**Hotelijersko Akcionarsko društvo**

**BEOGRADSKO MEŠOVITO PREDUZEĆE A.D., BEOGRAD**

**Financial Statements**
**For the Year Ended**
**December 31, 2009 and**
**Independent Auditors' Report**

**CONTENTS**

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# INDEPENDENT AUDITORS' REPORT

**To the Shareholders of Hotelijersko akcionarsko društvo**
**"Beogradsko Mešovito Preduzeće" A.D., Beograd**

We have audited the accompanying financial statements (pages 2 to 32) of Hotelijersko akcionarsko društvo "Beogradsko Mešovito Preduzeće" A.D., Beograd (the "Company" or "BMP"), which comprise the statement of financial position as at December 31, 2009, and the statement of comprehensive income, statement of changes in equity and statement of cash flow for the year then ended, and a summary of the significant accounting policies and other explanatory notes.

*Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

*Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2009, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards.

Deloitte d.o.o.

Deloitte d.o.o.
Belgrade
March 5, 2010

**STATEMENT OF COMPREHENSIVE INCOME**
**Year Ended December 31, 2009**
**(thousands of EUR)**

| | Notes | Year Ended December 31, 2009 | Year Ended December 31, 2008 |
|---|---|---|---|
| **Operating income** | | | |
| Sales | 5 | 14,608 | 17,918 |
| Other operating income | 6 | 974 | 717 |
| | | 15,582 | 18,635 |
| **Operating expenses** | | | |
| Cost of goods sold | | 213 | 293 |
| Cost of materials | 7 | 2,075 | 2,498 |
| Staff costs | 8 | 3,550 | 4,186 |
| Depreciation and amortization | 13 | 1,479 | 1,516 |
| Other operating expenses | 9 | 3,739 | 4,773 |
| | | 11,056 | 13,267 |
| **Profit from operations** | | 4,526 | 5,369 |
| **Finance income/(expenses)** | | | |
| Finance income | 10 | 301 | 85 |
| Finance expenses | 11 | (733) | (2,578) |
| **Profit before tax** | | 4,094 | 2,876 |
| Income taxes | 12 | (306) | (89) |
| **Net profit** | | 3,788 | 2,787 |
| Other comprehensive income: | | - | - |
| **Total comprehensive income for the year** | | 3,788 | 2,787 |

The accompanying notes on the following pages
are an integral part of these financial statements.

These financial statements were approved by the Company's management.

Signed on behalf of Hotelijersko akcionarsko društvo "Beogradsko Mešovito Preduzeće" A.D., Beograd:

HOTELSKO AKCIONARSKO DRUŠTVO* HOTEL JOINT STOCK COMPANY "BEOGRADSKO MEŠOVITO PREDUZEĆE" (a.d.)* "BELGRADE MIXED ENTERPRISE" (a.d.) BEOGRAD BELGRADE

Tihomir Trivunac
General Director

Christoph Brueckner
Financial Director

**STATEMENT OF FINANCIAL POSITION**
**As at December 31, 2009**
**(thousands of EUR)**

| | Notes | December 31, 2009 | December 31, 2008 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property and equipment | 13 | 44,777 | 46,138 |
| Intangible assets | 13 | 223 | 256 |
| | | 45,000 | 46,394 |
| **Current assets** | | | |
| Inventories | 14 | 379 | 449 |
| Accounts receivable | 15 | 224 | 300 |
| Other financial assets | 16 | 194 | - |
| Other current assets and prepayments | 17 | 198 | 252 |
| Cash and cash equivalents | 18 | 2,430 | 2,343 |
| | | 3,425 | 3,344 |
| **Total assets** | | 48,425 | 49,738 |
| **EQUITY AND LIABILITIES** | | | |
| **Equity** | | | |
| Share capital | 19 | 30,860 | 30,860 |
| Reserves | 20 | 16,957 | 16,957 |
| Accumulated loss | | (16,640) | (20,428) |
| | | 31,177 | 27,389 |
| **Non-current liabilities** | | | |
| Long-term borrowings | 21 | 14,492 | 17,343 |
| Other long-term liabilities | 22 | - | 854 |
| Deferred tax liabilities | 12c) | 413 | 210 |
| | | 14,905 | 18,407 |
| **Current liabilities** | | | |
| Current portion of long-term liabilities | 23 | 1,367 | 3,191 |
| Accounts payable | 24 | 309 | 158 |
| Income tax payable | | 84 | - |
| Other current liabilities and accruals | 25 | 583 | 593 |
| | | 2,343 | 3,942 |
| **Total equity and liabilities** | | 48,425 | 49,738 |

The accompanying notes on the following pages
are an integral part of these financial statements.

**STATEMENT OF CHANGES IN EQUITY**
**Year Ended December 31, 2009**
**(thousands of EUR)**

| | Share Capital | Reserves | Accumulated Loss | Total |
|---|---|---|---|---|
| Balance at January 1, 2008 | 30,860 | 16,957 | (23,215) | 24,602 |
| Profit for the year | - | - | 2,787 | 2,787 |
| *Total comprehensive income* | - | - | 2,787 | 2,787 |
| Balance, December 31, 2008 | 30,860 | 16,957 | (20,428) | 27,389 |
| Balance at January 1, 2009 | 30,860 | 16,957 | (20,428) | 27,389 |
| Profit for the year | - | - | 3,788 | 3,788 |
| *Total comprehensive income* | - | - | 3,788 | 3,778 |
| Balance, December 31, 2009 | 30,860 | 16,957 | (16,640) | 31,177 |

The accompanying notes on the following pages
are an integral part of these financial statements.

