3,000 MB (at fixed 4.25% per annum) was issued in June 2007. As at June 30, 2007, total interest bearing debt stood at 12,555.0 MB, or 54.6 % of total liabilities.

Shareholders' Equity

Shareholders' equity was registered at 12,751.8 MB, an increase of 177.6 MB, or 1.4% from the end of FY2006, attributed to a combination of 1H07 net income and dividend payment of 671.1 MB (0.31 Baht/share), representing 40% of FY2006 net profit.

Capital Structure

Financial position remained strong. Net interest bearing debt stood at 7,550.0 MB with net interest bearing debt to equity ratio of 0.6 times.

Interest coverage ratio stood at 8.2 times, up from 7.6 times in 1Q07, mainly on a slight decrease in interest payment, given that weighted average interest rate declined from 5.7% per annum in 1Q07 to 5.2% per annum in 2Q07.

Obligation recovery service dropped from 2.3 times in 1Q07 to 0.5 times in 2Q07, attributed to higher loan repayment, cash payment for construction of various projects and FY2006 dividend payment in 2Q07.

In 2Q07, CPN repaid borrowings of 1,557.1 MB, of which 1,000 MB for unsecured bonds that matured in April 2007. As of June 30, 2007, interest-bearing debt comprised of 67% fixed and 33% floating interest rate with weighted average interest of 5.2% per annum.

Table 2: Key Financial Ratios

Key Financial Ratios	2Q06	1Q07	2Q07
Liquidity ratio			
Current ratio (times)	1.5	1.1	1.9
Quick ratio (times)	1.3	0.9	1.7
Cash generate from operation ratio (times)	0.4	1.1	1.3
Days account receivable (days)	7.2	12.9	18.0
Profitability ratio			
Gross profit margin (%)	44.1%	41.9%	41.4%
Operating profit margin (%)	36.7%	29.2%	31.0%
EBITDA margin (%)	48.9%	52.4%	52.6%
Net profit margin (%)	24.6%	20.8%	20.6%
Return on equity (%)	15.1%	13.6%	14.1%
Efficiency ratio			
Return on assets (%)	5.2%	4.8%	5.0%
Return on fixed assets (%)	7.4%	6.3%	6.6%
Assets turnover (times)	0.2	0.2	0.2
Financial policy ratio			
Obligation Recovery Service ^{/1} (times)	0.5	2.3	0.5
Net debt to equity (times)	0.6	0.5	0.6
Interest coverage ^{/1} (times)	6.5	7.6	8.2

Note: ^{/1} Cash generated from operation excludes cash payment of endorsed promissory notes.

Change in Accounting Policy

With the implementation of revised Thai Accounting Standard No.44 (TAS No.44) "Consolidated Financial Statements and Accounting for Investments in Subsidiaries", starting from January 1, 2007, the accounting for investments in subsidiaries has been changed to the "Cost Method" from the previous "Equity Method". This resulted in the differences between consolidated financial statements and the Company's financial statements, which are highlighted as follows:

Statement of Income for 1H07

1H07 net profit for the Company's Income Statement was 3,637.7MB, representing a difference of 2,786.6 MB (1.28 Baht/share) from the 851.1 MB for the Consolidated Income Statement.

Statement of Income for 1H06

1H06 net profit for the Company's Income Statement was 770.4 MB, representing a difference of 117.8 MB (0.06 Baht/share) from the 888.2 MB for the Consolidated Income Statement.

Balance Sheet as at December 31, 2006

Retained earnings was increased by 712.8 MB to 8,222.2 MB with a removal of 112.6 MB of Negative goodwill and an increase of 516.5 MB in Investment in subsidiaries and/or associates to 16,753.7 MB. Deferred tax asset was increased by 83.8 MB to 293.0 MB.

Note that the change has no effect on the consolidated financial statements and dividend policy. (see notes to the interim financial statements for the three-month and six-month periods ended 30 June 2007 no.14)

Operations

As at June 30, 2007 total leasable area stood at 843,531 sqm, which includes 691,649 sqm of retail space, 145,509 sqm of office space and another 6,373 sqm of residential space. The leasable area mentioned above also includes leasable area of CentralPlaza Rama 2 and CentralPlaza Ratchada-Rama 3, of which performance has been transferred to CPNRF but CPN still acts as the property manager.

Average occupancy for retail malls increased from 94% in 1Q07 to 95% in 2Q07. This was attributed to the renovation work at CentralWorld and the asset enhancement project at CentralPlaza Rattanathibet. Occupancy rate at CentralWorld increased from 88% in 1Q07 to 90% in 2Q07, as a result of continuous openings of food & beverage and retail fashion outlets. As for CentralPlaza Rattanathibet, occupancy rate reached 95%, up from 92% in the previous quarter upon openings of retail fashion stores at the renovated phase.

Average occupancy rate for CPN's offices remained unchanged at 91% in 2Q07. There was a slower pace than expected in leasing out space at the new office building, Pinklao Tower B, of which take up rate was 65% in this quarter. This was attributed largely to a glitch in office demand resulted from uncertainties in politics and Foreign Business Act.

Table 3: Operation Statistics

Retail Malls	Net Leaseable	Occupancy (%)		
	Area (sq.m)	2Q06	1Q07	2Q07
Ladprao	55,553	100%	99%	100%
Ramindra	18,038	79%	89%	90%
Pinklao	55,638	96%	98%	92%
Pattaya	15,227	100%	96%	100%
Ratchada-Rama 3	53,697	88%	97%	96%
Chiangmai	76,410	95%	99%	98%
Bangna	57,721	100%	99%	99%
Rama 2	96,419	98%	99%	99%
Rattathibet	77,095	99%	92%	95%
CentralWorld	185,851	56%	88%	90%
Total	691,649	88%	94%	95%

Offices	Net Leaseable	Occupancy (%)		
	Area (sq.m)	2Q06	1Q07	2Q07
Ladprao	18,134	100%	100%	97%
Pinklao A	22,560	98%	92%	92%
Pinklao B ^{/1}	11,335	37%	66%	65%
Bangna	9,796	100%	97%	98%
CentralWorld	83,684	84%	92%	93%
Total	145,509	86%	91%	91%

Note: ^{/1} Pinklao Tower B completed its conversion of apartment building into office building in 1Q06