

CPN Retail Growth Leasehold REIT ("CPNREIT") was established on 1 December 2017 from the conversion from CPN Retail Growth Leasehold Property Fund ("CPNRFP") together with the investment in additional assets i.e. leasehold right in CentralFestival Pattaya Beach Project and Hilton Pattaya for approximately 20-years period ending 31 August 2037. The trust units of CPNREIT were first traded on the Stock Exchange of Thailand on 14 December 2017. Currently, CPNREIT had been investing in 5 shopping malls, which are CentralPlaza Rama 2, CentralPlaza Rama 3, CentralPlaza Pinklao, CentralPlaza Chiangmai Airport and CentralFestival Pattaya Beach with total leasable area of 213,980 sq.m., 2 office buildings which are Pinklao Tower A and Tower B totaling 34,320 sq.m. of leasable area, and Hilton Pattaya.

Economic and Industry Overview

The Thai economy in 2Q19 has slowed down mainly from weaker global demand. Merchandise export continued to contract as a result of slower economic growth in major trading economies and contracted global trade volumes due to the protectionist trade policies especially between the US and China. Tourism sector expanded at a slower rate from the continual expansion in the number of Indian tourists, while the number of Chinese tourists continued to contract. Additionally, tourism sector tends to slow down as a result of the global economy and intensified regional competition. However, overall domestic demand expanded but at a softer pace. Private consumption softened from almost all spending categories except non-durable goods. Public spending tends to be lower than the Bank of Thailand's projection, which is a result of the delayed enactment of the 2020 Annual Budget Expenditure Act.

Major Events in 2Q19

- CPNREIT announced the interim distribution of returns at the rate of Baht 0.4055 per unit trust from the operating period from 1 January - 31 March 2019, paid on 11 June 2019.
- On 25 June 2019, TRIS Rating affirmed the company rating of CPNREIT and the rating on CPNREIT's senior unsecured debentures at "AA", with "Stable" outlook. The ratings reflect CPNREIT's high quality assets, predictable cash flow from contract-based rental and service income, conservative financial policy, as well as, the future growth opportunities of CPNREIT, supported by assets injection from Central Pattana Plc, as the sponsor.

Summary of Operating Performance in 2Q19

At the end of 2Q19, the average occupancy rate of shopping malls and office buildings in CPNREIT was at 95.3%, increased slightly from 94.8% at the end of 1Q19. The increase of occupancy rate was seen at CentralPlaza Rama 3 (97.0%), CentralPlaza Rama 2 (95.5%), CentralPlaza Chiangmai Airport (94.9%), and Pinklao Tower A & Tower B (90.2%). Meanwhile, the occupancy rate of CentralFestival Pattaya Beach stayed at 98.4%, and of CentralPlaza Pinklao declined to 96.5% during fitting-out of new tenants to replace expired lease tenants. Hilton Pattaya's average occupancy rate in 2Q19 was 90.3%, lower than the previous quarter due to low tourist season in Pattaya.

The Change of Accounting Policy

CPNREIT has adopted the Thai Accounting Standard No. 17: Lease, stated that "lease income from operating leases is recognized by the lessor on a straight-line basis over the lease term", and applied to the fixed rental income over the 9-years period determined in the Sublease Agreement of Hilton Pattaya. Therefore, starting from 1Q19 onward, the fixed-rental income is recognized on a straight-line basis, and the fixed rental income booked in 2018 was also adjusted equally every quarter throughout 2019. Consequently, rental and service income will be positively impacted in 2019 comparing to that in 2018.

Financial and Operating Performance

Income

Total income was Baht 1,275.6 million, up by 3.6%yoy, from CentralPlaza Rama 3, CentralPlaza Rama 2, and CentralFestival Pattaya Beach.