**STATEMENT OF CASH FLOW**
**Year Ended December 31, 2009**
**(thousands of EUR)**

| | 2009 | 2008 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| **Net income** | 3,788 | 2,787 |
| | | |
| **Adjustments to reconcile net income to net cash provided by operating activities:** | | |
| Depreciation and amortization | 1,479 | 1,516 |
| Loss on disposal of property and equipment | - | 65 |
| Foreign exchange losses/(gains), net | (233) | 1,014 |
| Financial expenses, net (including withholding taxes) | 919 | 1,901 |
| Decrease/(increase) in accounts receivables | (64) | 359 |
| Increase/(decrease) in other assets | - | (60) |
| Increase/(decrease) in inventories | 70 | 54 |
| (Decrease)/increase in accounts payable and other current liabilities | 56 | (213) |
| | | |
| **Net cash provided by operating activities** | 6,015 | 7,425 |
| | | |
| **CASH FLOWS USED IN INVESTING ACTIVITIES** | | |
| Purchases of equipment and additions to buildings | (63) | (829) |
| Purchases of intangible assets | (22) | (66) |
| Interest received | 68 | 85 |
| | | |
| **Net cash used in investing activities** | (17) | (810) |
| | | |
| **CASH FLOWS USED IN FINANCING ACTIVITIES** | | |
| Decrease in long-term debt | (5,053) | (5,362) |
| Interest paid | (858) | (1,898) |
| | | |
| **Net cash used in financing activities** | (5,911) | (7,260) |
| | | |
| **Net increase/(decrease) in cash and cash equivalents** | 87 | (645) |
| Cash and cash equivalents at beginning of the year | 2,343 | 2,988 |
| | | |
| **Cash and cash equivalents at end of the year** | 2,430 | 2,343 |

The accompanying notes on the following pages
are an integral part of these financial statements.

**NOTES TO THE FINANCIAL STATEMENTS**
**December 31, 2009**

## 1. ESTABLISHMENT AND ACTIVITY

Hotelijersko akcionarsko društvo "Beogradsko Mešovito Preduzeće" A.D., Beograd (hereinafter: the "Company" or "BMP") was established based on the Foundation and Investment Agreement executed on April 14, 1989 between North Haven Limited (93.94% of ownership), Hong Kong company, and two Serbian companies (together 6.06% of ownership). North Haven Limited, Hong Kong was up to 2006 owned by Hyatt International Corporation ("HIC"), which is incorporated in the United States of America.

In addition, in 1989 BMP entered into a Management Agreement with Hyatt International Asia Pacific Limited (formerly Hyatt of Hong Kong Limited), a wholly-owned subsidiary of HIC, to manage and operate the hotel for a period of twenty full calendar years from the date of opening, and an extension thereto for three, ten-year renewal periods at the option of Hyatt International Asia Pacific Limited (the "Management Agreement"). For the provision of these services Hyatt International Asia Pacific Limited is entitled to a management fee of 3% of the gross revenues of the hotel, plus an incentive fee of 11% of the gross operating profit, as defined under the terms of the Management Agreement, for the first five years, and thereafter, an applicable incentive fee of 15% of gross profit. On January 1, 1991 the Management Agreement was transferred under the same terms and conditions to Hyatt International (Europe, Africa, Middle East) Ltd., a company incorporated in Switzerland and also a wholly-owned subsidiary of HIC.

On June 6, 2006, Hyatt International Corporation sold its interest in North Haven Limited, Hong Kong to Luella Enterprises Company Limited, Nicosia, owned by Lampsa Hellenic Hotel Company S.A., Athens. The Company was registered with the District Court in Belgrade on October 10, 1998 pursuant to decision numbered Fi 4224/89. Pursuant to Decision numbered BD 22440/2005 of June 13, 2005, the Company's registration was reinscribed and transferred from the Commercial Court Register, into the Business Register maintained by the Serbian Business Registers Agency as required by the Company Law.

The primary business activity of the Company is to operate the Hyatt Regency Belgrade Hotel (hereinafter: "Hotel"). The Company's business activity includes other activities necessary for successful primary business activity. The Company's registered office is in Belgrade, Milentija Popovića 5.

The Company's tax identification number is 100000805 and its registration number is 07456263.

As of December 31, 2009, the Company had 215 employees (December 31, 2008: 251 employees).

## 2. ADOPTION OF THE NEW AND REVISED STANDARDS

### 2.1. Standards and Interpretations in Effect in the Current Period

The following amendments to the existing standards issued by the International Accounting Standards Board and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) are effective for the current period:

- Amendments to IFRS 4 "Insurance contracts" and IFRS 7 "Financial Instruments: Disclosures" - Improving disclosures about financial instruments (effective for annual periods beginning on or after January 1, 2009),

- Amendments to IFRS 1 "First-time Adoption of IFRS" and IAS 27 "Consolidated and Separate Financial Statements" – Cost of investment in a subsidiary, jointly-controlled entity or associate (effective for annual periods beginning on or after January 1, 2009),

## 2. ADOPTION OF THE NEW AND REVISED STANDARDS (Continued)

### 2.1. Standards and Interpretations in Effect in the Current Period (Continued)

- Amendments to various standards and interpretations resulting from the Annual quality improvement project of IFRS published on May 22, 2008 (IAS 1, IFRS 5, IAS 8, IAS 10, IAS 16, IAS 19, IAS 20, IAS 23, IAS 27, IAS 28, IAS 29, IAS 31, IAS 34, IAS 36, IAS 38, IAS 39, IAS 40, IAS 41) primarily with a view to removing inconsistencies and clarifying wording (most amendments are to be applied for annual periods beginning on or after January 1, 2009),

- Amendments to IAS 32 “Financial Instruments: Presentation” and IAS 1 “Presentation of Financial Statements” – Puttable financial instruments and obligations arising on liquidation (effective for annual periods beginning on or after January 1, 2009),

- IAS 1 (revised) “Presentation of Financial Statements” – A revised presentation (effective for annual periods beginning on or after January 1, 2009),

- IAS 23 (revised) “Borrowing Costs” (effective for annual periods beginning on or after January 1, 2009),

- Amendments to IFRS 2 “Share-based Payment” – Vesting conditions and cancellations (effective for annual periods beginning on or after January 1, 2009),

- Amendments to IFRIC 9 “Reassessment of Embedded Derivatives” and IAS 39 “Financial Instruments: Recognition and Measurement” -Embedded Derivatives (effective for annual periods ending on or after June 30, 2009),

- IFRIC 13 “Customer Loyalty Programmes” (effective for annual periods beginning on or after July 1, 2008),

- IFRIC 15 “Agreements for the Construction of Real Estate” (effective for annual periods beginning on or after January 1, 2009),

- IFRIC 16 “Hedges of a Net Investment in a Foreign Operation” (effective for annual periods beginning on or after October 1, 2008).

The adoption of these amendments to the existing standards and interpretations has not led to significant changes in the Company’s accounting policies.

