



## Central Pattana Public Company Limited Management's Discussion and Analysis Consolidated Financial Results: 4Q07 and FY2007

### Overall Performance

2007 is one of the tough years for retail sector due to soft consumer spending and stagnant economy mainly driven by persisting political uncertainties. This unfavorable situations had been continuously impacted the overall retail market and created high competition in retail industry. As a result, retail operators have implemented various marketing strategies and injected innovative promotion campaigns in order to reinforce consumer confident and thus spending. Signs of recovery, especially for domestic consumption and investment have been seen since the beginning of 2H07 following unwinding political tensions, and continued to build a modest improvement in consumer confidence and domestic consumption.

As for Bangkok retail property market, there was an approximately 220,000 sqm of new retail property supply, mostly in the forms of community malls and mixed-use developments, adding to the market during the year 2007. This represented an increase of 4.0% y-o-y. Regard to the steady new supply and slow-down economy, rental rates had generally been stable while vacancy rate remained at 5.0-6.0%.

*4Q07 consolidated net profit grew by 42.4% y-o-y to 520.0 MB. Excluding non-recurring item, the net profit declined by 16.3% y-o-y and 25.8% q-o-q to 305.9 MB.*

Central Pattana Public Company Limited ("CPN") reported 4Q07 consolidated net profit of 520.2 MB, representing an increase of 42.4% y-o-y, whilst total revenue registered 2,199.1 MB, up 22.3% y-o-y. The net profit incorporated with 214.3 MB of one-time income from compensation for cancellation of rights to certain land, approximately 875 sqm, at CentralWorld to ZEN Department Store. Excluding the non-recurring item, 4Q07 consolidate net profit stood at 305.9 MB, representing a drop of 16.3% y-o-y, while total revenue was 1,984.9 MB, up 10.4% y-o-y.

*FY2007 consolidated net profit was up 5.8% y-o-y to 1,783.4 MB. Net profit without non-recurring item dropped 6.9% y-o-y to 1,569.1 MB from higher marketing expenses.*

FY2007 consolidated net profit increased by 5.8% y-o-y to 1,783.4 MB with an increase in total revenue of 17.7% y-o-y to 7,895.3 MB. Excluding the non-recurring item, consolidated net profit declined by 6.9% y-o-y to 1,569.1 MB, in light of increased depreciation from enhancement projects and higher marketing and promotion expenses during the year of weak consumer confidence and the first year of full operation of CentralWorld. Total revenue without non-recurring item increased by 14.5% y-o-y to 7,681.0 MB with an increase in EBITDA of 2.0% y-o-y to 3,751.5 MB, mainly supported by incremental contribution of the CentralWorld.

Noted that starting from January 1, 2007, accounting policy for investments in subsidiaries and associates has been changed to the "Cost Method" from the previous "Equity Method". This resulted in differences between consolidated financial statements and the company financial statements. Such change has no impact on consolidated financial statements and dividend policy. (see notes to the financial statements for the year ended December 31, 2007 no.27)

Further, 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 and superseded the previous agreement. The increased equity portion presented in the consolidated balance sheet. (see notes to the financial statements for the year ended December 31, 2007 no.9)



As for operational performance, CPN's retail space was well managed with occupancy rate of 96% as at the end of 2007, compared to 91% as at the end of 2006. Occupancy rate of office space achieved a slight increase to 93% from 89% as at the previous year-end. FY2007 effective rental rate (after rental discount) for retail space stood at an average of 1,220 Bt/sqm/mth, up 4.8% y-o-y.

In addition, construction of CentralPlaza Chaengwattana (suburb of Bangkok) and CentralFestival Pattaya Beach (Chonburi Province – East of Thailand) is progressing as per schedule and within budget while sale targets were achieved at both sites. These two new projects should be commercial operated as planned in 4Q08 and 1Q09, respectively. Groundbreaking of the other two new developments, CentralPlaza Chonburi (Chonburi Province – East of Thailand) and CentralPlaza Khon Kaen (Khon Kaen Province – Northeast of Thailand), will be initiated in 1H08 with tentative opening dates in 3Q09 and 4Q09, respectively.

CPN's Board of Directors meeting has proposed for an approval at the shareholders' meeting on April 25, 2008 a dividend payment of Baht 0.33 per share, representing a dividend payout ratio of 40% of FY2007 net profit.

