

Istraturist Umag d.d.

Management Board's report and
financial statements

31 December 2000

Istraturist Umag d.d.

Management Board's report and financial statements

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Istraturist Umag d.d.

Management Board's report

The Management Board present their annual report and the audited consolidated financial statements for the year ended 31 December 2000. The consolidated financial statements of Istraturist Umag d.d. ("the Company") for the year ended 31 December 2000 comprise the financial statements of the Company and its subsidiary (together referred to as the "Group").

Principal activities

The Company is the owner of hotels, apartment complexes and campsites in and around the town of Umag, located on the Istrian peninsula in north west Croatia. The Company is incorporated in Croatia as a joint stock company, registered with the Commercial Court in Rijeka, number 040002769.

Results

The increase in profitability in comparison to the prior year is mainly due to the increase in occupancy of 22%, and the rationalisation of costs in all segments of the business.

In 2000 the Group achieved total operating income of 206.5 million (*1999: 159.5 million*). The profit from operations is 24.0 million (*1999: loss of 1.6 million*) and the profit before tax amounts to 13.0 million (*1999: loss of 11.9 million*).

During the year State grants of HRK 7 million were received to minimise the effects of the VAT system. Further, the Company recognised 9.1 million profit from the sale of property, plant and equipment.

The results for the Group and Company are set out on page 5 of the financial statements.

Current and future developments

The Company withstood the losses and disruptions to operations as a result of the previous Kosovo crisis. The planned investment cycle for 2000 was postponed and during the year the Company invested a minimum amount into capital expenditure of DEM 3.6 million.

During 2000, the Company finalised priorities for its capital expenditure investment plan for year 2000/2001 which will total DEM 13.6 million.

Investments will be undertaken in the apartment complexes at Kanegra and Savudrija, camps at Ladin Gaj, Finida, Kanegra and Savudrija, which will result in higher category standards for all apartment and camp accommodation. We note that since 1999 the apartment complexes at Stella Maris and Polynesia, and Hotel Koralj have operated under the Sol Melia brand with quality facilities and service as provided by similar hotels and apartments within the Sol Melia group in other countries.

Istraturist Umag d.d.

Management Board's report *(continued)*

Supervisory Board

The Supervisory Board of the Company during the year comprised:

Mr Nikola Kalinić, *President*

Mr Duilio Belić

Mr Antun Rački

Mrs Zlata Šifter

Ms Mirela Mihin

Management Board

The Management Board of the Company during the year comprised:

Mr Renco Miletić, *President*

Ms Leila Krešić-Jurić (appointed on 26 January 2001)

Mr Ivan Šorić, (resigned on 26 January 2001)

By order of the Management Board

Renco Miletić

President of the Management Board

52470 Umag
Croatia
30 March 2001

Leila Krešić-Jurić

Member of the Management Board

Istraturist Umag d.d.

Statement of Management Board's responsibilities

The Management Board is responsible for the preparation of the financial statements of the Group and Company for each financial year, which give a true and fair view of the financial position of the Group and Company and of the results of their operations and cash flows for that year. In preparing those financial statements, the Management Board should have due regard to:

- selecting suitable accounting policies to conform with International Accounting Standards and Croatian accounting law and then applying them consistently;
- making judgements and estimates that are reasonable and prudent;
- stating whether applicable accounting standards have been followed;
- preparing the financial statements on the going concern basis unless it is inappropriate to presume that the Group or Company will continue in business.

The Management Board is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Group and Company and to enable them to ensure that the financial statements comply with Croatian accounting law. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and Company and to prevent and detect fraud and other irregularities.

Auditors' report to the shareholders of Istraturist Umag d.d.

We have audited the accompanying consolidated balance sheet of Istraturist Umag d.d. and its subsidiary (the "Group") and the accompanying balance sheet of Istraturist Umag d.d. ("the Company") as at 31 December 2000 and the related statements of income, changes in equity and cash flow of the Group and the Company for the year then ended.

Respective responsibilities of the Management Board and auditors

As described on page 3, these financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing as promulgated by the International Federation of Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion the financial statements give a true and fair view of the financial position of the Group and Company as at 31 December 2000, and of the results of their operations and cash flows for the year then ended in accordance with International Accounting Standards as promulgated by the International Accounting Standards Committee, and have been properly prepared in accordance with Croatian Accounting Law.

30 March 2001

KPMG Audit Plc
Chartered Accountants, London

8 Salisbury Square
London EC4Y 8BB
United Kingdom

30 March 2001

KPMG Croatia d.o.o. za reviziju
Registered Auditors, Zagreb

Centar Kaptol
Nova Ves 11
10000 Zagreb
Croatia

Istraturist Umag d.d.