In 2Q19, CPNREIT reported total income of Baht 1,275.6 million, an increase of Baht 44.1 million or 3.6%yoy. Rental and service income totaled Baht 1,228.7 million, increased by 5.7%yoy, mainly resulting from strong performance of CentralPlaza Rama 3 after the major renovation in 2018, higher occupancy rate at CentralPlaza Rama 2 and CentralFestival Pattaya Beach, and increase in rental rate according to the contracts. Additionally, the change of accounting policy for the fixed rental income from sublease of Hilton Pattaya contributed approximately 1.1%yoy growth, equaled to Baht 14.1 million, which was the non-cash adjustment for 2Q18 and 2Q19.

Other income decreased by Baht 21.9 million or 32.3%yoy, mainly due to property tax income and insurance income. The decrease of property tax was due to 1) the difference period of property tax collection from tenants, in 2018 was in April but in 2019 was in March, and 2) the adjustment of the difference between the actual property tax cost and the accrued amount in certain period. Moreover, interest income decreased by Baht 0.2 million or 11.6%yoy, following a decrease in cash on hand and at banks.

In comparison to 1Q19, total income decreased by Baht 37.2 million or 2.8%qoq, mainly from a decrease of other income by Baht 36.5 million or 44.3%qoq from property tax income recognition of difference between actual and estimation. Meanwhile, rental and service income stayed at the same level and interest income slightly increased in-line with an increase in cash on hand and at banks.

Expense

Total expense was Baht 340.3 million, increased by 7.3%yoy, from interest expense.

In 2Q19, CPN reported total expense of Baht 340.3 million, an increase of Baht 23.2 million or 7.3%yoy. This resulted mainly from an increase of interest expense by Baht 34.1 million or 38.6%yoy due to an issuance of debentures, which has a longer-term and higher coupon rate, to repay outstanding short-term loans with lower interest rate.

Meanwhile, property expense totaled Baht 173.9 million, decreased by 6.2%yoy, consisting of cost of rental and service totaling Baht 32.6 million, dropped by Baht 4.2 million or 11.5%yoy due to lower repair and maintenance expense, property management fee of Baht 114.0 million, decreased by Baht 11.0 million or 8.8%yoy due to lower leasing commission fee resulting from less new and renewed tenancy contracts of almost every shopping mall except CentralPlaza Pinklao, while selling and administrative expense amounting to Baht 27.2 million, increased by 15.3%yoy, due to higher advertising and marketing expense following an increase of marketing events.

Additionally, other management fees and expenses equaled to Baht 44.1 million, almost unchanged from the same period of last year. This is consisting of management fee and trustee fee, which are calculated based on total asset value.

In comparison to 1Q19, total expense decreased by Baht 12.3 million or 3.5%qoq, from all expenses including;

Property expense decreased by 2.6%yoy due to a decrease of property management fee by Baht 9.4 million or 7.6%qoq from lower leasing commission fee resulting from less new and renewed tenancy contracts of CentralPlaza Rama 2, CentralPlaza Chiangmai Airport, and CentralFestival Pattaya Beach, while administrative expense increased by 14.3%qoq resulting from higher number of market events, and cost of rental and service increased by 4.6%qoq from repair and maintenance cost which gradually occurs throughout the year.

Interest expense decreased by Baht 7.4 million or 5.7%qoq, since there was the record of front-end fee for short-term loan repayment in 1Q19.

Net Investment Income

Net investment income totaled Baht 935.3 million an increase of 2.3%yoy.

In 2Q19, net investment income was Baht 935.3 million, increased by Baht 20.9 million or 2.3%yoy from Baht 914.4 million in 2Q18. This was attributable to strong performance of all assets especially CentralPlaza Rama 3 as well as efficient cost management.

In comparison to 1Q19, a decrease of net investment income by Baht 24.9 million or 2.6%qoq, due mainly to lower property tax income due to the adjustment of the difference between the actual property tax cost and the accrued amount in certain period.

Comparing the first six months of 2019 and 2018, CPNREIT reported net investment income of Baht 1,895.5 million, increased by 7.0%yoy. This is the result of a rise in property income and other income in-line with higher occupancy rate, rental rate growth, and efficient cost management.

