

### **3 Operation of each product or service**

#### **3.1 Nature of products and services**

##### **Laguna Phuket Hotels**

###### **Banyan Tree Phuket**

This award winning resort offers a unique holiday experience, featuring 127 exclusive villas, 44 with jacuzzis and 83 of which have their own swimming pools. This unique resort is further enhanced by the Banyan Tree Spa offering massage, body and beauty treatments. The Banyan Tree Phuket opened in May 1995 and is managed by Banyan Tree Hotels & Resorts Pte. Ltd. The 14 Spa Pool Villas were completed and became available for use during December 2001 and January 2002 and the 14 new two bedroom pool villa's were completed and became available for sale in the second half of 2005. Twenty-two Double Pool Villas which will be the most luxurious product offered by the hotel, are under construction and are scheduled for completion in the middle of 2006. The resort is positioned as being one of the premier resort and Spa destinations in the Asia Pacific.

###### **Dusit Laguna Resort**

The first hotel to open at Laguna Phuket, in November 1987, offering beachfront accommodation in 225 rooms and suites. The resort is managed by Dusit Hotels and Resorts Co., Ltd. To add to the resort's facilities and services, the Angsana Spa, managed by Banyan Tree Resorts & Spas (Thailand) Company Limited, opened within the Dusit's grounds in December 1999. Dusit targets the independent traveler segment from Europe in the high season and the local regional market in the low season.

###### **Laguna Beach Resort**

Laguna Beach Resort offers deluxe accommodation in 252 superior rooms and suites. The resort opened in November 1991, under the management of the Pacific Islands Club Group, but has been owner operated since 1994. In September 2001, the LBR Angsana Spa opened adjacent to Laguna Beach Resort. The resort targets the high end, family orientated market.

###### **Sheraton Grande Laguna Phuket**

The Sheraton Grande Laguna Phuket is a 70 acre complex. The resort opened in 1992 and offers 360 rooms, suites, villas and residences. During 2005 the hotel added 27 Golf Residences to its inventory which it manages on behalf of the owners of these residences. In addition a further forty five additional rooms will be completed in the first quarter of 2006. It is a member of the Starwood Luxury Collection, which comprises Sheraton's most prestigious hotels in the world. The Angsana Spa operates a facility within this hotel. The resort targets families and independent travelers during its high season and the corporate meetings customer segment and the regional market during the low season.

###### **Allamanda Laguna Phuket**

An apartment-style resort, offering one and two bedroom suites and duplexes with lagoon, pool or golf course views. The resort, managed by Banyan Tree Hotels & Resorts Pte. Ltd. opened in 1993. The units in this resort have been sold to the public and LRH no longer owns this resort. The hotel targets the four star family market and tour operators.

##### **Laguna Phuket Facilities**

###### **Laguna Phuket Golf Club**

This resort-style, 18-hole golf course has been open to members, guests and the public since August 1992. It is managed by Banyan Tree Hotels & Resorts Pte. Limited.

### **Quest Laguna Phuket Adventure**

Quest is a corporate training facility providing management groups with programs tailored to suit individual company goals. Common focus areas include problem solving, team cohesion, leadership and effective communication. Quest also operates recreational programs for resort guests and children. It opened in 1994 and is managed by Sheraton Overseas Management Corporation.

### **Canal Village**

Canal Village is a shopping center with 59 outlets for lease, centrally located on 10 Rai of land within Laguna Phuket. Canal Village officially opened in 1994 and is owner operated.

### **Banyan Tree Gallery**

This chain of retail outlets specialises in indigenous artifacts and handicrafts. The chain has over 40 outlets worldwide, fourteen of which are located within the Laguna Phuket hotels and golf course and Canal Village shopping center.

### **Laguna Holiday Club**

The Laguna Holiday Club (formerly known as the Allamanda Vacation Club) opened in 1998 selling 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 the Angsana Resort & Spa Bintan. Members also have access to some 3,600 resorts in 90 countries through a reciprocal arrangement with RCI. The Laguna Holiday Club Hotel is under construction and will offer 79 suites dedicated to its members. It is scheduled for completion in the middle of 2006. In November 2005 the Laguna Holiday Club opened its third sales office in the Angsana Resort & Spa Bintan in addition to the now well established sales offices in Laguna Phuket and Bangkok.