#### Net Profit:

- CPN reported 4Q07 consolidated net profit of 520.2 MB, up 42.4% y-o-y. Without the non-recurring item, consolidated net profit declined by 16.3% y-o-y to 305.9 MB, primarily due to higher marketing and promotion expenses.
- On a q-o-q basis, consolidated net profit without non-recurring item decreased by 25.8%, reflecting seasonal increases in marketing and promotion expenses during year-end celebrations and personnel cost (salary adjustment and annual bonus).
- For FY2007, consolidated net profit stood at 1,783.4, up 5.8% y-o-y. Excluding the non-recurring item, consolidated net profit dropped by 6.9% y-o-y to 1,569.1 MB, reflecting lower margin in the first operational year of CentralWorld and higher marketing and promotion expenses.

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

- In 4Q07 CPN recorded total revenue of 2,199.1 MB, up 22.3% y-o-y. Excluding the non-recurring item, total revenue stood at 1,984.9 MB, up 10.4% y-o-y, primarily attributed to newly opened CentralWorld and new retail space at CentralPlaza Rattana Thibet.
- On q-o-q basis, total revenue without the non-recurring item grew by 2.8%, mainly from new "Junction X" zone, opened in October 2007 at CentralPlaza Rattana Thibet.
- For FY2007, total revenue increased by 17.7% y-o-y to 7,895.3 MB. Excluding the non-recurring item, total revenue grew by 14.5% y-o-y to 7,681.0 MB, supported by incremental revenue from CentralWorld and higher service income after CAM charge rate adjustment in August 2006.

Table 1: Consolidated Financial Results

| Consolidated Result (Bt mil)            | 4Q06    | 3Q07    | 4Q07    | YoY % Chg | QoQ % Chg | FY06    | FY07    | YoY % Chg |
|-----------------------------------------|---------|---------|---------|-----------|-----------|---------|---------|-----------|
| Rental & service income and F & B sales | 1,798.1 | 1,930.7 | 2,199.1 | 22.3%     | 13.9%     | 6,706.2 | 7,895.3 | 17.7%     |
| Gross profit                            | 726.7   | 796.2   | 1,057.2 | 45.5%     | 32.8%     | 2,923.4 | 3,421.9 | 17.1%     |
| EBITDA                                  | 1,058.6 | 988.5   | 845.1   | (20.2%)   | (14.5%)   | 3,676.6 | 3,965.8 | 7.9%      |
| Net profit                              | 365.3   | 412.1   | 520.2   | 42.4%     | 26.2%     | 1,685.2 | 1,783.4 | 5.8%      |
| EPS (Bt)                                | 0.17    | 0.19    | 0.24    | 42.4%     | 26.2%     | 0.77    | 0.82    | 5.8%      |



### Operational Performance Summary

*Occupancy rate for retail space stood at 96%. whilst that of office space remained at 93%.*

As at December 31, 2007 total leasable area stood at 848,202 sqm, which includes 697,038 sqm of retail space (up 1.4% y-o-y and flat q-o-q), 144,791 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 132,369 sqm, of which owned by CPNRF, but managed by CPN.

In 4Q07 average occupancy for CPN's retail malls stood at 96%, up from 95% in 3Q07 and 91% in 4Q06, supported by higher occupancy rates at CentralWorld, CentralPlaza Ramindra and CentralPlaza Rattanathibet after completion of their asset enhancement projects in December 2006. 4Q07 effective rental rate (after rental discount) of retail space stood at 1,240 Bt/sqm/mth, up 2.0% q-o-q and 6.3% y-o-y. Noted that this rental rate was taken into account special rental discount given to groups of tenants at CentralWorld during its initial stage.

Average occupancy rate for CPN's offices was 93%, flat q-o-q and up from 89% in 4Q06. The increase was attributed to strong take-up rate at the Offices at CentralWorld, of which take-up rate increased to 95% in 4Q07 from 90% in 4Q06, and more space taken-up at Pinklao Tower B, of which take-up rate increased to 75% in 4Q07 from 60% in 4Q06.

Table 2: Operation Statistics

| Retail Malls   | Net Leaseable Area (Sqm.) | Occupancy Rate (%) |            |            |
|----------------|---------------------------|--------------------|------------|------------|
|                |                           | 4Q06               | 3Q07       | 4Q07       |
| Ladprao        | 55,562                    | 100%               | 100%       | 100%       |
| Ramindra       | 17,974                    | 76%                | 92%        | 99%        |
| Pinklao        | 55,777                    | 98%                | 92%        | 91%        |
| Pattaya        | 15,227                    | 100%               | 100%       | 99%        |
| Ratchada-Rama3 | 18,237                    | 100%               | 100%       | 100%       |
| Chiangmai      | 76,410                    | 99%                | 98%        | 98%        |
| Bangna         | 57,728                    | 99%                | 99%        | 99%        |
| Rama2          | 5,937                     | 100%               | 100%       | 100%       |
| Rattanathibet  | 77,132                    | 90%                | 96%        | 99%        |
| CentralWorld   | 184,685                   | 81%                | 90%        | 93%        |
| <b>Total</b>   | <b>564,669</b>            | <b>91%</b>         | <b>95%</b> | <b>96%</b> |