Profitability

Net property income margin stood at 86.4%, and net investment income margin was 73.4%.

Net property income margin for 2Q19 stood at 86.4%, an increased by 1.4%yoy. This is mainly contributed by the increase of property income by 3.6%yoy, coupled with property expenses decreased by 5.8%yoy. While net investment income margin stood at 73.4%, slightly decreased from 74.3% in 2Q18, as an increase of property income was at the lower pace than that of expense mainly from higher interest expense.

In comparison to 1Q19, net property income margin and net investment income margin remained almost at the same level.

Balance Sheet Movement

Total asset totaled Baht 46,955.0 million, increased by Baht 31.4 million from the end of March 2019.

As of 30 June 2019, CPNREIT reported total assets of Baht 46,955.0 million, an increase of Baht 31.4 million from total assets as of 31 March 2019. This was mainly due to an increase of other assets i.e. accrued property tax income and insurance income.

As of 30 June 2019, Net Asset Value ("NAV") was recorded at Baht 30,022.7 million or Baht 13.5697 per unit, an increase from Baht 13.5627 per unit as of 31 March 2019.

The Distribution of Returns to Unitholder

CPNREIT has announced distribution of returns for 2Q19 at Baht 897.16 million or 0.4055 Baht per unit. CPNREIT will post XD sign on 21 August 2019, followed by Book Closing Date on 23 August 2019 and distribution of returns payment will be made on 6 September 2019.

FINANCIAL SUMMARY

Table 1: Income Statement

Unit: Baht Million	2Q19	2Q18	Change YoY	1Q19	Change QoQ	1H19	1H18	Change YoY
<i>Property income</i>	1,274.6	1,230.4	3.6%	1,312.1	(2.9%)	2,586.7	2,413.9	7.2%
Rental and service income	1,228.7	1,162.6	5.7%	1,229.8	(0.1%)	2,458.5	2,312.7	6.3%
Other income	45.9	67.8	(32.3%)	82.4	(44.3%)	128.2	101.2	26.8%
Interest income	1.0	1.2	(11.6%)	0.7	55.2%	1.7	2.1	(19.2%)
Total income	1,275.6	1,231.5	3.6%	1,312.8	(2.8%)	2,588.4	2,415.9	7.1%
<i>Property expenses</i>	173.9	185.4	(6.2%)	178.4	(2.6%)	352.3	383.0	(8.0%)
Cost of rental and service	32.6	36.8	(11.5%)	31.2	4.6%	63.8	68.0	(6.2%)
Selling and administrative expenses	27.2	23.6	15.3%	23.8	14.3%	51.0	53.4	(4.5%)
Property management fee	114.0	125.0	(8.8%)	123.5	(7.6%)	237.5	261.6	(9.2%)
Interest expense	122.4	88.3	38.6%	129.7	(5.7%)	252.1	175.6	43.6%
Other management fees and expenses	44.1	43.4	1.7%	44.4	(0.7%)	88.6	86.0	2.9%
Total expense	340.3	317.1	7.3%	352.6	(3.5%)	693.0	644.6	7.5%
Net investment income	935.3	914.4	2.3%	960.2	(2.6%)	1,895.5	1,771.3	7.0%
Net realised gain (loss) from changes in investment value	(8.2)	(0.3)	(2,412%)	(0.1)	(13,977.6%)	(8.2)	(2.0)	(317.4%)
Net unrealised gain (loss) from changes in investment value	(14.6)	341.0	(104.3%)	(26.9)	45.9%	(41.5)	316.6	(113.1%)
Net increase in net assets from operations	912.5	1,255.1	(27.3%)	933.2	(2.2%)	1,845.7	2,085.9	(11.5%)
Distribution	897.2	897.2	0.0%	897.2	0.0%	1,794.3	1,736.8	3.3%
Distribution per unit (in Baht)	0.4055	0.4055	0.0%	0.4055	0.0%	0.8110	0.7850	3.3%
Net property income margin	86.4%	84.9%	1.5%	86.4%	0.0%	86.4%	84.1%	2.7%
Net investment income margin	73.4%	74.3%	(0.9%)	73.2%	0.2%	73.3%	73.4%	(0.1%)