### 2.2. Standards and Interpretations in issue not yet adopted

At the date of authorization of these financial statements the following standards, revisions and interpretations were in issue but not yet effective:

- IFRS 9 “Financial Instruments” (effective for annual periods beginning on or after January 1, 2013),

- IFRS 3 (revised) “Business Combinations” (effective for annual periods beginning on or after July 1, 2009),

- IFRS 1 (revised) “First-time Adoption of IFRS” (effective for annual periods beginning on or after July 1, 2009),

## 2. ADOPTION OF THE NEW AND REVISED STANDARDS (Continued)

### 2.2. Standards and Interpretations in issue not yet adopted (Continued)

- Amendments to IFRS 2 “Share-based Payment” - Group cash-settled share-based payment transactions (effective for annual periods beginning on or after January 1, 2010),

- Amendments to IAS 24 “Related Party Disclosures” - Simplifying the disclosure requirements for government-related entities and clarifying the definition of a related party (effective for annual periods beginning on or after January 1, 2011),

- Amendments to IAS 27 “Consolidated and Separate Financial Statements” (effective for annual periods beginning on or after July 1, 2009),

- Amendments to IAS 32 “Financial Instruments: Presentation” – Accounting for rights issues (effective for annual periods beginning on or after February 1, 2010)

- Amendments to IAS 39 “Financial Instruments: Recognition and Measurement” - Eligible hedged items (effective for annual periods beginning on or after July 1, 2009),

- Amendments to various standards and interpretations resulting from the Annual quality improvement project of IFRS published on April 16, 2009 (IFRS 2, IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 18, IAS 36, IAS 38, IAS 39, IFRIC 9, IFRIC 16) primarily with a view to removing inconsistencies and clarifying wording, (most amendments are to be applied for annual periods beginning on or after January 1, 2010),

- Amendments to IFRIC 14 “IAS 19 — The Limit on a defined benefit Asset, Minimum Funding Requirements and their Interaction” - Prepayments of a Minimum Funding Requirement (effective for annual periods beginning on or after January 1, 2011),

- IFRIC 17 “Distributions of Non-Cash Assets to Owners” (effective for annual periods beginning on or after July 1, 2009),

- IFRIC 18 “Transfers of Assets from Customers” (effective for transfer of assets from customers received on or after July 1, 2009),

- IFRIC 19 “Extinguishing Liabilities with Equity Instruments” (effective for annual periods beginning on or after July 1, 2010).

The Company’s management has elected not to adopt these standards, revisions and interpretations in advance of their effective dates. The management anticipates that the adoption of these standards, revisions and interpretations will have no material impact on the financial statements of the Company in the period of initial application.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 3.1. Statements of compliance

The Company’s financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS).

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 3.2. Basis of Preparation and Presentation of Financial Statements

The financial statements have been prepared under historical cost convention, except for the appraisal of property and equipment and revaluation of financial instruments.

The Company's financial statements are stated in thousands of euros (€) representing the currency in which the majority portion of the Company's transactions has been presented.

In the preparation of the accompanying financial statements, the Company has adhered to the accounting policies described in Note 3 to the financial statements.

### 3.3. Income and Expense Recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and value added tax.

At the time when income is recognized, the relating expenditure is also recognized (the matching principle).

### 3.4. Foreign Exchange Translation

In preparing the financial statements, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the average rates of exchange. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the official rate of the National Bank of Serbia prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost are translated in EUR using the exchange rate at the date of the transaction.

Foreign exchange gains or losses arising upon the translation of transactions, and assets and liabilities in foreign currencies are credited or charged to the profit or loss

### 3.5. Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

### 3.6. Income Tax Expense

#### Current Income Taxes

Current income tax represents an amount that is calculated and paid in accordance with the effective Republic of Serbia Income Tax Law.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 3.6. Income Tax Expense (Continued)

**Current Income Taxes (Continued)**

Income tax is payable at the rate of 10% on the tax base reported in the annual corporate income tax return as reduced by any applicable tax credits. The taxable base stated in the income tax return includes the profit shown in the statutory statement of income, as adjusted for differences that are specifically defined under statutory tax rules.

The tax regulations in the Republic of Serbia do not envisage for any tax losses of the current period to be used to recover taxes paid within a specific carryback period. However, any current year losses may be used to reduce or eliminate taxes to be paid in future periods, but only for duration of no longer than ten ensuing years.

**Deferred Income Taxes**

Deferred income taxes are provided using the balance sheet liability method, for temporary differences arising between the tax bases of assets and liabilities and their carrying values in the financial statements. The currently-enacted tax rates or the substantively-enacted rates at the end of the reporting period are used to determine the deferred income tax amount. Deferred tax liabilities are recognized on all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences, and the tax effects of income tax losses and credits are available for carry forward, to the extent that it is probable that taxable profit will be available, against which the deductible temporary differences and the tax loss/credits of the carryforwards can be utilized.

### 3.7. Employee Benefits

In accordance with local regulations, the Company is obligated to pay contributions to the State Social Security and Pension Funds. This obligation involves the payment of contributions on behalf of the employer in an amount calculated by applying the specific percentages stipulated under the effective regulations. The Company is also obligated to withhold contributions from gross payments to employees, on behalf of employees, to the same funds. These contributions, payable on behalf of both the employee and the employer are charged to expenses in the period to which they relate.

Pursuant to the effective labor regulations, the Company has an obligation to disburse an employee retirement benefit in an amount equal to three average salaries in the Republic of Serbia, in accordance with the latest published data of the Republic of Serbia Statistical Office. The provisions thereof have been not included in the financial statements for the year 2009 based on the management’s estimate that such provision is immaterial to these financial statements.

### 3.8. Intangible Assets

Intangible assets are stated at cost, less accumulated amortization. The amortization of intangible assets is computed on a straight-line basis. Intangible assets comprise the capitalized cost of software and are amortized over a period of five up to ten years.

### 3.9. Property and Equipment

Property and equipment were initially valued at cost less subsequent accumulated depreciation and any subsequent accumulated impairment losses.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 3.9. Property and Equipment (Continued)

Following changes in the Company's ownership (Note 1), the Company elected to measure its property and equipment at revalued amounts, being their fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. The appraisal of property and equipment was performed by independent appraisals as of June 6, 2006 and the applied valuation methodology for property and equipment was market value and depreciated replacement cost, respectively.

Accordingly, positive effects of appraisal of property were credited to revaluation reserves whereas negative effects of appraisal of equipment were charged to other operating expenses. Deferred tax liabilities incurred upon appraisal were also charged to revaluation reserves.

