

6 Future plans

The integrated resort concept of Laguna Phuket has proved a winning formula since the resort's inception over a decade ago. The dynamic development over the last 18 years has created the mature resort which is evident today.

Nevertheless there continues to be opportunity to improve profitability and expand the existing facilities, particularly in light of the ongoing high demand for Phuket in terms of both hotel and residential accommodation and a hotel supply which is not expanding very quickly.

Laguna Phuket is effectively its own macro-market within the broader Phuket market and dominates the upper-tier rooms supply of the island. In terms of four and five star properties, the only real competition comes from the Meridien group (Le Meridien and Le Meridien Yacht Club), The Amanpuri, the JW Marriott on Mai Khao Beach which opened at the end of 2001, Trisara Resort and the renovated Hilton Arcadia.

Future Expansion of Hotels in Laguna Phuket

The ability within the resort to add rooms supply without additional expenditure on infrastructure is a feature of the projects at Laguna Phuket. At **Banyan Tree Phuket** the present public areas will comfortably support considerably more rooms than we currently have. The new Spa Pool Villas have been well received, and there are plans to add 52 higher end Double Pool Villas of which phase I of 22 villas are under construction and expected to be completed in mid 2006. Fourteen additional 2 bedroom pool villas were completed in 2005 and are close to being completely sold to the public.

At the **Sheraton Grande Laguna Phuket** 45 additional rooms are under construction to be available for opening in the first quarter of 2006.

At the **Dusit Laguna Resort** 28 pool villas will be built during 2006 and 2007 to provide a high end product for this hotel. These villas will be sold to the public.

Future Expansion of Hotels outside Laguna Phuket

The Company will continue to look for opportunities to diversify its operations outside of Phuket and the purchase of the Banyan Tree Bangkok in 2005 and the construction of Banyan Tree Lijiang, which will consist of 55 villa's and will open in mid 2006 is the first stage in the implementation of this strategy.

The potential of expanding the Banyan Tree Bangkok has been started by adding a Japanese and Seafood restaurant. Further expansion is likely to be performed in 2006/2007 by renovating existing office space into additional hotel suites and constructing a ballroom with additional meeting facilities.

Property Sales

One of the hallmarks of Laguna Phuket has been its ongoing ability to attract investors to buy from a varied inventory of resort accommodation. Activity in this area has changed as a result of the economic and market conditions and we continue to see a significant interest in our products where we deliver a turnkey property to the consumer together with many of the advantages of a Laguna Phuket address.

In particular the Laguna Residence and Laguna Townhome products have proved to be extremely popular to the extent that all projects developed to date have been largely sold out. In order for us to keep pace with the strong demand, a number of other project sites have been identified and are in the process of design and obtaining government approvals so that they can be developed. This a very strong area of growth potential for the group.

In 2002, the Company acquired the assets of Laguna Development Company Limited (the Company was previously a 30% partner in this company) which has provided a further 1,146 Rai of contiguous land to Laguna Phuket. An integrated residential community to be called **Laguna Village** has been planned for this site and construction is expected to commence the first half of 2006. Phase I of Laguna Village will comprise of 23 Laguna Residences, 100 Laguna Townhomes and 36 Villas (a new product).

In addition, two further property sales projects scheduled for release in 2006 are the Double Pool Villas at the Banyan Tree Phuket (scheduled for completion in mid 2006) and the Pool villas at the Dusit Laguna Resort scheduled for completion in mid 2007.

Laguna Holiday Club

In response to the changes in the Property Sales market, we launched our own vacation club in 1998. This product is a variation on the theme of timeshare. We are conscious of the somewhat difficult reputation of this industry, and we are determined to provide a service which reflects the high standards and culture of the resort. The Laguna Holiday Club is popular with the Laguna Phuket guests, and provides an important dynamic for the resort. It is a highly profitable industry, although we anticipate continuing with our sales efforts at a slightly slower pace than timeshare industry norms, protecting our guests from the traditional sales pressure, but nevertheless making the product available to our own captive audience.

The Bangkok office which opened in mid 2000 and continues to perform very well, and we have regionalised the Laguna Holiday Club with another sales office in Bintan, Indonesia which opened in November 2005 selling product in the Angsana Resort & Spa Bintan. A number of additional locations within the region will be considered in 2006 and we believe that with the quality of management and staff now in place that we have the foundation to expand this operation internationally. In Phuket construction is well under way on the Laguna Holiday Club hotel. This will provide a separate property dedicated to the members of the Laguna Holiday Club and the 79 unit hotel is expected to be completed in mid 2006.

Laguna Service Company Limited

Laguna Service Company Limited is the central services arm of Laguna Phuket. It performs a variety of tasks including inter-hotel transportation, central laundry, landscaping of common areas, beach clean-up, lagoon maintenance, water supply, computer training facilities and staff transportation in addition to providing a response team to deal with a variety of emergencies within the resort. LSC is governed by its own Council which is comprised of the Hotel General Managers. No significant future developments are planned for this company at present.

Marketing Laguna Phuket

In addition to the hotels' own marketing efforts, which accounts for the majority of expenditure in Advertising and Promotion, there is a central fund derived from a 1% levy on the hotels' revenue. There is a full programme marketing Laguna Phuket as a destination which includes advertising, public relations, and some direct selling activities.

Our very successful programme called "Laguna Phuket Plus" with selected agents in key feeder markets, is now being promoted year-round, and is expected to be a key feature of Laguna Phuket's co-operative sales efforts.

Laguna Tours

Laguna Tours, our centralised tour company is directed at capturing the commissions generated by our existing guests when they avail themselves of the many activities available on the island. This also provides us with the opportunity to exercise some quality control over the tours offered to our guests.

Other Business Units

Canal Village remains fully occupied, and in 2003 we have built separate offices for the Laguna Holiday Club, which occupies eight shop spaces, to make room for the waiting list of potential tenants. Within Canal Village, we have built a **Wedding Chapel** in order to penetrate the lucrative weddings market, particularly from Japan. This was completed in late 2004 and commenced operations in early 2005.

Quest Laguna Phuket Adventure continues to provide important support for our corporate meetings market, and an additional leisure feature for our guests.

The **Laguna Phuket Golf Club** is an important facility for Laguna Phuket. The name was changed from Banyan Tree Golf Club in 2003 to help identify the golf clubs with all the hotels of Laguna Phuket and the

condition of the golf course continues to be enhanced. We intend to introduce buggies in 2006 to further improve the quality of this facility.

Banyan Tree Gallery captures valuable retail spending by our guests for the Company, and provides a consistent product in logo-wear throughout the resort. Additional outlets in a number of countries continue to be opened as a Banyan Tree Gallery is always included in a newly opened Banyan Tree or Angsana resort or spa.

LRH Cashflow

In the last 5 years cash generation by the hotel and property sales operations over recent years has enabled LRH to generate significant cash from its operations. Given the significant margins between the loan and deposit interest rates we have largely used the cash generated to make debt repayments. This situation has changed during 2005 whereby the Company has utilised its strong balance sheet to obtain debt to finance its purchase of Thai Wah Plaza Limited and the construction projects within Laguna Phuket and Lijiang, China. The cash generated by operations will be used to make the debt repayments.