

PART I EXECUTIVE SUMMARY

1. Core business

The business of Laguna Resorts & Hotels Public Company Limited (“LRH”) largely revolves around the integrated resort of Laguna Phuket, located on the island of Phuket in Thailand. The operations of the group are summarised as follows:

Hotels

Within Laguna Phuket, there are 4 hotels which LRH either owns or has an ownership stake:

- Banyan Tree Phuket – 127 exclusive villas, 44 with Jacuzzis and 83 of which have their own swimming pools. The resort is managed by Banyan Tree Hotels & Resorts Pte. Ltd.
- Dusit Laguna Resort – 226 rooms and suites, managed by Dusit Hotels and Resorts Co., Ltd.
- Sheraton Grande Laguna Phuket – 362 rooms, suites and villa’s managed by Sheraton Overseas Management Corporation.
- Laguna Beach Resort – 254 rooms and suites and is owner operated.

These hotels are five star properties and compete with the other upper end hotels in Phuket (of which there is still a limited number of competitors). Phuket as a holiday destination competes with other beach holiday destinations, in particular Bali in South-East Asia. Despite the disasters that have hit Phuket and its tourism industry in recent years, the popularity of Phuket as a tourist destination remains strong and is expected to continue to remain popular into the future.

In addition LRH owns the Banyan Tree Bangkok which has 216 suites and is managed by Banyan Tree Hotels & Resorts Pte. Ltd. which was purchased in March 2005. The Banyan Tree Bangkok is also a five star property and competes with a large number of upper tier properties in the Bangkok market which results in significant price competition.

Property

Property development in and around Laguna Phuket has also turned into a core business in recent years with the property developments completed to date and planned in the near future listed as follows:

- The Island Villas are a small condominium project attached to the Sheraton Grande Laguna Phuket. The units have been sold to the public. The individual owners may rent their units to the Group which in turn contracts Sheraton Overseas Management Corporation to manage the units, and in doing so earn a return on their investment.
- The Allamanda Laguna Phuket is a large condominium project. It is not attached to any other hotel. The units have been sold to the public and the individual owners may earn a return on their investment by contracting Banyan Tree Hotels & Resorts Pte. Ltd. to manage their unit for them. As the condominiums have been sold, the Allamanda Laguna Phuket is neither owned or managed by LRH.
- Laguna Homes is a housing plot development. There are 54 land plots located around the golf course. The land plots have been fully sold to the public. Twenty land plots were reserved for the sale of Laguna Residences, a “house and land” package, that was introduced in 2001 and was sold out in 2003. A new development, Laguna Townhomes, was introduced in the last quarter of 2002 and was sold out in 2004. Further developments of Laguna Residences and Laguna Townhomes continue to be constructed and sold on land both within Laguna Phuket and land contiguous to Laguna Phuket. The latest development released for sale is phase I of Laguna Village which will comprise of 100 Laguna Townhomes, 23 Laguna Residences and 36 villa’s.
- Banyan Tree Two Bedroom Pool Villas are a luxury development project attached to the Banyan Tree Phuket. All of the twelve villa’s in Phase I have been sold to the public. A further 14 villas were completed in 2005 of

which 10 had been sold by year end. The individual owners may earn a return on their investment by contracting Banyan Tree Hotels & Resorts Pte. Ltd. to manage their villa for them.

- Two further property sales projects scheduled for release in 2006 are the Double Pool Villas at the Banyan Tree Phuket and the Pool Villas at the Dusit Laguna Resort. In both of these projects the individual owners may earn a return on their investment by contracting Banyan Tree Hotels & Resorts Pte. Ltd. and Dusit Hotels and Resorts Co., Ltd. respectively to manage their villas for them.
- The Laguna Holiday Club sells memberships that entitle participants to annual vacations, for at least one week, at the participating member resorts of Allamanda Laguna Phuket, Sheraton Grande Laguna Phuket, Sheraton Golf Villas and Angsana Resort & Spa Bintan. The Laguna Holiday Club is building its own dedicated resort in Laguna Phuket consisting of 79 units which is scheduled to open in July 2006.
- Located in Chiangrai is another housing plot development called Laguna Homes Chiangrai. This project has been suspended.

The property market in Phuket continues to prosper, despite the occurrence of the Tsunami, and this growth is expected to continue as more and more developers enter the market, albeit at a much smaller level than LRH.