All additions of property and equipment after June 6, 2006 were recorded at cost. Cost represents the prices billed by suppliers together with all costs incurred in bringing new fixed assets into use.

The depreciation of property and equipment is computed on a straight-line basis during the estimated useful life.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the profit or loss.

Repairs and maintenance are expensed as incurred and are shown as operating expenses.

The estimated remaining useful life, determined by independent appraisers, used for computation of depreciation of major categories of property and equipment is as follows:

| | |
|---|---|
| Buildings | 50 years |
| Rooms furniture | 15 - 20 years |
| Kitchen furniture | 12 - 15 years |
| Cars | 5 years |
| Office furniture | 12 - 15 years |
| Electric devices and computers | 4 years |
| Sport equipment | 7 - 10 years |
| Other equipment and furniture | 10 - 30 years |

### 3.10. Impairment

At the end of the reporting period, the Company reviews the carrying amounts of its property and equipment to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

The recoverable value of an asset is the higher of net selling price and value in use. The estimate of the value in use comprises the assessment of future cash inflows and outflows discounted to their present value by applying the pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 3.10. Impairment (Continued)

If the estimated recoverable amount of assets (or cash generating unit) is below their carrying value, the carrying amount of the asset (or cash generating unit) is reduced to its recoverable amount. An impairment loss is recognized as an expense of the current period under operating expenses, except in case of land and buildings that are not used as investment property which is stated at revalued amount in which case impairment loss is presented as a loss on revaluation of assets.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash generating unit) is increased to the revised estimate of its recoverable value. However, this is performed so that the increased carrying amount does not exceed the carrying value that would have been determined had no impairment loss been recognized for the asset (or cash generating unit) in prior years. A reversal of an impairment loss is recognized as income immediately, unless the respective asset is carried at a revalued amount, in which instance, the reversal of the impairment loss is treated as a revaluation increase.

At December 31, 2009, based on the management's assessment, there are no indications that the values of intangible assets, property, plant and equipment have suffered impairment.

### 3.11. Inventories

Material and spare parts are stated at cost, whereas the material produced by the Company is stated at the lower of cost and net realizable value.

Cost includes invoice value, costs of transportation and other expenses.

The net realizable value is the price at which inventories can be realized in the normal course of business, after allowing for the costs of realization.

The cost of raw materials and spare parts is determined by applying weighted average cost method.

### 3.12. Financial Instruments

All financial assets are recognised and derecognised on trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

*Effective interest method*

The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognized on an effective interest basis for debt instruments other than those financial assets designated as at FVTPL.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 3.12. Financial Instruments (Continued)

*Loans and Receivables*

Trade receivables, loans, and other receivables, that have fixed or determinable payments that are not quoted in an active market, are classified as ‘loans and receivables’. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables, when the recognition of interest would be immaterial.

*Cash and Cash Equivalents*

Cash and cash equivalents include cash on hand, deposits held in commercial banks and any other highly-liquid investments that are readily convertible to known amounts of cash, and are subject to an insignificant risk of changes in value.

*Impairment of financial assets*

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. Objective evidence of impairment could include:

- significant financial difficulty of the counterparty; or
- default or delinquency in payments; or
- it becoming probable that the debtor will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Company’s past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset’s carrying amount and the present value of estimated future cash flows, discounted at the financial asset’s original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 3.12. Financial Instruments (Continued)

***Derecognition of financial assets***

The Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, Company continues to recognise the financial asset.

*Financial Liabilities*

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Incentive and basic management fees payable to the related parties are accrued based on the profitability of the Hotel, subject to the specific terms of the Management agreement (the “Management Agreement”).

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the income statement.

*Operating Liabilities*

Short-term trade payables are carried at the amount due and payable.

### 3.13. Segment reporting and earnings per share

The Company elected not to present earnings per share and segment reporting disclosure required by IAS 33 “Earnings per share” and IFRS 8 “Operating segments” as the Company is closed joint stock company whose equity or debt instruments are not quoted on the Stock Exchange or any other active market.

## 4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Company's accounting policies, which are described in Note 3, the management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

### 4.1. Key sources of estimation uncertainty

*Estimated Useful Life of Property, Equipment and Intangible Assets*

The estimate of useful life of property, equipment and intangible assets is founded on the historical experience with similar assets, as well as foreseen technical advancement and changes in economic and industrial factors. The adequacy of the estimated remaining useful life of fixed assets is analyzed annually, or in cases where there are indications of significant change in certain assumptions. The Company's management assesses that the accounting estimates with reference to the estimated useful life of an items of property and equipment, as well as intangible assets, are important accounting estimates, as they include the assumptions on technological advancement in a very innovative industry. Likewise, due to the significance of fixed assets in the total Company's assets, the significance of each change of in the aforementioned assumptions can lead to material effects on the Company's financial position, as well as on its financial performance. As an example, if the Company was to shorten the average useful life by 10%, this would result in additional depreciation and amortization expense for the year 2009 by approximately EUR 148 thousand (FY2008: EUR 152 thousand).

*Impairment of Trade Receivables*

Impairment for doubtful accounts are calculated based on estimated losses resulting from the inability of our customers to make required payments. The management estimates are based on the aging of account receivables balance and historical write-off experience, customer credit-worthiness and changes in customer payment terms when evaluating the adequacy of the impairment loss for doubtful accounts. These involve assumptions about future customer behavior and the resulting future cash collections. The management believes that there is no further impairment provision required in excess of the allowance for doubtful debts already recognized in these consolidated financial statements.

*Provisions*

Provisions in general are highly judgmental. The management assesses the probability of an adverse event as a result of a past event to happen and if the probability is evaluated to be more than fifty percent, the Company fully provides for the total amount of the liability. The Company is rather prudent in these assessments, but due to the high level of uncertainty, in some cases the evaluation may not prove to be in line with the eventual outcome of the case.

## 4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

### 4.1. Key sources of estimation uncertainty (Continued)

*Deferred income tax assets*

Deferred tax assets are recognized for all unused tax losses to the extent to which it is certain that the level of expected future gains taxable enough to unused tax losses can be used. Significant assessment of the leadership also is needed to determine the amount deferred tax assets that can be recognized, based on the period of emergence and height of future gains taxable and strategy planning.

