

## Central Pattana Public Company Limited

### Management's Discussion and Analysis

### Consolidated Financial Results: 3Q07 and 9M07

#### Overall Performance

*3Q07 total revenue of 1,930.7 MB, flat q-o-q on sluggish economy and up 12.4% y-o-y on incremental revenue flow from newly opened CentralWorld.*

*3Q07 Net profit of 412.1 MB, down 5.3% q-o-q on flat revenue and increased marketing expense and drop 4.5% y-o-y on lower margin at initial stage of CentralWorld.*

Thailand's overall economy showed a sign of improvement in 3Q07 with slight pick up in private consumption and stronger domestic demand. In light of nascent recovery, depressed consumer confidence persisted. However, this did not have significant effect on shopper traffic flow in shopping malls, as there were continuous marketing promotions and activities. For overall Bangkok retail property market, vacancy rate was relatively unchanged at 5.0-6.0% with stable rental rates.

In 3Q07, Central Pattana Public Company Limited ("CPN") reported net profit of 412.1 MB, representing a decrease of 4.5% y-o-y. Total revenue increased by 12.4% y-o-y to 1,930.7 MB, EBITDA increased by 8.3% y-o-y to 988.5 MB, while operating profit dropped by 7.9% y-o-y to 643.4 MB.

In a nine-month basis, 9M07 net profit stood at 1,263.2 MB, down 4.3% y-o-y. Total revenue grew by 16.1% y-o-y to 5,696.1 MB with an increase in EBITDA of 19.2% y-o-y to 3,120.7 MB, while operating profit declined by 3.7% y-o-y to 1,955.3 MB, reflecting lower margin at initial stage of the newly opened CentralWorld.

During 3Q07, CPN had increased its stake in Central Pattana Nine Square Company Limited ("Nine Square") from 60.0% to 87.1%. The new land lease agreements were signed with the landlord which superseded the previous agreement. The increased equity portion presented in the consolidated balance sheet.

As for operational performance, amidst the weak retail sales, retail space was well managed and occupancy rate was maintained at 95% whilst that of office space achieved a slight increase to 93% in this quarter. Effective rental rate for retail space stood at 1,216 Bt/sqm/mth, flat q-o-q and up 3.8% y-o-y.

#### Net Profit:

- CPN reported 3Q07 net profit of 412.1 MB, down 4.5% y-o-y, reflecting lower margin of CentralWorld.
- On q-o-q basis, net profit dropped 5.3%, mainly due to higher marketing and promotion expenses and interest expenses for the bonds issuance in June 2007.
- 9M07 net profit was registered at 1,263.2 MB, representing a decrease of 4.3% y-o-y as a result of additional depreciation of CentralWorld's expansion and renovation phases in addition to increased marketing and promotion expenses and rental discount given to selective stores.

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

- Total revenue in 3Q07 grew 12.4% y-o-y to 1,930.7 MB primarily due to additional revenue from the newly opened CentralWorld.
- On q-o-q basis, total revenue relatively flattened, due to flat rents as a result of weak consumer spending.
- For 9M07, total revenue amounted to 5,696.1 MB, up 16.1% y-o-y, mainly driven by additional revenue after opening of CentralWorld and increases in rental and service income at all properties.

*3Q07 EBITDA dropped by 10.0% q-o-q on increased marketing expense, but grew by 8.3% y-o-y from incremental contribution from CentralWorld.*

#### EBITDA:

- In 3Q07, EBITDA increased by 8.3% y-o-y to 988.5 MB, primarily supported by incremental contribution from CentralWorld.
- On q-o-q basis, EBITDA dropped 10.0% as a result of higher marketing and promotional expenses.
- For 9M07, EBITDA was registered at 3,120.7 MB, up 19.2% y-o-y mainly from additional contribution from the newly opened CentralWorld.

Table 1: Consolidated Results Summary

Consolidated Result 3Q07 (Bt mil)	3Q06	2Q07	3Q07	YoY % Chg	QoQ % Chg	9M06	9M07	YoY % Chg
Rental & service income and F & B sales	1,717.6	1,927.4	1,930.7	12.4%	0.2%	4,908.2	5,696.1	16.1%
Gross profit	759.3	798.4	796.2	4.9%	(0.3%)	2,196.7	2,364.7	7.7%
EBITDA	912.5	1,098.9	988.5	8.3%	(10.0%)	2,618.0	3,120.7	19.2%
Net profit	431.7	435.3	412.1	(4.5%)	(5.3%)	1,319.8	1,263.2	(4.3%)
EPS (Bt)	0.20	0.20	0.19	(4.5%)	(5.3%)	0.61	0.58	(4.3%)