Table 2: Balance Sheet

Unit: Baht Million	30-Jun-18	30-Sep-18	31-Dec-18	31-Mar-19	30-Jun-19
<i>Investment at fair value</i>					
Central Rama II	6,997.0	6,900.0	6,962.0	6,962.0	6,962.0
Central Rama III	10,525.0	10,662.0	10,698.0	10,698.0	10,698.0
Central Pinklao	5,778.0	5,721.0	5,678.0	5,678.0	5,678.0
Chiangmai Airport	10,653.0	10,658.0	10,658.0	10,658.0	10,658.0
CentralFestival Pattaya Beach	7,272.0	7,283.0	7,289.0	7,289.0	7,289.0
Hilton Pattaya	3,450.0	3,453.0	3,465.0	3,456.0	3,465.0
Total investment in properties	44,675.0	44,677.0	44,750.0	44,750.0	44,750.0
Investment in securities	994.2	996.7	999.4	1,002.5	1,005.8
Cash on hand and at banks	510.5	609.8	341.7	423.5	427.6
Other assets	733.4	740.7	758.7	747.7	771.6
Total assets	46,913.1	47,034.3	46,849.8	46,923.6	46,955.0
Deposits received from customers	1,488.7	1,528.8	1,543.6	1,545.0	1,557.2
Borrowing	14,459.0	4,466.0	4,468.7	-	-
Debentures	-	10,029.9	10,030.4	14,521.4	14,522.3
Other liabilities	893.9	941.5	811.9	849.8	852.7
Total liabilities	16,841.6	16,966.3	16,854.6	16,916.3	16,932.3
Net Asset	30,071.5	30,068.0	29,995.2	30,007.3	30,022.7
Capital received from unitholders	29,016.4	29,016.4	29,016.4	29,016.4	29,016.4
Equalisation account	216.1	216.1	216.1	216.1	216.1
Gain (Loss) for the period	839.0	835.5	762.7	774.8	790.2
NAV per unit (in Baht)	13.5917	13.5902	13.5573	13.5627	13.5697

Source: 1) Reviewed Interim Financial Statements for the three-month period 2) Audited Financial Statements for the year

OPERATIONS SUMMARY

Table 3: Leasable Area and Occupancy

	Area (sqm)		Occupancy Rate ¹				
	GFA	NLA ¹	30 Sep 18	30 Sep 18	31 Dec 18	31 Mar 19	30 Jun 19
CentralPlaza Rama 2	251,182	82,572	94.8%	94.5%	95.6%	95.3%	95.5%
CentralPlaza Rama 3	169,740	36,528	90.3%	93.6%	94.3%	94.1%	97.0%
CentralPlaza Pinklao	137,692	27,656	99.2%	99.4%	98.9%	98.3%	96.5%
Pinklao Tower A & Tower B	50,653	34,320	88.3%	88.9%	90.1%	89.8%	90.2%
CentralPlaza Chiangmai Airport	122,991	37,820	93.2%	92.2%	92.7%	93.7%	94.9%
CentralFestival Pattaya Beach	70,095	29,404	95.7%	98.1%	98.4%	98.4%	98.4%
Total/Average	802,353	248,300	93.6%	94.2%	94.9%	94.8%	95.3%
Hilton Pattaya ²	49,686	302 rooms	91.7%	92.4%	91.1%	92.5%	90.3%