### **Laguna Property Sales**

Laguna Property Sales currently offers for sale condominiums within the Allamanda Laguna Phuket, Banyan Tree two-bedroom pool villas, the house and land packages of Laguna Residences and Laguna Townhomes and the new Laguna Village villa product. The Group owns significant land both within and adjacent to Laguna Phuket upon which it plans to construct future property developments.

The latest development released for sale is phase I of Laguna Village which will comprise of 100 Laguna Townhomes, 23 Laguna Residences and 36 villas (a new product). In addition further 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.

Investors in the Allamanda Laguna Phuket, Banyan Tree Phuket, Laguna Residences and Laguna Townhomes have the option to receive a return on their investment by joining the hotel management scheme and renting their properties to guests. This will also be the case for investors in the Dusit Laguna Phuket and an independent rental scheme will be offered for investors in Laguna Village.

### **The Wedding Chapel**

In early 2005 we opened and commenced operating our wedding chapel, known as the “Chapel on the Lagoon”. It is managed by South Pacific Bridal, a company specialising in Japanese weddings, and it is well positioned to capture the lucrative Japanese and European wedding markets.

### **Laguna Service Company Limited**

Laguna Service Company Limited (“LSC”) is a non-profit, joint venture company established in April 1991, to provide essential services to the hotels, such as laundry, water supply, inter-resort transportation, landscaping,

common area maintenance, marquee facilities, a gas station and centralized destination marketing. During 2001 a computer school was constructed and opened to provide computer training for all Laguna Phuket employees. In 2002, seven air-conditioned coaches were purchased and operated by LSC to provide transportation for all Laguna Phuket employees to and from work.

### **Laguna Chiang Rai**

Located in the Mae Chan district of Chiang Rai province, northern Thailand, Laguna Chiang Rai is a land bank of 1,090 Rai. This project has been suspended.

### **Bangkok operations**

#### **Banyan Tree Bangkok**

The Banyan Tree Bangkok is a 216 suite room hotel and is situated in the centre of the business and commercial districts of Bangkok. The hotel was purchased in March 2005 and is managed by Banyan Tree Hotels & Resorts Pte. Ltd. A Banyan Tree spa is operated in the hotel. The Banyan Tree Bangkok targets business travelers as well as the wholesale business and independent tourist markets.

#### **Office rental**

Strategically located on South Sathorn Road, Thai Wah Tower I is a 24-storey granite clad building and is one of the very first office condominium buildings in Bangkok. The entire building has about 20,000 sq.m. of usable area of which 9,205 sq.m. is owned by the Group. Through the years the building has maintained its reputation as a premium office building with timely refurbishments.

Opened in late 1995, Thai Wah Tower II, is a 60-storey mixed used building situated next to Thai Wah Tower I. Apart from providing 16,500 sq.m. of office premises on floors 10 to 32, Tower II is also home to The Banyan Tree Bangkok which is located on the higher floors of the same building.

The majority of the office premises in Thai Wah Towers I and II are leased to third party tenants and a small portion is used by various companies in the LRH Group.

### **Overseas Investment in Hotels and Resorts**

LRH invests overseas through Tropical Resorts Limited (“TRL”) and TRL Investment Limited (“TRLI”) which operates luxury resorts largely throughout the Pacific Rim area and the investments in hotels and resorts overseas.

## **3.2 Marketing and Competition**

### **3.2.1 Laguna Phuket Marketing**

#### **Review of Sales and Marketing Plans**

All of the Laguna Phuket hotels and business units are required to provide a Sales and Marketing Plan as part of their budget presentation. These vary in style and content but all include a summary of their plans to provide the budgeted levels of income. For the hotels, the plans all include statistics showing month-by-month comparisons to prior year and a market segmentation analysis.

For the 2006 Budget, all budgets assume a conversion rate of 41 Baht to 1 US Dollar. Approximately 80% of our rooms revenue is contracted in US Dollars.