Income statement

for the year ended 31 December 2000

	Note	Group		Company	
		2000 HRK'000	1999 HRK'000	2000 HRK'000	1999 HRK'000
Operating revenue	1(i)	166,057	132,448	158,845	132,448
Government grants	1(i)	7,015	8,860	7,015	8,860
Other operating income	2	33,462	18,258	33,654	18,258
		<hr/>	<hr/>	<hr/>	<hr/>
Total income		206,534	159,566	199,514	159,566
		<hr/>	<hr/>	<hr/>	<hr/>
Raw materials, consumables and services used		(77,594)	(64,874)	(71,596)	(64,874)
Staff costs	3	(49,922)	(46,174)	(49,463)	(46,174)
Depreciation and amortisation expense		(26,835)	(23,486)	(26,835)	(23,486)
Other operating expenses	4	(28,156)	(26,589)	(27,076)	(26,589)
		<hr/>	<hr/>	<hr/>	<hr/>
Total operating expenses		(182,507)	(161,123)	(174,970)	(161,123)
		<hr/>	<hr/>	<hr/>	<hr/>
Profit/(loss) from operations		24,027	(1,557)	24,544	(1,557)
Net financing costs	5	(10,993)	(10,357)	(10,735)	(10,357)
		<hr/>	<hr/>	<hr/>	<hr/>
Profit/(loss) before taxation		13,034	(11,914)	13,809	(11,914)
Profit tax expense	6(a)	-	-	-	-
		<hr/>	<hr/>	<hr/>	<hr/>
Profit/(loss) after taxation		13,034	(11,914)	13,809	(11,914)
		<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Earnings/(loss) per share (in HRK)	14	2.79	(2.55)	2.95	(2.55)
		<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

The notes set out on pages 9 to 22 form part of these financial statements.

Istraturist Umag d.d.

Statement of changes in equity for the year ended 31 December 2000

Group	<i>Note</i>	Issued Capital HRK'000	Other Reserves HRK'000	Retained profits HRK'000	Total HRK'000
Balance at 31 December 1998		467,500	41,782	(3,523)	505,759
Transfers	<i>13</i>	-	(3,523)	3,523	-
Loss for the year		-	-	(11,914)	(11,914)
		<hr/>	<hr/>	<hr/>	<hr/>
Balance at 31 December 1999		467,500	38,259	(11,914)	493,845
Transfers	<i>13</i>	-	(11,914)	11,914	-
Profit for the year		-	-	13,034	13,034
		<hr/>	<hr/>	<hr/>	<hr/>
Balance at 31 December 2000		467,500	26,345	13,034	506,879
		<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Company	<i>Note</i>	Issued Capital HRK'000	Other Reserves HRK'000	Retained profits HRK'000	Total HRK'000
Balance at 31 December 1998		467,500	41,782	(3,523)	505,759
Transfers	<i>13</i>	-	(3,523)	3,523	-
Loss for the year		-	-	(11,914)	(11,914)
		<hr/>	<hr/>	<hr/>	<hr/>
Balance at 31 December 1999		467,500	38,259	(11,914)	493,845
Transfers	<i>13</i>	-	(11,914)	11,914	-
Profit for the year		-	-	13,809	13,809
		<hr/>	<hr/>	<hr/>	<hr/>
Balance at 31 December 2000		467,500	26,345	13,809	507,654
		<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

The notes set out on pages 9 to 22 form part of these financial statements.

Istraturist Umag d.d.