| Offices                 | Net Leaseable Area (Sqm.) | Occupancy Rate (%) |            |            |
|-------------------------|---------------------------|--------------------|------------|------------|
|                         |                           | 4Q06               | 3Q07       | 4Q07       |
| Ladprao                 | 17,719                    | 100%               | 96%        | 86%        |
| Pinklao A               | 22,560                    | 92%                | 92%        | 91%        |
| Pinklao B <sup>/1</sup> | 11,334                    | 60%                | 75%        | 75%        |
| Bangna                  | 9,796                     | 97%                | 96%        | 98%        |
| CentralWorld            | 83,382                    | 90%                | 94%        | 95%        |
| <b>Total</b>            | <b>144,791</b>            | <b>89%</b>         | <b>93%</b> | <b>93%</b> |

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



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## Financial Performance Summary

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### Total Revenue

*4Q07 total revenue grew by 22.3% y-o-y to 2,199.1 MB. Excluding non-recurring item, total revenue increased by 10.4% y-o-y and 2.8% q-o-q to 1,984.9 MB.*

In 4Q07 consolidated income from rental & service and food & beverage amounted to 2,199.1 MB, up 13.9% q-o-q and 22.3% y-o-y. During 4Q07, there was the non-recurring rental & service income of 214.3 MB from compensation for cancellation of rights to certain land, approximately 875 sqm, at CentralWorld to ZEN Department Store. This was to support the retail space enhancement of the department store. Excluding the non-recurring item, consolidated income from rental & service and food & beverage registered 1,984.9 MB, up 2.8% q-o-q and 10.4% y-o-y. Rental & service income amounted to 1,887.2 MB, representing an increase of 2.5% q-o-q from new "Junction X" zone, opened in October 2007 at CentralPlaza Rattanathibet, and a growth of 10.7% y-o-y, mainly from (1) CentralWorld after opening its renovation phases in December 2006, (2) the new anchor tenant (CaliforniaWoW Fitness) operational in March 2007 at CentralPlaza Chiangmai Airport, (3) new movie house (SF Cinema) commenced in February 2007 at CentralPlaza Ramindra and (4) the new "Junction X" zone opened in October 2007 at CentralPlaza Rattanathibet. Food & beverage sales increased by 9.9% q-o-q and 5.5% y-o-y, supported by better performance of in-mall food courts at CentralPlaza Pinklao and CentralPlaza Bangna.

*FY2007 total revenue grew by 17.7% y-o-y to 7,895.3 MB. Excluding non-recurring item, total revenue increased by 14.5% y-o-y to 7,681.0 MB.*

For FY2007, consolidated income from rental & service and food & beverage stood at 7,895.3 MB, up 17.7% y-o-y. Excluding the non-recurring item, consolidated income from rental & service and food & beverage grew by 14.5% y-o-y to 7,681.0 MB. Rental & service income grew by 15.7% y-o-y to 7,303.0 MB, driven by (1) an increase in service income from the new CAM Charge rate applied to all properties since August 2006, (2) higher contribution from CentralWorld after re-launching in December 2006, (3) additional income from new anchor tenant at CentralPlaza Chiangmai Airport and (4) stronger performance of CentralPlaza Ramindra and CentralPlaza Rattanathibet after completion of their asset enhancements in December 2006. Food & beverage sales declined by 4.7% y-o-y to 378.0 MB, due to cease of operation of CentralWorld's food court and an absence of income from food court at CentralPlaza Ratchda-Rama 3 during renovation.

### 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 4Q07, CPN recorded total cost of 1,142.0 MB, flat q-o-q and up 6.6% y-o-y. Total cost of rental & service grew by 6.7% y-o-y to 1,066.5 MB, mainly due to increases in property tax, insurance premium and utility cost upon escalating occupancy rate. Cost of food & beverage stood at 75.5 MB, up 10.2% q-o-q and 5.7% y-o-y, which were in line with the increase in food and beverage sales.

For FY2007, total cost increased by 18.3% y-o-y to 4,473.4 MB. Cost of rental & service grew by 20.3% y-o-y to 4,185.2 MB, reflecting additional depreciation & amortization of CentralWorld's expansion phase and higher utility cost mainly at CentralWorld after re-launching in December 2006. Meanwhile cost of food & beverage registered 288.1 MB, declined by 5.1% y-o-y, which was in line with the decrease in food and beverage sales.