*Fair Value*

It is a policy of the Company to disclose the fair value information of those components of assets and liabilities for which published or quoted market prices are readily available, and of those for which the fair value may be materially different than their recorded amounts. In the Republic of Serbia, sufficient market experience, stability and liquidity do not exist for the purchase and sale of receivables and other financial assets or liabilities, for which published market prices are presently not readily available.

As a result of this, fair value cannot readily or reliably be determined in the absence of an active market. The Company's management assesses its overall risk exposure, and in instances in which it estimates that the value of assets stated in its books may have not been realized, it recognizes a provision. In the opinion of management, the reported carrying amounts are the most valid and useful reporting values under the present market conditions.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The carrying value less impairment provision of accounts receivable and carrying value of accounts payable are assumed to approximate their fair values, based on historical data and their relative short maturities. The fair value of other financial assets and liabilities for disclosures purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to Company for similar financial instruments.

## 5. SALES

| | (thousands of EUR) Year Ended December 31, 2009 | 2008 |
|---|---|---|
| Sales of: | | |
| - rooms | 9,632 | 11,423 |
| - food | 2,680 | 3,449 |
| - beverage | 1,139 | 1,549 |
| - telephone | 70 | 123 |
| - fitness club | 496 | 577 |
| - internet | 158 | 240 |
| Parking and transportation | 134 | 167 |
| Laundry | 134 | 154 |
| Flowers | 22 | 51 |
| Cigarettes | 38 | 48 |
| Marketing | 30 | 48 |
| Other | 75 | 89 |
| | 14,608 | 17,918 |

**NOTES TO THE FINANCIAL STATEMENTS**
**December 31, 2009**

## 6. OTHER OPERATING INCOME

| | (thousands of EUR) Year Ended December 31, 2009 | 2008 |
|---|---|---|
| Rent: | | |
| - presentation halls | 341 | 378 |
| - business premises | 97 | 132 |
| - equipment | 104 | 99 |
| Discount on the deferred incentive interest | 324 | - |
| Other | 108 | 108 |
| | 974 | 717 |

## 7. COST OF MATERIALS

| | (thousands of EUR) Year Ended December 31, 2009 | 2008 |
|---|---|---|
| Food | 939 | 1,212 |
| Small inventory | 135 | 94 |
| Raw materials | 402 | 498 |
| Maintenance | 88 | 107 |
| Gas | 176 | 203 |
| Fuel | 33 | 33 |
| Water | 53 | 52 |
| Electricity | 249 | 299 |
| | 2,075 | 2,498 |

## 8. STAFF COSTS

| | (thousands of EUR) Year Ended December 31, 2009 | 2008 |
|---|---|---|
| Gross salaries | 1,943 | 2,257 |
| Contractor fees | 416 | 624 |
| Taxes and contributions | 1,018 | 1,116 |
| Subcontractor fees | 6 | 10 |
| Daily allowances | 6 | 7 |
| Employee transportation | 66 | 55 |
| Authors’ fees | 8 | 12 |
| Employee rewards | 28 | 38 |
| Litigation expense - former employees | 53 | 48 |
| Other | 6 | 19 |
| | 3,550 | 4,186 |

**NOTES TO THE FINANCIAL STATEMENTS**
**December 31, 2009**

## 9. OTHER OPERATING EXPENSES

| | (thousands of EUR) Year Ended December 31, 2009 | 2008 |
|---|---|---|
| Transportation | 78 | 115 |
| Communications | 57 | 81 |
| Maintenance | 94 | 172 |
| Software maintenance | 97 | 59 |
| Rents | 29 | 25 |
| Marketing | 261 | 265 |
| Other services | 2 | 1 |
| Utilities | 66 | 66 |
| Non production services | 58 | 73 |
| Security | 130 | 162 |
| Tourist services | 166 | 149 |
| Consulting services | 25 | 48 |
| Lawyers services | 61 | 88 |
| Entertainment | 27 | 39 |
| Insurance | 178 | 101 |
| Fees: | | |
| - Gold passport | 132 | 109 |
| - Bank charges | 18 | 97 |
| - Credit cards | 171 | 269 |
| Basic management fees | 457 | 560 |
| Incentive fees | 1,087 | 1,366 |
| Withholding taxes on interest payments to non-resident | 130 | 338 |
| City land tax | 166 | 142 |
| Reservation centre | 59 | 97 |
| Other expenses | 190 | 351 |
| | 3,739 | 4,773 |

In accordance with the Management Agreement, basic management fee of EUR 457 thousand (2008: EUR 560 thousand) and incentive fee of EUR 1,087 thousand (2008: EUR 1,366 thousand) relate to fee payable Hyatt International (Europe, Africa, Middle East) Ltd for managing and operating the hotel.

## 10. FINANCE INCOME

| | (thousands of EUR) Year Ended December 31, 2009 | 2008 |
|---|---|---|
| Interest income | 68 | 85 |
| Foreign exchange gains | 233 | - |
| | 301 | 85 |

## 11. FINANCE EXPENSES

| | (thousands of EUR) Year Ended December 31, 2009 | 2008 |
|---|---|---|
| Interest expense on: | | |
| - long-term loans | 715 | 1,370 |
| - incentive fees | 12 | 188 |
| Foreign exchange losses | - | 1,014 |
| Other | 6 | 6 |
| | 733 | 2,578 |

## 12. INCOME TAXES

### a) Component of income tax

| | thousands of EUR) Year Ended December 31, 2009 | 2008 |
|---|---|---|
| Current tax | 84 | - |
| Deferred tax | 222 | 89 |
| | 306 | 89 |

### b) Numerical reconciliation between tax expense and the product of the accounting result multiplied by the statutory tax rate

| | (thousands of EUR) Year Ended December 31, 2009 | 2008 |
|---|---|---|
| Profit before tax | 4,094 | 2,876 |
| Income tax at the statutory tax rate of 10% | 410 | 288 |
| Effects of expenses that are not deductible in determining taxable profit | 85 | - |
| Utilized tax loss carry forwards | (170) | (199) |
| Utilized tax credits carry forward | (19) | - |
| | 306 | 89 |

## 12. INCOME TAXES (Continued)

### c) Deferred tax assets and liabilities

| | December 31, 2009 | December 31, 2008 |
|---|---|---|
| | (thousands of EUR) | |
| **Deferred tax assets** | | |
| Tax loss carry forwards | - | 170 |
| Tax credit carry forwards | 710 | 855 |
| Valuation allowance | (367) | (394) |
| | 343 | 631 |
| **Deferred tax liabilities** | | |
| Temporary differences on property, equipment and intangible assets | (756) | (841) |
| | (756) | (841) |
| **Net** | (413) | (210) |

Valuation allowance for deferred tax assets relates to tax credit carry forwards, which expire in periods from two to ten years.