Balance sheet

at 31 December 2000

		Group		Company	
	Note	2000 HRK'000	1999 HRK'000	2000 HRK'000	1999 HRK'000
ASSETS					
<i>Long-term assets</i>					
Property, plant and equipment	7	634,493	653,263	634,493	653,263
Investments	8	1,284	2,927	1,321	2,964
Receivables	10(a)	1,264	1,818	1,264	1,818
		<hr/>	<hr/>	<hr/>	<hr/>
		637,041	658,008	637,078	658,045
		<hr/>	<hr/>	<hr/>	<hr/>
<i>Current assets</i>					
Inventories	9	7,269	6,646	7,268	6,646
Receivables	10(b)	24,921	9,646	24,934	9,647
Cash	11	4,587	2,413	4,097	2,401
		<hr/>	<hr/>	<hr/>	<hr/>
		36,777	18,705	36,299	18,694
		<hr/>	<hr/>	<hr/>	<hr/>
TOTAL ASSETS		673,818	676,713	673,377	676,739
		<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
EQUITY AND LIABILITIES					
<i>Capital and reserves</i>					
Issued capital	12	467,500	467,500	467,500	467,500
Reserves	13	26,345	38,259	26,345	38,259
Retained profits/(accumulated losses)		13,034	(11,914)	13,809	(11,914)
		<hr/>	<hr/>	<hr/>	<hr/>
Total capital and reserves		506,879	493,845	507,654	493,845
		<hr/>	<hr/>	<hr/>	<hr/>
<i>Long-term liabilities</i>					
Loans and borrowings	15(a)	103,579	111,329	103,579	111,329
		<hr/>	<hr/>	<hr/>	<hr/>
<i>Current liabilities</i>					
Loans and borrowings	15(b)	36,572	40,884	36,572	40,884
Payables	16	26,788	30,655	25,572	30,681
		<hr/>	<hr/>	<hr/>	<hr/>
		63,360	71,539	62,144	71,565
		<hr/>	<hr/>	<hr/>	<hr/>
Total liabilities		166,939	182,868	165,723	182,894
		<hr/>	<hr/>	<hr/>	<hr/>
TOTAL EQUITY AND LIABILITIES		673,818	676,713	673,377	676,739
		<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

These financial statements were approved by the Management Board on 30 March 2001 and were signed on by:

Renco Miletić
President of the Management Board

Leila Krešić Jurić
Member of the Management Board

The notes set out on pages 9 to 22 form part of these financial statements.

Istraturist Umag d.d.

Cash flow statement

for the year ended 31 December 2000

	Note	Group		Company	
		2000 HRK'000	1999 HRK'000	2000 HRK'000	1999 HRK'000
Cash flows from operating activities					
Cash receipts from customers and VAT refunds		232,459	215,712	226,132	215,711
Cash paid to suppliers and employees		(196,719)	(161,243)	(188,806)	(161,242)
		<hr/>	<hr/>	<hr/>	<hr/>
Cash generated from operations		35,740	54,469	37,326	54,469
Interest paid		(13,628)	(9,432)	(13,628)	(9,432)
Interest received		305	3,693	305	3,693
		<hr/>	<hr/>	<hr/>	<hr/>
<i>Net cash from operating activities</i>		22,417	48,730	24,003	48,730
		<hr/>	<hr/>	<hr/>	<hr/>
Cash flows from investing activities					
Purchase of property, plant and equipment		(19,092)	(184,512)	(19,092)	(184,512)
Sales/(Purchase) of investments		3,357	24,603	1,293	24,606
Sale proceeds of property, plant and equipment		3,680	2,744	3,680	2,744
Dividends received		560	833	560	833
		<hr/>	<hr/>	<hr/>	<hr/>
<i>Net cash absorbed by investing activities</i>		(11,495)	(156,332)	(13,559)	(156,329)
		<hr/>	<hr/>	<hr/>	<hr/>
Cash flows from financing activities					
Proceeds from long-term borrowings		-	125,981	-	126,631
Proceeds from short-term borrowings		44,819	5,418	44,819	4,768
Repayment of borrowings		(53,567)	(23,354)	(53,567)	(23,354)
		<hr/>	<hr/>	<hr/>	<hr/>
<i>Net cash (absorbed by)/generated from financing activities</i>		(8,748)	108,045	(8,748)	108,045
		<hr/>	<hr/>	<hr/>	<hr/>
Net increase in cash and cash equivalents		2,174	443	1,696	446
Cash and cash equivalents at beginning of year		2,413	1,970	2,401	1,955
		<hr/>	<hr/>	<hr/>	<hr/>
Cash and cash equivalents at end of year	11	4,587	2,413	4,097	2,401
		<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

The notes set out on pages 9 to 22 form part of these financial statements.

Istraturist Umag d.d.

Notes *(forming part of the financial statements)*

1 Significant accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements.

(a) *Statement of compliance*

The financial statements have been prepared in accordance with International Accounting Standards ("IAS") issued by the International Accounting Standards Committee ("IASC"), interpretations issued by the Standing Interpretations Committee of the IASC and the requirements of Croatian law.

(b) *Basis of preparation*

The financial statements are presented in the Croatian currency, Kuna (HRK), rounded to the nearest thousand. The financial statements for the year ended 31 December 2000 have been prepared under the historical cost convention. The accounting policies have been consistently applied by Group enterprises, except where disclosed otherwise.

Going concern

The financial statements have been prepared under the assumption that the Group and Company will continue to operate as a going concern. In view of the Group's and Company's net current liabilities, the ability of the Group and Company to continue as a going concern maybe dependant on the continued financial support of the ultimate parent company (as disclosed in note 20) which is also the major financier of the Group and Company (as disclosed in note 15).

