

1 Risk factors

CURRENCY FLUCTUATION

Between 70% and 80% of our rooms revenue is denominated in hard currencies, predominantly the US dollar. As US dollar revenues tend to amount to over Baht 1.2 billion per annum while the vast majority of our expenses are incurred in Thai Baht, changes in the value of the Thai Baht against the US dollar can cause fluctuations in the results of our operations. Devaluations in the US dollar against the Thai Baht would consequently have an adverse effect on our reported financial results.

The Company does not have significant assets or liabilities denominated in foreign currencies with the exception of a financial instrument which has hedged the impact of the movement in Thai Baht : US dollar exchange rate on the reported financial results. This financial instrument has effectively converted Thai Baht loans to US dollar denominated loans and as a result the impact on exchange rate movements on the US dollar revenue streams are hedged by the resulting exchange gain or loss on the restatement on these US dollar denominated loans in the financial statements. The Company is currently constructing a Banyan Tree in Lijiang, China, the cost of which will be denominated in RMB. Loans taken out to finance this project will be predominantly denominated in US dollars and the revenue streams will also be denominated in US dollars.

ECONOMY AND TOURISM IN THAILAND

As most of the Company's revenue is generated from tourism and property sales in Thailand, the Company has exposure to both the world and Thai economies and the tourism industry in Thailand. Any conditions, such as changes in the attractiveness of Thailand as a tourism destination, an economic downturn, acts of terrorism, natural disasters, increased levels of criminal activity, civil unrest or epidemics which affect tourism in Thailand or result in a depression in property values in Phuket, may have an adverse effect on the Company's business, financial condition, profitability and results of operations.

The tourism industry in Thailand has been particularly impacted in the last four years by terrorist attacks in New York and Bali, a sluggish world economy, the Iraq War, SARS, Bird Flu and most recently the Tsunami in the Indian Ocean on 26th December 2004. These events have had a flow on effect onto the Company's results. Conversely the property market in Phuket has boomed in 2003 and 2004 (although a slow down was experienced in 2005) and this has had the effect of more than compensating for the reduction in the hotels revenues and profitability. We see property sales as being an important growth area for the Company and will assist in diversifying risk. The Company is also directly investing in its first overseas hotel with the construction of the Banyan Tree in Lijiang, China. This is expected to open in July 2006 and further diversifies our reliance on the tourism industry in Phuket and Thailand.

COMPETITION

Destination

Indonesia has continuing stability problems, which has a direct impact on tourism in the region. This affects Bali in particular, which is the main direct competitor to Phuket. Subsequent to the October 2002 bombing, Bali has been marketing itself with aggressive rates worldwide which has resulted in a gradual return to its normal business levels although this progress has been halted by the second bomb in October 2005 and continued security concerns. Fortunately Bali's and Phuket's high and low seasons are out of phase with one another, and our rate strategies are not greatly affected by Bali's discounting.

Other than this, we remain optimistic that Phuket as a destination will continue to bounce back from the recent events in the same way as it has done in the past.

Hotels

The competitive set of the Laguna Phuket hotels comprises the JW Marriott Resort & Spa, Le Meridien Phuket Beach Resort, Le Royal Meridien Phuket Yacht Club, and to a lesser extent the Amanpuri, all of which are located in Phuket. There are relatively few hotel projects announced or under construction. The only new projects that would be considered to be in our competitive set are the Trisara hotel and villas just north of Bangtao Bay (which opened in the third quarter of 2004) and the rebranding of 2 existing four star hotels to Hilton (opened in 2004) and Conrad (yet to re-open) respectively. Whilst Trisara competes with the Banyan Tree Phuket, the impact of rebranding of the Hilton has been relatively small.

Low Season

Low season in Phuket is from May until October and the hotels normally run at low occupancies with reduced room rates. With the global economic environment of the last few years impacting the meetings and incentive business and the re-emergence of Bali (prior to the Bali bombing) the lower occupancies experienced in the low season has been particularly marked. The hotels in Laguna Phuket have joined forces and launched a promotional campaign targeting the regional market, as well as the meetings and incentives business. The “Laguna Phuket Plus” campaign has been a particular success in Laguna Phuket’s competitive advantage, and will continue to be further enhanced. The construction of the Wedding Chapel which opened in early 2005 will also assist to drive business during the low season.

OPERATING RISKS INHERENT IN THE HOSPITALITY INDUSTRY

Our hotels are subject to operating risks inherent in the hospitality industry. These risks include:

- seasonality of the industry in that we are subject to different levels of tourism and business/commercial travel across the year, and thereby our revenues tend to vary within the year;
- our dependence on travel patterns and preferences with respect to Phuket;
- changes in regulatory conditions in Thailand;
- periodic local oversupply of or reduced demand for guest accommodation, which may adversely affect occupancy rates and actual room rates achieved;
- changes in general, regional and local economic conditions which may effect, among other things, the disposable income of consumers and the traveling public and which may cause increases in operating costs due to inflation and other factors which may not be offset by increased revenues;
- regional and local political and social conditions affecting market demand, including crime, civil disorder and terrorism;
- epidemics affecting the travel and tourism industries;
- travel advisories cautioning people to defer and/or avoid travel;
- foreign exchange rate movement;
- convenience of access to Thailand and in particular the airline capacity into Thailand and Phuket; and
- adverse weather conditions and natural disasters such as the Tsunami in the Indian Ocean which occurred at the end of 2004.

Any of these factors could have an adverse effect on our business and management monitor each of these closely so that our strategies can be quickly adapted to any changes in the operating environment.

MANAGEMENT RISK

Our success depends largely on the skills, experience and performance of key members of our senior management team. If we were to lose one or more of these key employees, our ability to set and implement successfully our strategy could be adversely affected. Our future success also depends on the continued service of our key operating, marketing, design and administrative personnel.

LAND TITLE

In 2003, there were a number of disputes in Thailand relating to property owners having valid title to their properties. Although we are confident that the Group has valid title to all the land upon which it operates or which is for sale by it in Thailand, there can be no assurance that other parties will not challenge our claim of

title. Even if such challenges are not successful, they may have a material adverse effect on our property sales business in Thailand if purchasers express concern that we are unable to transfer good title to them.

THAI LABOUR LAWS

Nearly all of our employees are based in Thailand. Labour laws in Thailand are highly protective of employees. Under Thai labour laws, we are generally prohibited from discharging employees without compensation absent gross misconduct, neglect, or acts of dishonesty. As such, we have limited measures at our disposal to reduce headcount in order to increase efficiencies, reduce costs or achieve similar objectives. During the outbreak of SARS in 2003, we were restricted from dismissing employees and could only institute a voluntary unpaid leave program. We have been restricted in the past and expect in the future to be limited to using voluntary separation plans where we are required to pay high amounts of severance pay and similar measures under which selected employees may elect to leave us in return for lump-sum compensation packages and other benefits.