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

Total operating and administration expenses include expenses on personnel, directors' remuneration, advertising and promotion, office supplies, professional fees, depreciation and amortization of office equipments. Total operating and administration expenses for 4Q07 stood at 580.8 MB, up 73.3% q-o-q due to seasonal increases in personnel expenses (salary adjustment and annual bonus) and marketing and promotion expenses. The latter's increase in the fourth quarter is considered normal for retail business, as retail operators implement more marketing activities and hold more campaigns during year-end celebrations. On a y-o-y basis, higher marketing and promotion expenses and increased number of personnel to support future projects contributed to a 54.4% increase in total operating and administration expenses.

For FY2007, total operating and administration expenses amounted to 1,514.5 MB, up 40.5% y-o-y from increase in marketing and promotion spending, mainly at CentralWorld, and higher personnel expenses. On the backdrop of sluggish economy and weak sentiment witnessed throughout 2007, CPN's marketing and promotion expenses grew by 80.3% y-o-y to 565.7 MB, representing 7.4% of total revenue without non-recurring item, compared to that of 4.7% in the previous year.

### **Net Profit**

CPN reported 4Q07 consolidated net profit of 520.2 MB, up 26.2% q-o-q and 42.4% y-o-y. Excluding the non-recurring item, consolidated net profit dropped 25.8% q-o-q and 16.3% y-o-y to 305.9 MB, mainly due to higher marketing and promotion expenses.

For FY2007, consolidated net profit stood at 1,783.4 MB, up 5.8% y-o-y. Excluding the non-recurring item, consolidated net profit declined by 6.9% y-o-y to 1,569.1 MB, reflecting an increase in operating and administration expenses as mentioned previously.

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## **Profitability**

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### **Gross Profit Margin**

4Q07 gross profit margin excluding non-recurring item stood at 42.5%, slightly increased from 41.2% in 3Q07 and 40.4% in 4Q06 as a result of improved gross profit margin of CentralWorld upon rising occupancy rate and lowering rental discount.

FY2007 gross profit margin excluding non-recurring item slightly declined to 41.8% from 43.6% in the previous year as a result of lower margin during the first full year of operation of CentralWorld.

### **Net Profit Margin**

4Q07 net profit margin excluding non-recurring item was 14.1%, lower when compared to 19.5% in 3Q07 and 18.2% in 4Q06. The decline in new profit margin was a result of seasonal increases in personnel expenses in the fourth quarter and the increase in marketing and promotion spending in 2007.



FY2007 net profit margin excluding non-recurring item was slightly down to 18.7% from 22.6% in the previous year, reflecting lower gross profit and higher spending in marketing activities and promotion campaigns.

Table 3: Profitability Ratios

| Profitability Ratios        | 4Q06  | 3Q07  | 4Q07  | FY06  | FY07  |
|-----------------------------|-------|-------|-------|-------|-------|
| <b>Profitability ratio</b>  |       |       |       |       |       |
| Gross profit margin (%)     | 40.4% | 41.2% | 48.1% | 43.6% | 43.3% |
| Operating profit margin (%) | 27.2% | 27.8% | 31.1% | 33.8% | 29.8% |
| Net profit margin (%)       | 18.2% | 19.5% | 21.8% | 22.6% | 20.7% |
| Return on equity (%)        | 12.4% | 13.3% | 16.3% | 14.5% | 14.2% |

### Financial Position as at December 31, 2007

#### Assets

As at December 31, 2007, the consolidated assets were recorded at 37,204.6 MB, comprising of 5,222.3 MB of current assets (14.0% of total assets), 28,795.0 MB of net property and equipment (77.4% of total assets) and 3,187.3 of other non-current assets (8.6% of total assets). Compared to the end of FY2006, total assets increased by 2,868.1 MB, or 8.4%. This was primarily attributed to the construction in progress of CentralPlaza Chaengwattana and CentralFestival Pattaya Beach projects, from which Property and equipment increased by 2,443.4 MB, or 9.3% from FY2006.

#### Liabilities

CPN recorded consolidated liabilities of 23,565.3 MB, of which 81.0% was non-current liabilities. At the end of FY2007, interest bearing debt amounted to 12,044.9 MB, representing 51.1% of total liabilities. Compared to the end of FY2006, total liabilities increased by 8.3%, mainly from (1) the 3,000-MB unsecured bonds issued in June 2007 for combined project CAPEX, and (2) bank avel on promissory notes for the land acquisition at Khon Kaen project.