(c) *Basis of consolidation*

Subsidiaries

Subsidiaries are those enterprises controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

(d) *Foreign currency*

Transactions in foreign currencies are translated into Kuna at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into Kuna at the foreign exchange rate ruling at the balance sheet date. Foreign exchange differences arising on translation are recognised in the income statement.

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Notes (*continued*)

1 Significant accounting policies (*continued*)

(e) *Property, plant and equipment*

Items of property, plant and equipment are stated at the lower of historical cost and recoverable amount, refer note 1(h). Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of items of property, plant and equipment. Freehold land and assets under construction are not depreciated. The rates of depreciation used for other assets are based on the following average estimated useful lives:

- buildings - 35 years
- plant and equipment - 5 to 10 years

(f) *Investments*

Investments classified as current assets are carried at fair value. Any increases or decreases in carrying values are credited or charged to income.

Investments classified as long term are carried at cost, less amounts written off to recognise any permanent decline in the value of the investment.

On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to income.

(g) *Inventories*

Miscellaneous inventory

Items of miscellaneous inventory are stated at cost less accumulated depreciation and are depreciated using a straight line method over their estimated useful economic life. The estimated useful lives are as follows:

- glassware and cutlery - 2 years
- porcelain, kitchen appliances and linen - 3 years
- other cutlery, curtains and blankets - 5 years

Other inventories

Other inventories are stated at the lower of cost and net realisable value using the first in, first out principle.

(h) *Impairment of assets*

The carrying amounts of the Group's and Company's assets, other than inventories are reviewed at each balance sheet date to determine whether there is any indication for impairment. If any such indication exist, the asset's recoverable amount is estimated.

The recoverable amount of assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

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Notes (*continued*)

1 Significant accounting policies (*continued*)

(i) Revenue

Goods sold and services rendered

Revenue from sales of goods and from services rendered is recognised in the income statement when the significant risk and rewards of ownership have been transferred to the buyer.

Government grants

Grants are recognised in the income statement on a systematic basis matching them with related costs for which the grants are intended to compensate.

(j) Net financing costs

Net financing costs comprise interest payable on borrowings, dividend income, interest receivable on funds invested and foreign exchange gains and losses.

(k) Borrowing costs

Borrowing costs arising in respect of loans taken to finance the construction of property, plant and equipment are capitalised in accordance with International Accounting Standard 23, as detailed in note 7(b).

(l) Taxation

The Company provides for taxation liabilities in accordance with Croatian law.

(m) Comparatives

Where necessary comparative information has been reclassified to achieve consistency in disclosure with current financial year amounts and other disclosures.

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Notes (continued)

2 Other operating income

Other operating income includes the following items:

	Group		Company	
	2000 HRK'000	1999 HRK'000	2000 HRK'000	1999 HRK'000
Proceeds from sale of property, plant and equipment (i)	16,145	4,278	16,145	4,278
Recovery of bad debts (ii)	3,218	3,350	3,218	3,350
Insurance recoveries	750	1,048	750	1,048
Maturity of life insurance policy	1,016	-	1,016	-
Rental income	5,265	5,157	5,265	5,157
Exchange office commission, technical surpluses, ticketing income	3,416	2,239	3,522	2,239
Sport and entertainment	1,550	1,099	1,554	1,099
Other	2,102	1,087	2,184	1,087
	<u>33,462</u>	<u>18,258</u>	<u>33,654</u>	<u>18,258</u>

(i) The net profit from the sale of property, plant and equipment is HRK 9,085 thousand (1999: HRK 2,724 thousand). The proceeds from sale of property, plant and equipment is disclosed above. The written down value of disposed property, plant and equipment is disclosed in note 4.

(ii) HRK 2,885 thousand was recovered in 2000 (1999: nil) from the sale of debt to Zagrebacka banka (the ultimate parent company)

3 Staff costs

	Group		Company	
	2000 HRK'000	1999 HRK'000	2000 HRK'000	1999 HRK'000
Gross salaries and wages	34,435	30,700	34,118	30,700
Compulsory State health contributions	6,998	7,048	6,934	7,048
Contribution to State pension plan	8,489	8,426	8,411	8,426
	<u>49,922</u>	<u>46,174</u>	<u>49,463</u>	<u>46,174</u>

The average number of employees in the Group was 721 (1999: 694) and in the Company 717 (1999: 694). Staff costs include HRK 8,489 thousand (1999: HRK 8,426 thousand) of defined pension contributions paid into the State pension plan. Contributions are calculated as a percentage of employees' gross salaries.