Tax credit carry forwards expire in the following periods:

| Origination Year | Expiration Year | (thousands of EUR) Tax Credits Total |
|---|---|---|
| 2003 | 2013 | 153 |
| 2004 | 2014 | 113 |
| 2005 | 2015 | 372 |
| 2006 | 2016 | 45 |
| 2007 | 2017 | 27 |
| | | 710 |

The Company’s unrecognized tax credits amount to EUR 77 thousand, which expire in 2018.

## 13. PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS

(thousands of EUR)

| | Land | Buildings | Equipment | Construction in progress | Total | Intangible Assets |
|---|---|---|---|---|---|---|
| **Cost/Revaluation** | | | | | | |
| **Balance at January 1, 2008** | 8,343 | 49,341 | 12,328 | - | 70,012 | 525 |
| Additions | - | 68 | 403 | 358 | 829 | 66 |
| Disposals | - | - | (108) | - | (108) | - |
| Balance at December 31, 2008 | 8,343 | 49,409 | 12,623 | 358 | 70,733 | 591 |
| | | | | - | | |
| **Balance at January 1, 2009** | 8,343 | 49,409 | 12,623 | 358 | 70,733 | 591 |
| Additions | - | 33 | 22 | 8 | 63 | 22 |
| Balance at December 31, 2009 | 8,343 | 49,442 | 12,645 | 366 | 70,796 | 613 |
| **Accumulated Depreciation and Amortization** | | | | | | |
| Balance at January 1, 2008 | - | 13,994 | 9,190 | - | 23,184 | 272 |
| Charge for the year | - | 998 | 455 | - | 1,453 | 63 |
| Disposals | - | - | (42) | - | (42) | - |
| Balance at December 31, 2008 | - | 14,992 | 9,603 | - | 24,595 | 335 |
| **Balance at January 1, 2009** | - | 14,992 | 9,603 | - | 24,595 | 335 |
| Charge for the year | - | 998 | 426 | - | 1,424 | 55 |
| Balance at December 31, 2009 | - | 15,990 | 10,029 | - | 26,019 | 390 |
| **Net Book Value** | | | | | | |
| - at December 31, 2009 | 8,343 | 33,452 | 2,616 | 366 | 44,777 | 223 |
| - at December 31, 2008 | 8,343 | 34,417 | 3,020 | 358 | 46,138 | 256 |

On its building property, the Company inscribed mortgages in favor of Belven Associates, incorporated in the Bahamas ("Belven"), to securitize the due settlement of long-term borrowings, interests and penalties. The net book value of property under mortgage as of December 31, 2009 totaled EUR 33,451 thousand. The process of pre-registration of the mortgage line to Markelia Enterprises Company Limited, Nicosia, Cyprus is still in progress.

## 14. INVENTORIES

(thousands of EUR)

| | December 31, 2009 | December 31, 2008 |
|---|---|---|
| Materials | 163 | 194 |
| Spare parts | 146 | 163 |
| Goods | 70 | 92 |
| | 379 | 449 |

## 15. ACCOUNTS RECEIVABLE

(thousands of EUR)

| | December 31, 2009 | December 31, 2008 |
|---|---|---|
| Domestic accounts receivable | 117 | 161 |
| Foreign accounts receivable | 63 | 99 |
| Advances to suppliers | 32 | - |
| Other receivables | 77 | 109 |
| | 289 | 369 |
| Allowance for impairment | (65) | (69) |
| | 224 | 300 |

## 16. OTHER FINANCIAL ASSETS

Other financial assets stated as at December 31, 2009 in the amount of EUR 194 thousand refers to the Intercompany loans are approved to Excelsior a.d. Beograd for the purpose of financing of Excelsior's working capital requirements. These loans are approved with the interest rate calculated based on 300 basic points over three month LIBOR.

## 17. OTHER CURRENT ASSETS AND PREPAYMENTS

(thousands of EUR)

| | December 31, 2009 | December 31, 2008 |
|---|---|---|
| Prepaid insurance | 70 | 102 |
| Prepaid expenses of software maintenance | 82 | 105 |
| Receivables for un-invoiced income | 43 | 45 |
| Value added tax receivables | 3 | - |
| | 198 | 252 |

## 18. CASH AND CASH EQUIVALENTS

(thousands of EUR)

| | December 31, 2009 | December 31, 2008 |
|---|---|---|
| Dinar account | 524 | 240 |
| Foreign currency accounts | 1,892 | 2,086 |
| Cash in hand | 14 | 17 |
| | 2,430 | 2,343 |

## 19. SHARE CAPITAL

The total share capital of the Company is comprised of 7,417 common stocks and 750 preference stocks having an aggregate value of EUR 30,860,397. On May 30, 2006 the Company enacted a Resolution with respect to the Homogenization of Shares due to the change in their nominal value (the "Resolution"). In accordance with the aforecited Resolution, the individual par value of the Company's shares was EUR 3,778. On October 19, 2006, the Company registered the aforementioned changes in capital with the Serbian Business Register Agency.

"Investbanka" a.d., Beograd – in bankruptcy and Oil Industry of Serbia a.d., Novi Sad resigned as shareholders of the Company, and on March 20, and June 4, 2008, respectively, and sold its stake in the Company to North Haven Ltd., Hong Kong, whose ultimate owner is Lampsa Hellenic Hotel Company S.A., Athens.