#### Shareholders' Equity

Shareholders' equity was registered at 13,639.3 MB, an increase of 1,065.1 MB or 8.5% from that of the end of FY2006. As of December 31, 2007 retained earnings stood at 8,720.6 MB, up 993.3 MB from FY2006 from (1) the FY2007 consolidated net earnings of 1,783.4 MB, (2) dividend payment of 675.4 MB and (3) 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). The premium payment was a result of an increase of CPN's interest in Nine Square (from 60.0% to 87.1%) and 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, in which the management believes that it will benefit the CPN's legal position and the premium resulted from an allowance for impairment loss will be recovered from the performance of the Rama 9 project in the future. (see notes to the financial statements for the year ended December 31, 2007 no.9)



Table 4: Financial Position

| Balance Sheet (Bt mil) | FY05     | FY06     | FY07     | FY06 %Chg | FY07 %Chg |
|------------------------|----------|----------|----------|-----------|-----------|
| Total Assets           | 33,376.3 | 34,336.5 | 37,204.6 | 2.9%      | 8.4%      |
| Total Liabilities      | 21,590.2 | 21,762.3 | 23,565.3 | 0.8%      | 8.3%      |
| Interest-Bearing Debts | 11,040.8 | 11,112.1 | 12,044.9 | 0.6%      | 8.4%      |
| Shareholder's Equity   | 11,786.1 | 12,574.2 | 13,639.3 | 6.7%      | 8.5%      |
| Retained earnings      | 6,913.6  | 7,727.3  | 8,720.6  | 11.8%     | 12.9%     |

### Capital Structure

*Financial position remained solid with net debt to equity of 0.6 times.*

At the end of FY2007, net interest bearing debt to equity stood at 0.6 times, relatively flat compared to that at the end of FY2006. Interest coverage ratio improved from was 5.9 times in FY2006 to 7.3 times in FY2007, due to higher cash flows from operating activities.

*Weighted average interest rate stood at 5.5% pa., unchanged from that of FY2006.*

During FY2007, CPN repaid long-term borrowings of 2,067.1 MB and in June 2007, five-year unsecured bonds of totaling 3,000 MB, were issued to finance combined project CAPEX at a fixed interest rate of 4.25%. At the end of FY2007 interest-bearing debt comprised of 68% fixed and 32% floating interest rate. Weighted average interest remained at 5.5% per annum, unchanged from the FY2006. In declining interest rate environment, CPN has a policy to maintain interest rate at the fixed-to-floating ratio of 70:30.

Table 5: Key Financial Ratios

| Key Financial Ratios                              | 4Q06 | 3Q07 | 4Q07 | FY06 | FY07 |
|---------------------------------------------------|------|------|------|------|------|
| <b>Liquidity ratio</b>                            |      |      |      |      |      |
| Current ratio (times)                             | 0.9  | 1.7  | 1.2  | 0.9  | 1.0  |
| Quick ratio (times)                               | 0.8  | 1.5  | 1.0  | 0.8  | 0.9  |
| Cash generate from operation ratio(times)         | 1.4  | 1.1  | 0.8  | 0.8  | 0.9  |
| Days account receivable (days)                    | 11.3 | 19.8 | 14.6 | 10.1 | 13.8 |
| <b>Efficiency ratio</b>                           |      |      |      |      |      |
| Return on assets (%)                              | 4.3% | 4.6% | 5.7% | 5.0% | 5.0% |
| Return on fixed assets (%)                        | 5.3% | 6.1% | 7.4% | 6.1% | 6.4% |
| Assets turnover (times)                           | 0.2  | 0.2  | 0.3  | 0.2  | 0.2  |
| <b>Financial policy ratio</b>                     |      |      |      |      |      |
| Obligation Recovery Service <sup>/1</sup> (times) | 0.8  | 0.6  | 0.5  | 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)           | 9.7  | 5.1  | 5.6  | 5.9  | 7.3  |

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 differences between consolidated financial statements and the company financial statements, which are highlighted as follows:

#### **Statement of Income for FY2007**

FY2007 net profit for the Company Income Statement was 4,724.8 MB, representing a difference of 2,941.4 MB (1.35 Baht/share) from the 1,783.4 MB for the Consolidated Income Statement.

#### **Statement of Income for FY2006**

FY2006 net profit for the Company's Income Statement was 4,329.9 MB, representing a difference of 2,644.7 MB (1.22 Baht/share) from the 1,685.2 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 600.3 MB in Investments in subsidiaries and/or associates to 16,753.7 MB. Deferred tax asset was increased by 83.8 MB to 293.0 MB.

Noted that the change had no effect on the consolidated financial statements and dividend policy. (see notes to the financial statements for the year ended December 31, 2007 no 27)