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Notes (continued)

4 Other operating expenses

Other operating expenses include the following:

	Group		Company	
	2000 HRK'000	1999 HRK'000	2000 HRK'000	1999 HRK'000
Bad debt provisions and write-offs	853	1,355	834	1,355
Written down value of disposed property, plant and equipment (see note 2)	7,060	1,554	7,060	1,554
Rates and taxes	6,190	8,671	6,141	8,671
Insurance premiums paid	1,255	1,161	1,255	1,161
Write down of investments	340	704	340	704
Employee travel expenses, severance payments, long service bonuses	4,632	5,332	4,618	5,332
Subscriptions and membership fees	726	563	699	563
Staff reimbursements	2,210	1,602	2,055	1,602
Bank fees and charges	1,260	1,181	1,237	1,181
Penalties	206	20	206	20
Temporary contracted staff	1,355	1,102	853	1,102
Other	2,069	3,344	1,778	3,344
	<u>28,156</u>	<u>26,589</u>	<u>27,076</u>	<u>26,589</u>

5 Net financing costs

	Group		Company	
	2000 HRK'000	1999 HRK'000	2000 HRK'000	1999 HRK'000
Interest income	503	1,544	569	1,544
Dividends income	158	216	158	216
Interest expense	(14,074)	(10,510)	(14,074)	(10,510)
Net foreign exchange gain/(loss)	1,979	(2,311)	2,171	(2,311)
Profit from sale of investments	441	704	441	704
	<u>(10,993)</u>	<u>(10,357)</u>	<u>(10,735)</u>	<u>(10,357)</u>

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Notes (continued)

6 Profit tax expense

(a) The following is a reconciliation of profit taxes calculated at the applicable tax rate:

	Group		Company	
	2000	1999	2000	1999
	HRK'000	HRK'000	HRK'000	HRK'000
Accounting profit/(loss)	13,034	(11,914)	13,809	(11,914)
Non-deductible costs and non-taxable income	2,619	4,260	1,874	4,260
Depreciation recognised for tax purposes from prior periods	(32,548)	-	(32,548)	-
Allowance for notional interest	(54,291)	(56,159)	(54,320)	(56,155)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Taxable loss	<u>(71,186)</u>	<u>(63,813)</u>	<u>(71,185)</u>	<u>(63,809)</u>

(b) Gross tax losses amounting to HRK 617,250 thousands (1999: HRK 1,070,881 thousands) are available for offset against the future profits of the Company. A tax loss may be carried forward for 5 years subsequent to the year in which it was incurred. The availability of tax losses against future periods, subject to review by the Ministry of Finance, is as follows:

	Gross HRK'000
Tax loss from 1996-expires after 1 year	145,594
Tax loss from 1997-expires after 2 year	234,985
Tax loss from 1998-expires after 3 year	59,568
Tax loss from 1999-expires after 4 year	105,918
Tax loss from 2000-expires after 5 year	71,185
	<u> </u>
Total tax losses carried forward (gross)	617,250
	<u> </u>
Tax benefit not carried forward as deferred tax asset at 20%	123,450
	<u> </u>

The applicable corporate profit tax rate is 35% (1999: 35%). Effective 1 January 2001, the Croatian Government enacted a change in the corporate profit tax rate from 35% to 20%. Further, from this date the allowance for notional interest deductions will be discontinued.

Tax losses have not been recognised as a deferred tax asset as it is not probable that future taxable profits will be available to utilise the unused tax losses.

Croatian tax legislation does not allow tax losses to be transferred among group companies (that is, from a parent to a wholly owned subsidiary).

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Notes (continued)

7 Property, plant and equipment

	Land and buildings HRK'000	Plant and equipment HRK'000	Assets under construction HRK'000	Total HRK'000
<i>Cost or valuation</i>				
At 1 January 2000	763,982	188,455	456	952,893
Additions	-	-	15,125	15,125
Disposals	(23,415)	(7,832)	-	(31,247)
Transfers	8,364	6,067	(14,431)	-
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2000	748,931	186,690	1,150	936,771
	<hr/>	<hr/>	<hr/>	<hr/>
<i>Depreciation and impairment losses</i>				
At 1 January 1999	168,480	131,150	-	299,630
Charge for year	15,023	11,812	-	26,835
Disposals	(16,640)	(7,547)	-	(24,187)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2000	166,863	135,415	-	302,278
	<hr/>	<hr/>	<hr/>	<hr/>
<i>Net book value</i>				
At 31 December 2000	582,068	51,275	1,150	634,493
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
At 31 December 1999	595,502	57,305	456	653,263
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

The subsidiary has no property, plant and equipment and the above relates to both the Group and the Company.