A summary of the hotel plans is as follows:-

- a) Hotel occupancies and average room rates, together with the resulting revenue per available room, are analyzed during the budget reviews on a month-by-month basis. Comparisons are carried out over the past five years, and in several cases this has meant substantial changes to the originally submitted budgets.
- b) We believe it is important to consider several years to provide a normalized comparison in the light of events in recent years such as Bird Flu, SARS, the Bali bombing, the Tsunami, etc.
- c) The hotels continue a high level of communication and cohesion in their Sales and Marketing approach. This has led to excellent flexibility and different reactions to changing market conditions. They continue to work together, but at the same time carve out new market segments. For example, Laguna Beach Resort has found a higher-end Korean group market which provides higher-yielding room and food and beverage revenue.
- d) The very successful Laguna Phuket Plus campaign can now be switched on and off in reaction to market conditions and provides an important delivery from regional markets in the low season.
- e) The Laguna Phuket centralized Destination Marketing meetings provides a platform for inter-hotel discussion and the formation of resort wide programmes. Clearly, 2005 was an unusual year following the Tsunami at the end of 2004. Business levels reached all-time lows during the early months of the year, but the hotels responded with a co-ordinated approach, and by August we were seeing better occupancy levels, although the average rate was still depressed. However, the activity which was required by the emergency nature of the situation has led us to a new level of co-operative marketing with select Tour Operators in the UK and Australia which we intend to continue in 2006. This is very much along the lines of our now well-established Laguna Phuket Plus campaign, now spread into markets other than regional.
- f) The focus in 2006 will be to continue the recovery that started in the second half of 2005 and as occupancies return to more normalised levels we believe that the discounting of average room rates will no longer be required so that we can move the rates back up. This longer term strategy has been adversely affected by the impact of the Tsunami on travel to Phuket in 2005, but the underlying dynamics of Phuket as a holiday destination will enable us to deliver higher room rates in the longer term.
- g) There continue to be three markets which settle in Baht, namely, Japan, Australia, and Thailand.
- h) The lagunaphuket.com website is now well established and we plan continued enhancements in 2006.

Property Sales was similarly affected by post-Tsunami market sentiment, but we continued to record sales throughout the year, and our early decision not to discount prices was vindicated by year end, with most of the Banyan Tree Pool Villas being sold. For 2006, we will concentrate on Laguna Village, the new Banyan Tree Double Pool Villas, and the Dusit Pool Villas. Despite the excellent results in recent years, this sector is not without its challenges, and we will stay very close to market forces to ensure that we continue our leadership position.

#### **Targeted Markets**

- Leisure FITs
- Leisure Group
- MICE group (Meeting, Incentive, Convention and Exhibition)

- Government and Embassies
- Airline programs

**Sales & Marketing Tactics:**

- Build and manage customer database
- Develop sales and promotion collateral to the highest standard
- Develop and upgrade electronic marketing – Website, E-mail, CD ROM, etc.
- Participate in major travel trade shows such as ATF in January, PATA travel mart in March, ITB in March, EIBTM in May, IT& CMA in October and WTM in November.
- Develop direct mail campaigns for MICE market
- Sales Calls to corporate accounts in key markets – Bangkok, Hong Kong, Singapore, Taiwan and Japan.
- Sales visits to major wholesalers in UK, Germany, Russia Switzerland, France, Italy and Scandinavia.
- Create awareness through advertising in the regional leisure and consumer magazines.
- Organize familiarisation trips by inviting clients from Europe, Asia and North America, including selected Bangkok based meeting organizers.
- Create an effective advertising campaign to develop the market segments targeted.
- Establishing close relationship with various government organizations and bodies.
- Implement a customized process which involves database analysis, behavior segmentation, brand contact and net work.
- To work closely with the TAT, TG and TICA.
- Further emphasis on public relations.
- Participate in various Frequency Marketing Programs, being a member of Airlines mileage program, credit card companies, etc.
- Develop special summer packages for low season.
- Tie in with the major airlines that fly into Phuket to develop promotional packages.
- Organize Thai Airways Laguna Phuket triathlon and other events to gain media coverage and positioning.