## 19. SHARE CAPITAL (Continued)

The Company's share capital structure, as presented in the Company's books of account as of December 31, 2009 was as follows:

| | Number of Common Stock | Number of Preferred Stock | Total Number of Stock | Thousands of EUR December 31, 2009 | Share in % |
|---|---|---|---|---|---|
| **Foreign shareholder** | | | | | |
| North Haven Ltd., Hong Kong | 6,968 | 750 | 7,718 | 29,063 | 93.94 |
| **Domestic shareholders** | | | | | |
| Energoprojekt Holding, Beograd | 441 | - | 441 | 1,765 | 5.72 |
| Putnik A.D., Beograd | 8 | - | 8 | 32 | 0.10 |
| | 7,417 | 750 | 8,167 | 30,860 | 100 |

### a) Common Stock

The subscribed, authorized, issued and fully paid-in capital consists of 7,417 individual shares of common stock, including the founding issuance of 6,968 shares of common stock and an issuance of 449 common stock in connection with the conversion of liabilities to stockholders into capital, performed in accordance with the provisions of the Resolution of the Stockholders' Assembly of February 20, 2004

### b) Preferred Stock

Pursuant to the aforementioned resolution of the Shareholders' Assembly of February 20, 2004, the long-term liabilities to NIS Jugopetrol, Belgrade were converted. In the amount of the aforementioned debt, the Company issued 750 preferred shares, having an individual par value of US$ 4,000 (equivalent of RSD 219 thousand) as stated at the date of the aforecited resolution. These shares were subject to procedure of share homogenization in 2006 and on June 4, 2008 these shares were repurchased by the majority shareholder.

## 20. RESERVES

Reserves in the amount of EUR 16,957 thousand, mostly (EUR 15,662 thousand) relate to former revaluation reserves that were formed in accordance with the previously-applicable accounting standards and regulations prevailing in the Republic of Serbia and were subsequently transferred to statutory reserves.

## 21. LONG-TERM BORROWINGS

| Creditor | Interest rate | USD | (thousands of EUR) December 31, 2009 | December 31, 2008 |
|---|---|---|---|---|
| Marekelia Enterprises company limited, (previously Belven Associates, Bahamas) | LIBOR+3% | 20,834,114 | 15,859 | 18,737 |
| Current portion | | (1,963,866) | (1,367) | (1,394) |
| | | | 14,492 | 17,343 |

## 21. LONG-TERM BORROWINGS (Continued)

The long-term loan of EUR 15,859 relates to a loan that was originated in 1989 by Belven Associates ("Belven"). On October 19, 2004, the Company and Belven entered into a new Loan Agreement for purposes of restructuring the outstanding debt to Belven, and thereby replacing the Interim Loan Agreement dated July 31, 2004. Consequently, the loan counterparties agreed that the loan principal would be repaid in monthly installments of US$ 164 thousand up to December 2015. Such repayments could be accelerated by means of monthly repayments involving any additional cash available to the Company on or before the fifth day of each successive calendar month (commencing December 5, 2004) during the term of the loan. The aforementioned loan was issued at an annual interest rate equal to the 3-month LIBOR rate +3%. The Company provided a senior collection right mortgage lien on its building, registered in favor of Belven, in order to collateralize the repayment of its long-term borrowings and related interest (Note 13). The process of pre-registration of the mortgage line to Markelia Enterprises Company Limited, Nicosia, Cyprus is still in progress. In April 2007 the Company's ultimate shareholder, Lampsa Hellenic Hotel Company S.A., Athens exercise its call option for the purchase of the shares of the Belven.

On June 22, 2009, the Agreement on the transfer of a loan and a bill of exchange was signed among Belven Associates, Marekelia Enterprises company limited, HAD BMP a.d. and Leontia Enterprises company limited. The aforementioned Agreement governs the cession of all ownership rights and interests related to the loan, mortgage, bill of exchange and the Subordination Agreement from Belven Associates to Markelia Enterprises Company Limited, Nicosia, Cyprus undertook this transfer so as to increase the share capital in Marekelia Enterprises company limited

The respective maturities of the Company's long-term loan, as summarized in accordance with the estimated cash available to the Company, is as follows:

| | (thousands of EUR) | |
|---|---|---|
| | **2009** | **2008** |
| - up to one year | 1,367 | 1,394 |
| - from one to two years | 2,619 | 1,394 |
| - from two to three years | 3,941 | 2,672 |
| - from three to four years | 4,220 | 4,021 |
| - from four to five years | 3,712 | 4,305 |
| - over five years | - | 4,951 |
| | 15,859 | 18,737 |

## 22. OTHER LONG-TERM LIABILITIES

Other long-term liabilities at December 31, 2008 totaling EUR 854 thousand (net of current portions of RSD 1,797 thousand) are associated with incentive fees and interest accrued thereof. The discharge of these liabilities is executed in three equal installments paid quarterly starting from March 31, 2009 and with the last installment due at December 31, 2009.

**NOTES TO THE FINANCIAL STATEMENTS
December 31, 2009**

## 23. SHORT-TERM FINANCIAL LIABILITIES

| | December 31, 2009 | December 31, 2008 |
|---|---|---|
| Current portion of long-term borrowings | 1,367 | 1,394 |
| Current portion of other long-term liabilities Incentive fees | - | 1,797 |
| | 1,367 | 3,191 |

## 24. ACCOUNTS PAYABLE

(thousands of EUR)

| | December 31, 2009 | December 31, 2008 |
|---|---|---|
| Accounts payable - related parties | 61 | 60 |
| Payables to domestic suppliers | 71 | 84 |
| Payables to foreign suppliers | 176 | 14 |
| | 309 | 158 |

## 25. OTHER CURRENT LIABILITIES AND ACCRUALS

(thousands of EUR)

| | December 31, 2009 | December 31, 2008 |
|---|---|---|
| Other current payables | 8 | 7 |
| Basic Management fee | 79 | - |
| Accrued expenses | 445 | 525 |
| Value added tax and other payable | 51 | 61 |
| | 583 | 593 |

Accrued expenses at December 31, 2009 of EUR 445 thousand are associated with the accrued expenses for electricity of EUR 17 thousand, litigation costs of EUR 39 thousand, professional services of EUR 194 thousand, and other expenses in the amount of EUR 195 thousand.

## 26. RELATED PARTY TRANSACTIONS

In addition to the parent company and minority shareholders the Company's related parties include other companies within Lampsa Helenic Hotel Group. As of December 31, 2009 and 2008 the balances and transactions with related parties relate to Intercompany loan disclosed in Note 16, long-term borrowings disclosed in Note 20 and interest expense disclosed in Note 11.

## 27. LITIGATION

As of December 31, 2009, the Company is a defendant in seven lawsuits, of which four proceedings were filed by former employees in connection with the termination of their employment in the Company. The total value of legal proceedings filed against the Company amount to EUR 11 thousand, without potential penalty interest. The Company recognized a provision for contingent liabilities arising from such litigation in the amount of EUR 80 thousand, whereas the Company's management assesses that the Company will not be exposed to materially significant losses with respect to aforementioned proceedings.