- (a) A write-down of HRK 417.5 million was recorded in the year ended 31 December 1997, based on a review by the Management Board to determine the carrying value of property, plant and equipment, with reference to anticipated future trading results.
- (b) Borrowing costs of HRK 3,682 thousand were capitalised during 1999 and included in freehold land and buildings. These costs comprised interest fees and other financing costs related to construction work performed to tourist properties. No such costs were incurred during 2000.
- (c) Properties are subject to registered mortgages to secure bank and supplier loans, referred to in note 15. Properties are also subject to registered mortgages as security for counter-guarantees issued by banks, referred to in note 18.

Istraturist Umag d.d.

Notes (continued)

8 Investments

	Group		Company	
	2000 HRK'000	1999 HRK'000	2000 HRK'000	1999 HRK'000
Shareholding in subsidiary-Istra Golf Umag doo	-	-	37	37
Investments in other entities	1,284	2,927	1,284	2,927
	<u>1,284</u>	<u>2,927</u>	<u>1,321</u>	<u>2,964</u>

9 Inventories

	Group		Company	
	2000 HRK'000	1999 HRK'000	2000 HRK'000	1999 HRK'000
Raw materials and consumables	6,657	6,423	6,656	6,423
Finished goods and goods for resale	50	40	50	40
Advances to suppliers	562	183	562	183
	<u>7,269</u>	<u>6,646</u>	<u>7,268</u>	<u>6,646</u>

Miscellaneous inventory

Included in raw materials and consumables of the Group and Company are HRK 5,850 thousand (1999: HRK 5,670 thousand) of miscellaneous inventory which is depreciated over periods from 2 to 5 years as disclosed in note 1(g).

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Notes (continued)

10 Receivables

	Group		Company	
	2000 HRK'000	1999 HRK'000	2000 HRK'000	1999 HRK'000
(a) <i>Long-term</i>				
Other receivables	<u>1,264</u>	<u>1,818</u>	<u>1,264</u>	<u>1,818</u>
(b) <i>Current</i>				
Net trade receivables	<u>8,869</u>	<u>6,445</u>	<u>6,851</u>	<u>6,445</u>
Intercompany receivables	-	-	<u>2,037</u>	<u>26</u>
Receivables from sale of property, plant and equipment	<u>14,017</u>	<u>1,548</u>	<u>14,017</u>	<u>1,548</u>
Gross VAT receivable from the State	<u>529</u>	<u>74</u>	<u>529</u>	<u>74</u>
Other receivables and prepaid expenses	<u>1,506</u>	<u>1,579</u>	<u>1,500</u>	<u>1,554</u>
	<u>24,921</u>	<u>9,646</u>	<u>24,934</u>	<u>9,647</u>

11 Cash

Cash and cash equivalents comprise cash on hand and balances with banks.

	Group		Company	
	2000 HRK'000	1999 HRK'000	2000 HRK'000	1999 HRK'000
Cash and cash equivalents	<u>4,587</u>	<u>2,413</u>	<u>4,097</u>	<u>2,401</u>

Istraturist Umag d.d.

Notes (continued)

12 Issued capital

	2000	1999
	HRK'000	HRK'000
Balance at 31 December	467,500	467,500

The authorised and issued share capital comprises 4,674,995 ordinary shares (1999: 4,674,995 ordinary shares). The nominal par value of each share is HRK 100 (1999: HRK 100). The holders of ordinary shares are entitled to receive dividends as declared and are entitled to vote per share at annual and extraordinary shareholder meetings of the Company.

13 Reserves

	Group		Company	
	2000	1999	2000	1999
	HRK'000	HRK'000	HRK'000	HRK'000
Balance at 1 January	38,259	41,782	38,259	41,782
Transfers to retained profits/(accumulated losses)	(11,914)	(3,523)	(11,914)	(3,523)
Balance at 31 December	26,345	38,259	26,345	38,259

14 Earnings per share

The calculation of basic earnings per share is based on the net profit attributable to ordinary shareholders and number of ordinary shares outstanding during the year calculated as follows:

	Group		Company	
	2000	1999	2000	1999
	HRK'000	HRK'000	HRK'000	HRK'000
Net profit/(loss) for the year	13,034	(11,914)	13,809	(11,914)
Number of issued shares	4,674,995	4,674,995	4,674,995	4,674,995
Basic earnings/(loss) per share in HRK	2.79	(2.55)	2.95	(2.55)

Istraturist Umag d.d.