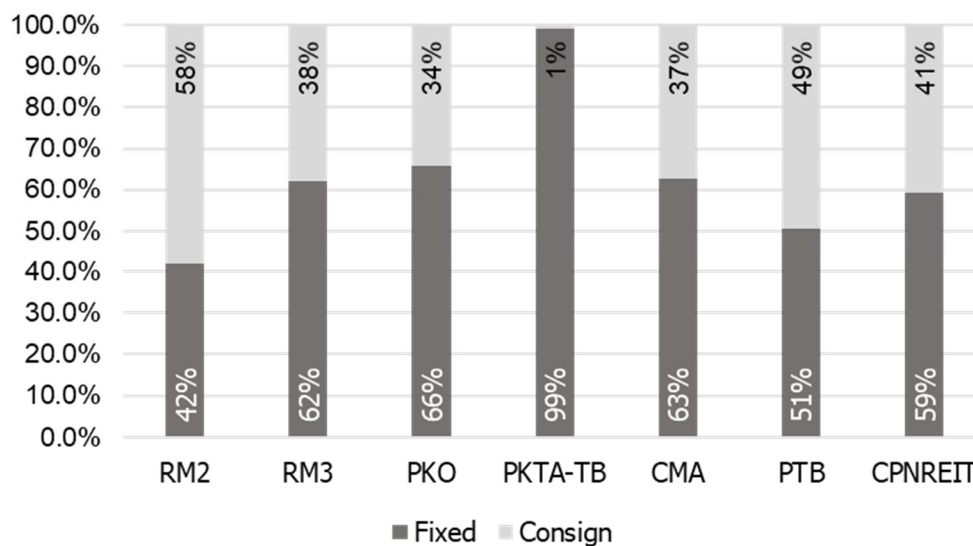
Note: ¹ Anchor and in-line tenants only² Average quarterly occupancy rate

Table 4: Renewals and New Leases

	From 1 January to 30 June 2019		
	Renewals and New Leases ¹		
	No. of Leases	Area (sqm)	%of Total ²
CentralPlaza Rama 2	52	2,987	4%
CentralPlaza Rama 3	17	2,861	8%
CentralPlaza Pinklao	20	6,169	23%
Pinklao Tower A & Tower B	23	4,688	15%
CentralPlaza Chiangmai Airport	35	4,724	13%
CentralFestival Pattaya Beach	19	12,770	44%
Total	166	34,199	14%

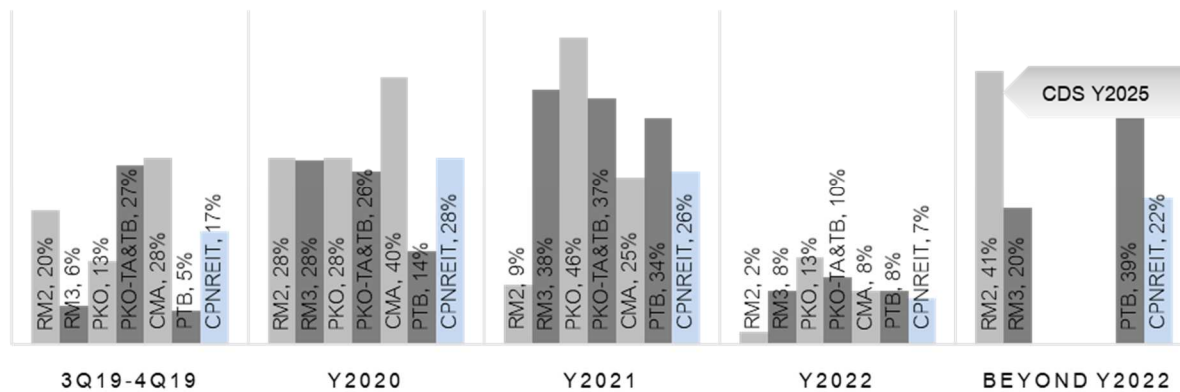
Note: ¹ Exclude rental agreements < 1 year² Percentage of leasable area at 30 June 2019

Graph 1: Rental Structure



Note: As at 30 June 2019

Graph 2: Lease Expiry Profile



Note:

1. Percentage of total occupied area as at 30 June 2019
2. Exclude rental agreements < 1 year