*Occupancy rate for retail space remained unchanged at 95% whilst that of office space increased to 93%.*

#### Operational Performance Summary

As at September 30, 2007 total leasable area stood at 849,487 sqm, which includes 697,603 sqm of retail space (up 2.5% y-o-y and flat q-o-q), 145,511 sqm of office space (flat y-o-y and q-o-q) and another 6,373 sqm of residential space (flat y-o-y and q-o-q). The leasable area mentioned above also includes leasable area of CentralPlaza Rama 2 and CentralPlaza Ratchada-Rama 3, totaling 132,768 sqm, of which performance has been transferred to CPNRF but CPN still acts as the property manager. Excluding those transferred to CPNRF, CPN's total retail leasable area stood at 564,835 sqm, enhanced by 3.0% y-o-y mainly from additional space of CentralPlaza Ramindra (+4,461 sqm) and CentralPlaza Rattathibet (+10,678 sqm) after completion of their asset enhancement projects in December 2006, in addition to the new retail space occupied by new anchor at CentralPlaza Chiangmai Airport (+2,937 sqm) in March 2007.

In 3Q07 average occupancy for CPN's retail malls stood at 95%, up from 81% in 3Q06, mainly supported by CentralWorld, of which its occupancy rate grew from 51% in 3Q06 to 90% in this quarter after having its full opening in December 2006. Effective rental rate of retail space in 3Q07 stood at 1,216 Bt/sqm/mth, relatively flat q-o-q and up 3.8% y-o-y, reflecting relatively higher rental rates of newly opened CentralWorld. This rental rate was taken into account rental discount given to selective tenants at CentralWorld during its initial stage.

Average occupancy rate for CPN's offices was 93%, slightly up from 90% of 3Q06 and 91% in the previous quarter. This was attributed to strong take-up rate at the new office building, Pinklao Tower B, of which take-up rate increased to 75% in 3Q07 from 52% and 65% in 3Q06 and the previous quarter, respectively.

Table 2: Operation Statistics

Retail Malls	Net Leaseable Area (Sqm.)	Occupancy Rate (%)		
		3Q06	2Q07	3Q07
Ladprao	55,553	99%	100%	100%
Ramindra	18,046	65%	90%	92%
Pinklao	55,638	96%	92%	92%
Pattaya	15,227	100%	100%	100%
Ratchada-Rama3	18,037	88%	100%	100%
Chiangmai	76,410	99%	98%	98%
Bangna	57,728	100%	99%	99%
Rama2	5,937	99%	100%	100%
Rattanaithibet	77,191	99%	95%	96%
CentralWorld	185,068	51%	90%	90%
<b>Total</b>	<b>564,835</b>	<b>81%</b>	<b>95%</b>	<b>95%</b>

Offices	Net Leaseable Area (Sqm.)	Occupancy Rate (%)		
		3Q06	2Q07	3Q07
Ladprao	18,134	100%	97%	96%
Pinklao A	22,560	97%	92%	92%
Pinklao B <sup>/1</sup>	11,335	52%	65%	75%
Bangna	9,796	98%	98%	96%
CentralWorld	83,686	90%	93%	94%
<b>Total</b>	<b>145,511</b>	<b>90%</b>	<b>91%</b>	<b>93%</b>

Note: <sup>/1</sup> Pinklao B completed its conversion of apartment building into office building in 1Q 2006.

## Financial Performance Summary

### Total Revenue

Consolidated income from rental & service and food & beverage in 3Q07 grew by 12.4% y-o-y to 1,930.7 MB. Rental & service income was up 13.3% y-o-y to 1,841.8 MB, mainly due to revenues from CentralWorld after opening its renovation phases in December 2006, the new anchor space operational in March 2007 at CentralPlaza Chiangmai Airport, and incremental contribution from CentralPlaza Ramindra and CentralPlaza Rattanaithibet after completion of their renovation in December 2006. Food & beverage sales declined by 4.0% y-o-y to 88.9 MB as a result of closure of food court at CentralWorld.

Compared to the previous quarter, 3Q07 rental & service income was relatively flat, on stagnant rental rate as a result of weak consumer spending while food & beverage incomes dropped by 10.0%, due to seasonal effect of in-mall food court business, of which incomes grow in the second quarter of year during school break. These contributed to a q-o-q flat in rental & service and food & beverage income.