Notes (continued)

15 Loans and borrowings

	Group		Company					
	2000 HRK'000	1999 HRK'000	2000 HRK'000	1999 HRK'000				
(a) Long-term								
Secured bank loans from parent company (v)	91,574	109,801	91,574	109,801				
Secured supplier loan	12,005	-	12,005	-				
Other unsecured loans	-	1,528	-	1,528				
	103,579	111,329	103,579	111,329				
Repayments of long-term loans are scheduled as follows:								
More than one year, less than two years	23,076	17,255	23,076	17,255				
More than two years, less than three years	23,076	17,255	23,076	17,255				
More than three years, less than four years	17,074	17,255	17,074	17,255				
More than four years, less than five years	15,397	17,255	15,397	17,255				
More than five years	24,956	42,309	24,956	42,309				
Total long-term loans	103,579	111,329	103,579	111,329				
(b) Current								
Secured bank loans from parent company (v)	30,569	22,685	30,569	22,685				
Secured supplier loan	6,003	18,199	6,003	18,199				
	36,572	40,884	36,572	40,884				
(c) The interest rates and terms of repayment at 31 December 2000 are as follows:								
Type (iii), (iv)	Currency / face value in '000 (ii)	Interest rate (i)		Terms	Group		Company	
		2000	1999		2000 HRK'000	1999 HRK'000	2000 HRK'000	1999 HRK'000
Zagrebacka banka	DEM 7,382	8%	9%	2001-2008	28,678	32,202	28,678	32,202
Zagrebacka banka	DEM 1,727	8%	9%	2001-2003	6,711	8,478	6,711	8,478
Zagrebacka banka	DEM 18,857	8%	9%	2001-2009	73,259	86,377	73,259	86,377
Zagrebacka banka	DEM 3,474	8%	9%	2001	13,495	5,429	13,495	5,429
Supplier loan	EURO 2,370	9.5%	10.5%	2001-2003	18,008	18,199	18,008	18,199
Other					-	1,528	-	1,528
					140,151	152,213	140,151	152,213

The Company has unused loan facilities from Zagrebacka banka of HRK 9.8 million at 31 December 2000

- (i) Interest rate is floating
- (ii) Face value at 31 December 2000.
- (iii) Loans totalling HRK 140,151 thousand (1999: HRK 150,685 thousand) are secured upon the land and buildings of the Company.
- (iv) For more information about exposure to interest rate and currency risk, refer to note 17.
- (v) Parent Company refers to Zagrebacka banka, refer to note 20.

Istraturist Umag d.d.

Notes (continued)

16 Payables

	Group		Company	
	2000 HRK'000	1999 HRK'000	2000 HRK'000	1999 HRK'000
Trade payables	15,505	13,185	14,110	13,185
Intercompany payables	-	-	934	26
Payables to suppliers of property, plant and equipment	789	3,387	789	3,387
Interest payable to the parent company ⁽ⁱ⁾	1,606	2,815	1,606	2,815
Taxes and salary contributions	4,235	6,829	4,213	6,829
Net payroll costs	2,400	1,680	2,388	1,680
Gross VAT payable to the State	1,075	7	376	7
Non-trade payables and accruals	1,178	2,752	1,156	2,752
	<u>26,788</u>	<u>30,655</u>	<u>25,572</u>	<u>30,681</u>

(i) Relates to payable to Zagrebacka banka, the ultimate parent company.

17 Financial instruments

Exposure to credit, interest and currency risk arises in the normal course of the Group's and Company's business.

Credit risk

At the balance sheet date there were no significant concentrations of credit risk.

Interest rate risk

The majority of interest-bearing borrowings are at floating rates.

Foreign currency risk

Foreign currency risk is incurred on sales and borrowings that are denominated in a currency other than Kuna. The currencies giving rise to this risk are primarily Euro and DEM. These exposures are not currently hedged.

Fair values

Primary financial instruments are those held to finance the Group's operations, consisting of floating rate borrowings. The fair values of these instruments, in the opinion of management, do not differ significantly from their carrying amounts at 31 December 2000.

Istraturist Umag d.d.

Notes (*continued*)

18 Capital commitments and guarantees

In accordance with a management agreement concluded with Sol Melia, the Company is obliged to invest DEM 10 million on its properties by April 2001. Further, the Company is obliged to invest an additional DEM 18.4 million on its properties in the period from October 2001 to April 2003.

In relation to these commitments the Company has provided guarantees to Sol Melia totalling USD 4.4 million at 31 December 2000. The Company has a counter-guarantee from Zagrebacka banka for an amount of USD 4.4 million which is secured against the property of the Company.