Others

In addition to the above there are the following facilities in Laguna Phuket:

- 18-hole golf course
- An outdoor management training program
- Canal Village shopping complex
- Office rental in Bangkok (purchased as part of the acquisition of Thai Wah Plaza Limited in March 2005).
- Banyan Tree Gallery retail outlets
- The Wedding Chapel

2. Major Risk Factors

The risk factors impacting the business and financial performance of LRH are set out in Part II, section 1. These are summarised as being as follows:

- currency fluctuation
- economy and tourism in Thailand
- competition
 - destination
 - hotels
 - low season
- operating risks inherent in the hospitality industry
- management risk
- land title risk
- Thai labour laws

3. Group Structure

The LRH group is predominately owned by two shareholders:

- Banyan Tree Holdings Pte Ltd and its subsidiaries which owns 48.39%; and
- Thai Wah Public Company Limited which owns 34.78%

The company has a number of subsidiary companies and the group structure is set out on page 14. Most of the subsidiary companies are 100% owned with the main operating subsidiaries that are not fully owned being:

- Laguna Beach Club Limited and its subsidiaries (50% effective ownership interest)

- Banyan Tree Gallery (Thailand) Limited (51%)
- Banyan Tree Gallery (Singapore) Pte Limited (51%)
- Lijiang Banyan Tree Hotel Co., Ltd. (70%)
- Laguna Service Company Limited (86.5%)

During 2005, the Company had significant business transactions with its subsidiaries, associated and related companies (related by way of shareholding, common shareholders, directors and/or management).

LRH by the nature of its product and its complex group structure has a large number of related party transactions. Laguna Phuket is an integrated resort with a number of hotels and associated resort services being incorporated in different companies within the group. This in itself results in a significant number of related party transactions which are considered to be necessary and reasonable for the operation of Laguna Phuket. The nature, pricing and agreements of these transactions are summarised in section 11, as well as a detailed description of the main related party transactions.

4. Financial Performance

A summary of the performance of the year ended 31 December 2005 is included as follows:

	2005	2004
Revenues		
Hotel Operations	2,306	2,804
Property development operations	750	1,052
Office rental	101	-
Interest income	9	12
Other income	<u>40</u>	<u>91</u>
	<u>3,206</u>	<u>3,959</u>
Earnings before interest expenses		
income tax	162	1,202
Interest expense	(138)	(40)
Corporate income tax	(46)	(157)
Minority shareholders interest	(12)	(79)
Extraordinary item	<u>14</u>	<u>(41)</u>
Net earnings	<u>(20)</u>	<u>885</u>

The net loss attributable to the shareholders of Baht 20 million for the year ended 31st December 2005 was Baht 905 million lower than the prior year. The reason for the loss was largely due to the performance of the 4 Laguna Phuket hotels and the property sales division being severely affected by the subsequent downturn of tourism to Phuket following the Tsunami in the Indian Ocean which hit Phuket on 26th December 2004.

This was only partially offset by the performance of the Banyan Tree Bangkok and the rental of office space in Thai Wah Tower I and Thai Wah Tower II in Bangkok which were purchased following the acquisition of Thai Wah Plaza Limited on 8th March 2005.

Other points of note are that:

- selling and administrative expenses increased by Baht 31 million primarily due to an increase in salary and wages and legal costs. The increase in legal costs primarily related to the acquisition of Thai Wah Plaza Limited, the insurance claim for property damage and business interruption from the Tsunami and land related cases.
- foreign exchange loss of Baht 39 million which was Baht 31 million higher than the prior year which was due to the weakening of the Baht during 2005.
- an increase of depreciation of Baht 100 million which was a consequence of the depreciation of the assets acquired of Banyan Tree Bangkok and Thai Wah Tower I and Thai Wah Tower II.
- an increase in interest costs of Baht 98 million which was due to the loans taken out, and taken over, resulting from the acquisition of Thai Wah Plaza Limited, loans taken out to fund the construction of additional room inventory in Laguna Phuket and the construction of Banyan Tree Lijiang, and an increase in the interest rate during the year.
- taxation was Baht 110 million lower than the prior year and this is due to the significantly reduced operating profit in 2005.
- Net earnings of minority interest in subsidiaries was lower than the prior year due to the reduction in net income during the year for the respective hotel and gallery operations.

For the reasons stated above, the company has shown a decrease in net earnings as compared to the same period last year.

The main events that impacted the financial position of LRH during 2005 were:

- The purchase of Thai Wah Plaza Limited which included the Banyan Tree Bangkok hotel and office buildings.
- The construction of the Banyan Tree in Lijiang China and other construction projects in Laguna Phuket at the Banyan Tree Phuket and Sheraton Grande Laguna Phuket and the Laguna Holiday Club hotel.
- The above construction projects and purchase of Thai Wah Plaza Limited have been largely debt financed resulting in a significant increase in bank loans during 2005.