Other income in 3Q07 amounted to 153.7 MB, down 4.5% q-o-q and 19.3% y-o-y, due to the inclusion of non-recurring development fee received from Thai Business Fund 4 for the construction of the renovation phase of CentralWorld in those of the previous quarter and the same period of last year.

### **Total Cost**

Total cost of rental & service and food & beverage include utilities, depreciation and amortization of rented properties, on-site personnel, repair & maintenance and property tax. In 3Q07 CPN recorded total cost of 1,134.5 MB, representing an increase of 18.4% y-o-y. Total cost of rental & service was up 20.2% y-o-y to 1,066.0 MB mainly from additional depreciation of the newly opened CentralWorld and the new parking building and retail space at CentralPlaza Rattana Thibet, which became operational in December 2006 in addition to higher utility cost upon increase in retail space and occupancy rate. Cost of food & beverage stood at 68.5 MB, down 4.2% y-o-y, which was in line with the decline in food and beverage sales.

Total cost was flat q-o-q, attributed to a slight increase of 1.1% in cost of rental & service, from higher cost of repair & maintenance, and a decline of 8.5% in cost of food & beverage, upon the drop in food & beverage sales.

### **Total Operating and Administration Expenses**

Total operating and administration expenses include expenses on personnel, advertising and promotion, office supplies, professional fees, depreciation and amortization of office equipments. In 3Q07, total operating and administration expenses amounted to 335.1 MB, a growth of 16.3% y-o-y, primarily driven by higher personal expenses at CPN's head office and marketing and promotional spending at all of the properties to boost shopper traffic and spending.

Compared to the previous quarter, total operating and administration expenses grew 11.1%, reflecting higher marketing and promotional expenses.

### **Net Profit**

CPN reported 3Q07 net profit of 412.1 MB, down 4.5% y-o-y, as a result of lower margin of CentralWorld at its initial stage and higher marketing and promotional spending.

On a q-o-q basis, net profit declined by 5.3%, as a result of flat revenue and higher marketing and promotional spending in addition to an increase in interest expenses following an issuance of 3,000-MB bonds in June 2007.

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## **Profitability**

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### **Gross Profit Margin**

3Q07 gross profit margin was 41.2%, relatively flat q-o-q, down from 44.2% in 3Q06, due to lower margin at CentralPlaza Rattana Thibet, driven by additional depreciation of the new phase in addition to lower gross profit margin at CentralWorld as a result of additional depreciation of renovation phase together with the rental discount given to tenants.

### **Net Profit Margin**

Net profit margin in 3Q06 stood at 19.5%, slightly down from 20.6% in 2Q07, on higher interest expenses, and down from 22.2% in 3Q06 on lower gross profit margin as previously mentioned and increased marketing and promotion spending.

Table 3: Profitability Ratios

Profitability Ratios	3Q06	2Q07	3Q07	FY06	9M07
<b>Profitability ratio</b>					
Gross profit margin (%)	44.2%	41.4%	41.2%	43.6%	41.5%
Operating profit margin (%)	34.1%	31.0%	27.8%	33.8%	29.3%
Net profit margin (%)	22.2%	20.6%	19.5%	22.6%	20.3%
Return on equity (%)	15.1%	14.1%	13.3%	14.3%	13.7%

### Financial Position as at September 30, 2007

#### Assets

As at September 30, 2007, the consolidated assets were recorded at 35,917.3 MB, comprising of 5,418.2 MB of current assets (15.1% of total assets), 27,304.3 MB of net property and equipment (76.0% of total assets) and 3,194.8 of other non-current assets (8.9% of total assets). Compared to the end of FY2006, total assets increased by 1,580.8 MB, or 4.6%, mainly due to increase in property and equipment from construction of Chaengwattana and Pattaya Beach projects.

As for q-o-q comparison, current assets declined by 11.9%, or 731.2 MB, mainly from decrease of cash and current investment for payment of construction of developing projects.

#### Liabilities

CPN recorded consolidated liabilities of 22,749.5 MB, of which 86.2% was non-current liabilities. As of September 30, 2007 interest bearing debt amounted to 12,300.1 MB, representing 54.1% of total liabilities. This includes 3,000-MB unsecured bonds issued in June 2007 for combined project CAPEX. Compared to the end of FY2006, total liabilities grew by 4.5%, mainly from the issuance of new bond, and slightly dropped by 1.1% compared to that of the end of previous quarter.

#### Shareholders' Equity

Shareholders' equity was registered at 13,167.8 MB, an increase of 416.1 MB q-o-q and 593.7 MB from the end of FY2006, from net income.