**Distribution Channels**

As more than 80% of our guests are traveling for leisure purposes, the majority of our clients book through their travel agencies. The hotels therefore, work very closely with them and offer contracts that are normally signed on a one year basis so that these travel agencies or wholesalers will promote the hotels to the consumers. Also, many guests have started to book directly with the hotel through the hotels worldwide reservation system of each hotel chain and by direct booking through the internet.

Laguna Phuket hotels are also very popular for MICE (Meetings, Incentives, Conferences and Exhibitions) where the organizers normally deal directly with the hotels.

**Source of Bookings**

Local Travel Agency & Tour Operators	58%
Domestic Wholesalers	11%
International Wholesalers	9%
Corporate accounts & governments	1%
Direct Bookings	21%

**Type of Customers**

Leisure	85%
Meeting and conference	15%

**Geographic origin:**

Major geographic markets of the hotels in Laguna Phuket in recent years have been as follows: -

North Asia

Japan	7%
Hong Kong	10%
Korea	11%
Taiwan	6%
China	3%
Russia	5%

Southeast Asia

Thailand	3%
Singapore	3%

Other Asia 2%

Europe

UK	13%
Switzerland	4%
Germany	6%
Spain	2%
Europe other	2%

Australia/New Zealand 4%

USA/ Canada 4%

**Historical Overview**

The following chart shows a statistical record of the hotels in Laguna Phuket over the past six years.

**LRH Laguna Phuket**

(* 000's)	For the year ended 31 December 2000	For the year ended 31 December 2001	For the year ended 31 December 2002	For the year ended 31 December 2003	For the year ended 31 December 2004	For the year ended 31 December 2005
Occupancy (%)	77%	68%	64%	70%	77%	51%
Average Room Rate	5,814	6,977	6,831	5,748	6,018	5,126
Room Revenue*	1,413,314	1,514,937	1,417,589	1,303,004	1,505,789	834,969
F&B Revenue*	778,700	729,045	655,805	646,147	755,519	502,009
Total Revenue*	2,328,373	2,375,774	2,186,328	2,057,718	2,382,227	1,429,102
GOP*	1,245,841	1,273,500	1,109,644	1,015,911	1,205,584	437,992
GOP (%)	54%	54%	51%	49%	51%	31%

### **The Phuket Situation**

Phuket suffered significantly from a reduction in tourist arrivals subsequent to the Tsunami although the second half of 2005 has seen a gradual recovery and the recovery is expected to be complete by the second half of 2006.

The improvements at the airport and the infrastructure of the road networks in Phuket are nearing completion, but as there are more and more cars on the island, there is already a further need for upgrade in many areas.

At the airport, the low cost airlines of Orient Thai, Air Asia, Nok Air, and Tiger Air continue to operate although due to the reduction in demand for Phuket as a destination nearly all airlines reduced their schedule of flights. This is gradually returning to normal and is expected to be back in full giving by the second quarter of 2006. The airport runway extension has not yet been started, but officials confirm that it is budgeted for the near future.

Jung Ceylon (large shopping centre in Patong) which was delayed in 2005, is once again under construction, and the owners hope to open it during 2006.

The much vaunted convention centre continues to be delayed and we still have no clear direction for that project.

### **Competition**

There continues to be plenty of development activity on Phuket, with several new hotel projects being announced during the year. Still not yet finalised, but under discussion are a new Four Seasons Hotel on the East Coast near to the Evason, and a possible Hyatt Hotel on Bangtao Beach just North of Banyan Tree Phuket. It is likely that both of these developments will include property sales.

In Property, we continue to see a large number of smaller developments, the only single development of significant size being Gulu Lalvani's Royal Phuket Marina. This is probably an effect of the legislation governing Development Licences and Environmental Impact Studies, the applications for which are far less onerous for smaller developments. Thus Laguna Property continues to occupy a niche, but we are aware that the market is becoming more price-competitive and we will constantly review our property prices. Blue Canyon is also likely to announce shortly that in partnership with Deutsche Bank, they will be aggressively promoting property sales around the Canyon Course.