19 Contingencies

Nova Ljubljanska banka

Prior to the dissolution of the former Yugoslavia in 1991, the Company owed DEM 31 million to Ljubljanska banka dd for loans previously received from that bank.

Following the dissolution of the former Yugoslavia, and on the basis of decisions from the Government of the Republic of Croatia, Zagrebacka banka dd assumed significant debt owed by Ljubljanska banka dd to Croatian depositors in exchange for bonds issued by the Croatian government except for an amount totalling DEM 31 million, which continued to be a direct claim of Zagrebacka banka dd on Ljubljanska banka dd. As a result, both the Croatian government and Zagrebacka banka became creditors of Ljubljanska banka dd and the Slovenian state. Zagrebacka banka's claim on Ljubljanska banka dd in respect of the deposits of Croatian citizens with Ljubljanska banka dd, totalling DEM 31 million, was sold to Istraturist Umag dd, resulting in an obligation to Zagrebacka banka dd.

On the basis of this transfer, Istraturist Umag dd became a creditor of Ljubljanska banka dd. Subsequent to this transaction, Istraturist d.d. offset this receivable from Ljubljanska banka dd with its obligation to Ljubljanska banka dd. Nova Ljubljanska banka dd (see below) does not recognise this offset and has proceeded with legal action in Slovenia against the Company, demanding repayment plus interest.

Nova Ljubljanska banka dd was established as the successor bank to Ljubljanska banka dd, following the break up of the former Yugoslavia. Nova Ljubljanska banka dd acquired the assets of Ljubljanska banka dd, and does not recognise the liabilities of Ljubljanska banka dd, which includes the debts owed to Istraturist Umag dd. The Company has initiated a lawsuit against Ljubljanska banka dd and Nova Ljubljanska banka dd for the recognition of its receivable of DEM 31 million and the offset of the liability of an equivalent amount in the Croatian courts. This receivable is not recognised in the financial statements of the Company, nor has the Company recognised any liability to Ljubljanska banka dd.

In the event that a settlement is not reached, the management of the Company believes that a resolution to this issue can be found in negotiations between the Croatian and Slovenian governments and that the Company will incur no losses or liabilities.

Croatia osiguranje

During 1998 the Company insured their properties with Allianz Zagreb dd, terminating an existing long term arrangement with Croatia osiguranje dd. Croatia osiguranje initiated court proceedings against the Company for approximately HRK 2.2 million representing annual premiums for property insurance. A preliminary ruling was issued in favour of Croatia osiguranje. Management has appealed this decision, and believe that a final settlement will be reached whereby no liability will be incurred. Accordingly, no provision has been raised in the financial statements.

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Notes (*continued*)

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Notes (*continued*)

19 Contingencies (*continued*)

Tax investigations

During 2000, the Company was assessed by the local tax authorities for additional VAT payable of HRK 2.6 million plus penalty interest of HRK 0.6 million, on the basis of incoming invoices for services rendered in 1998 and 1999 by a Croatian registered company for management of tourism properties. Local tax authorities do not recognise the service fee as a business expense and the related VAT paid cannot be claimed.

The Company has disputed the local tax authority's findings and believes that the disputed service fees represent valid business expenses incurred in the conduct of the Company's registered business activities. Accordingly, the additional VAT liability claim for 1998 and 1999 has not been recognised in the financial statements. Further, the Company has treated service fees paid to the same company in 2000 as a valid business expense. No adjustments have been made to carry forward tax losses as disclosed in the financial statements in relation to the local tax authorities' claims.

Ownership of land and buildings

As at 31 December 2000, ownership of the Company's land and buildings was registered partly with Istraturist Umag d.d. and partly with Istraturist prior to privatisation. The process of re-registering ownership of lands and buildings with Istraturist Umag d.d. is near completion. The financial statements have been compiled on the basis of completion of this re-registration.

20 Related parties

(a) *Control of the Group*

The Group's ultimate parent company is Zagrebacka banka dd, who have a 72% shareholding in Istraturist Umag d.d. ("the Company").

(b) *Subsidiaries of the Company*

	Country of incorporation	Ownership interest	
		2000	1999
Istra Golf Umag d.o.o.	Croatia	100%	100%

Istra Golf Umag d.o.o. was dormant during 1999 and commenced operations and business activities in 2000.

(c) *Related party transactions*

The nature of transactions between Zagrebacka banka d.d. and the Group is the provision of loan finance, investment and banking facilities. Details of loans and counter guarantees provided are given in note 15(c) and note 18, respectively, to the financial statements. The Group at the year end had HRK 2.7 million (1999: HRK 1.0 million) in cash accounts with Zagrebacka banka.

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Notes (*continued*)