As of September 30, 2007 retained earnings stood at 8,200.4 MB, up 297.4 MB from that of June 30, 2007, mainly reflecting 3Q07 net earnings of 412.1 MB and premium payment over the net assets value of Nine Square, amounting to 114.7 MB (27.14% of Nine Square's accumulated deficit of 420 MB), as a result of increase of CPN's interest in Nine Square from 60.0% to 87.1%. This premium payment has been recorded as a reduction in the consolidated unappropriated retained earnings with a corresponding increase in the minority interest. The transaction was done in accordance with the restructure of the lease agreement of the Rama 9 project, which the management believes that it will benefit the company's legal position as well as create value to the company. (see notes to the interim financial statements for the three-month and nine-month periods ended 30 September 2007 no.6)

Table 4: Financial Position

Balance Sheet (Bt mil)	FY06	2Q07	3Q07
Total Assets	34,336.5	35,759.1	35,917.3
Total Liabilities	21,762.3	23,007.3	22,749.5
Interest-Bearing Debts	11,112.1	12,555.0	12,300.1
Shareholder's Equity	12,574.2	12,751.8	13,167.8
Retained earnings	7,727.3	7,902.9	8,200.4

### Capital Structure

*Net debt to equity remained at 0.6 times.*

Solid financial position was maintained with net interest bearing debt to equity of 0.6 times, relatively flat compared to those of the previous quarter and the end of FY2006. As of September 30, 2007, net interest bearing debt was 7,973.1 MB, increased by 5.6% from that as of 2Q07 from reduction of cash & cash equivalents and current investment used to finance construction of developing projects. Compared to that as of FY2006, the number grew by 7.4%, mainly due to more borrowing to finance combined project CAPEX.

3Q07 interest coverage ratio stood at 5.1 times, lower from 8.2 times in 2Q07, due to increased interest expenses and higher payment to contractor payable, resulting in lower cash generated from operations. For 9M07 interest coverage ratio increased from 5.9 times in FY2006 to 6.9 times, as a result of higher quarterly average of cash generated from operations.

*Weighted average interest rate stood at 5.3% pa., up 10 bps from that of 2Q07 and down 30 bps from that of FY2006.*

During 3Q07, CPN repaid borrowings of 254.9 MB and issued a total of 3,000 MB of five-year unsecured bonds at a fixed interest rate of 4.25%. As of September 30, 2007 interest bearing debt comprised of 68% fixed and 32% floating interest rate with weighted average interest of 5.3% per annum, compared to 5.6% of FY2006.

Table 5: Key Financial Ratios

Key Financial Ratios	3Q06	2Q07	3Q07	FY06	9M07
<b>Liquidity ratio</b>					
Current ratio (times)	1.2	1.9	1.7	0.9	1.7
Quick ratio (times)	1.0	1.7	1.5	0.8	1.5
Cash generate from operation ratio(times)	1.2	1.3	1.1	0.8	1.1
Days account receivable (days)	8.5	18.0	19.8	10.1	14.3
<b>Efficiency ratio</b>					
Return on assets (%)	5.2%	5.0%	4.6%	5.0%	4.8%
Return on fixed assets (%)	7.1%	6.6%	6.1%	6.1%	6.3%
Assets turnover (times)	0.2	0.2	0.2	0.2	0.2
<b>Financial policy ratio</b>					
Obligation Recovery Service <sup>/1</sup> (times)	0.6	0.5	0.6	0.5	0.7
Net debt to equity (times)	0.6	0.6	0.6	0.6	0.6
Interest coverage <sup>/1</sup> (times)	6.2	8.2	5.1	5.9	6.9

Note:

<sup>/1</sup> Cash generated from operation excludes cash payment of endorsed promissory notes.



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### Change in Accounting Policy

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*Change in accounting policy for Investments in Subsidiaries to "Cost Method". No impact on consolidated financial statements.*

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 9M07**

9M07 net profit for the Company's Income Statement was 4,068.6 MB, representing a difference of 2,805.4 MB (1.29 Baht/share) from the 1,263.2 MB for the Consolidated Income Statement.

#### **Statement of Income for 9M06**

9M06 net profit for the Company's Income Statement was 3,920.2 MB, representing a difference of 2,600.3 MB (1.19 Baht/share) from the 1,319.8 MB for the Consolidated Income Statement.

#### **Balance Sheet as at December 31, 2006**

Retained earnings 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 had no effect on the consolidated financial statements and dividend policy. (see notes to the interim financial statements for the three-month and nine-month periods ended 30 September 2007 no.14)