### **Pricing Strategy**

The Laguna Phuket hotels are working together better than ever on price structuring. The discussions inevitably follow the normal course of competitors, and we will need to maintain vigilance as we go forward to ensure maximum average room rates. The following chart shows the average room rate movements over the past 8 years:-

#### **Laguna Phuket**

	1998	1999	2000	2001	2002	2003	2004	2005
Average Room Rate (Baht)	4,294	4,947	5,814	6,977	6,831	5,748	6,036	5,126
Average Exchange Rate Baht : US\$	41.0	38.1	40.6	44.6	43.1	41.6	40.4	40.2
Average Room Rate (US\$)	105	130	143	156	159	138	149	127

A look at the historical growth of rates across Laguna Phuket by hotel shows the following:

		2001	2002	2003	2004	2005
<b>Banyan Tree Phuket</b>	Occ	73%	68%	67%	70%	53%
	ARR	16,279	17,585	17,639	18,368	14,121
	Revpar	11,960	11,912	11,767	12,941	7,537
<b>Sheraton Grande Laguna Phuket</b>	Occ	68%	64%	73%	75%	46%
	ARR	6,394	5,600	4,393	5,164	4,278
	Revpar	4,368	3,581	3,214	3,877	1,988
<b>Dusit Laguna Resort</b>	Occ	65%	63%	68%	78%	55%
	ARR	5,251	4,912	3,755	3,838	3,303
	Revpar	3,392	3,093	2,561	3,019	1,801
<b>Laguna Beach Resort</b>	Occ	69%	64%	69%	81%	50%
	ARR	4,800	4,507	3,653	3,710	3,330
	Revpar	3,299	2,894	2,534	3,007	1,673

Occ = Occupancy

ARR = Average room rate

Revpar = Revenue per available room

### **Three Year Outlook**

After the 1997 economic crisis we have weathered the storms of the terrorist attacks on the USA and Bali, the Iraq War, the SARS crisis and Bird Flu and we are now largely recovered from the damage, both physical and market-related, of the Tsunami which hit Phuket on 26<sup>th</sup> December 2004. As we plan for the future, we hope for the best, but must also plan for the worst, since it is reasonable to assume that there may be some more crises ahead.

The business levels of the hotels are not yet back to those experienced in 2004 and we expect to get back to these levels in the second half of 2006 as the air access improves. The business demand for Property Sales and the Laguna Holiday Club is showing good signs at the beginning of 2006 and appears to now be back at pre-Tsunami levels.

For the hotels, we are seeing a gradual shift back to our traditional European season from December to March. During the 'low' season, the hotels remain busy, but at a lower average rate. This is where the opportunity lies in the coming years. As mentioned earlier, one of the hotels has discovered a market in Korea which is not so rate sensitive. Such markets will be pursued by a growing supply in the Phuket market, but we are optimistic that Laguna Phuket's brand awareness in the market will keep us ahead of the competition.

In Property Sales, this is a market which we view with care, and we must be vigilant for signs that demand has gone off the boil. For now, however, we can certainly continue through 2006 at similar levels to 2004, despite the Tsunami, and there is currently no reason to suppose that there will be any downturn in the following year, and we believe our prediction of a continuation of current levels during the next three years is supportable.

### **3.2.2 Banyan Tree Bangkok**

The budgeting process and sales and marketing tactics for the Banyan Tree Bangkok are very similar to those outlined above for Laguna Phuket. The targeted markets are more directed at the business traveller and meeting and incentive groups although the leisure market has become increasingly important in recent years.



**Source of Bookings**

Local and international wholesalers	31%
Corporate accounts and government	30%
Meetings and incentives	22%
Packages	7%
Other	10%

**Geographic origin**

North Asia

Japan	13%
Hong Kong	12%
China	3%
Taiwan	3%

South East Asia

Singapore	12%
Malaysia	3%

<u>Other Asia</u>	3%
-------------------	----

Europe

UK	8%
----	----

<u>Australia/New Zealand</u>	7%
------------------------------	----

<u>USA/Canada</u>	9%
-------------------	----

<u>Others</u>	27%
---------------	-----

**3.2.3 Rights and constraints in Business**

BOI Priviledges – None

Other Priviledges – None

Constraints in Business – None