Conversely, as of December 31, 2008 the Company had initiated various legal proceedings in an effort to force payments of its receivables attributable to hotel services provided in the amount of EUR 60 thousand.

## 28. FINANCIAL INSTRUMENTS

### Capital risk management

There is no formal capital risk management framework implemented in the Company. The Management Board focuses on capital risk on a case basis to mitigate risks and ensure that the Company will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance**.** The capital structure of the Company consists of debt, which includes the long-term borrowings disclosed in Notes 20 respectively, cash and cash equivalents and equity attributable to equity holders, comprising issued capital, reserves and accumulated loss

The Company's Management Board reviews the capital structure on an as needed basis. As a part of this review the Board considers the cost of capital and the risks associated with each class of capital. Based on this review, the Company will balance its overall capital structure through the further decrease of accumulated loss, payment of dividends, increase in share capital as well as the issue of new debt or the redemption of existing debt. The Company's overall strategy remains unchanged from 2009.

Indexes of indebtedness also with the situation at the end of the year were the following:

| | | **thousands of EUR** |
|---|---|---|
| | **December 31, 2009.** | **December 31, 2008.** |
| Indebtedness a) | 15,859 | 21,389 |
| Cash and cash equivalents | 2,430 | 2,343 |
| Net indebtedness | 13,429 | 19,046 |
| Equity b) | 31,177 | 27,389 |
| Ratio total debts by equity | 0.43 | 0.70 |

Debt balance refers to the long-term loans.

Corporate capital includes equity, reserves and accumulated loss.

### Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognized, in respect of each class of financial asset, financial liability and equity instrument are disclosed in Note 3 to the financial statements.

## 28. FINANCIAL INSTRUMENTS (Continued)

**Categories of financial instruments**

| | thousands of EUR | |
|---|---|---|
| | **December 31, 2009.** | **December 31, 2008.** |
| **Financial assets** | | |
| Accounts receivables | 115 | 191 |
| Intercompany loan | 194 | - |
| Receivables for un-invoiced income | 43 | 45 |
| Cash and cash equivalents | 2,430 | 2,343 |
| | 2,782 | 2,579 |
| **Financial liabilities** | | |
| Long-term liabilities | 14,492 | 17,343 |
| Other long-term liabilities | - | 854 |
| Accounts payable | 309 | 158 |
| Accrued expenses | 445 | 525 |
| Current portion of long-term debt | 1,367 | 3,191 |
| | 16,613 | 22,071 |

Basic financial instruments held by the Company comprise cash and cash equivalents arising directly from the Company's business operations, as well as long-term borrowings. In the regular course of business, the Company is exposed to the risk enumerated and delineated in the following passages.

**Financial risk management objectives**

The Company's activities expose it to a variety of financial risks. These risks include credit risk, liquidity risk and market risk (including foreign currency exchange risk and interest rate risk). The Company does not use derivative financial instruments or any other form of hedges against these risks.

There is no formal risk management framework implemented in the Company. The Management Board focuses mainly on credit risk, liquidity risk and foreign currency exchange risk and acts on a case basis to mitigate risks and minimize losses. However, such activities, on as needed basis, may be not entirely effective, and therefore it cannot be precluded that fluctuations in the risk variables, might have some adverse effects on the operations, financial position and financial performance of the Company.

**Market risk**

In its business operations, the Company is exposed to financial risks inherent in fluctuations of foreign currencies and interest rates.

Foreign currency risk exposure is measured by means of sensitivity analysis. There have been no changes in the manner in which the Company alleviates and measures the exposure.

## 28. FINANCIAL INSTRUMENTS (Continued)

### Foreign currency risk

Currency risks arise on account of financial instruments being denominated in a currency that is not the functional currency and being of a monetary nature; differences resulting from the translation of financial statements into the Company's functional currency are not taken into consideration. Relevant risk variables are generally all non-functional currencies in which the Company has financial instruments.

The book value of financial assets and liabilities of the Company denominated in foreign currency as of the reporting dates is as follows:

**thousands of EUR**

| | Assets | | Liabilities | |
|---|---|---|---|---|
| | December 31, 2009 | December 31, 2008 | December 31, 2009 | December 31, 2008 |
| RSD | 876 | 1,230 | 194 | 144 |
| USD | 445 | 1,523 | 16,035 | 21,390 |

*Foreign currency sensitivity analysis*

The following table details the Company's sensitivity to a 10% increase and decrease in the functional currency against the non-functional foreign currencies RSD and USD, respectively. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for 10% change in foreign currency rates of RSD and USD currency, with all other variables remaining constant.

**thousands of EUR**

| | December 31, 2009 | | | | December 31, 2008 | | | |
|---|---|---|---|---|---|---|---|---|
| | RSD impact | | USD impact | | RSD impact | | USD impact | |
| | +10% | -10% | +10% | -10% | +10% | -10% | +10% | -10% |
| Profit or loss | 1 | (1) | 1,085 | (1,085) | 1 | (1) | 1,422 | (1,422) |

The Company's sensitivity to foreign currency has been primarily driven by USD denominated long-term borrowings and other long-term liabilities.

The amounts generated from the sensitivity analysis are forward-looking estimates of foreign currency exchange risk assuming certain market conditions. Actual results in the future may differ materially from those projected results due to the inherent uncertainty of global and local financial markets. The methods and assumptions used are the same as those applied in the previous reporting period.

### Interest rate risk

The Company is exposed to various risks through the effects of the fluctuations in the market interest rates which influence their financial position and cash flows.

Given that the Company has no interest-bearing assets, the Company's income is to a great extent dependent of interest rate risks.

## 28. FINANCIAL INSTRUMENTS (Continued)

**Interest rate risk (Continued)**

The Company's risk from the changes in the fair value of the interest rates arises primarily on the long-term borrowings. The loans obtained at fluctuation interest rates make the Company's cash flows susceptible to the risk of changes in fair value of interest rates. In the course of 2009, considerable liabilities with reference to borrowings extended at a variable interest rate which was linked to LIBOR rate. Borrowings with variable interest rates are expressed in foreign currency (USD). Other long-term liabilities with respect to incentive and deferred incentive fees are also denominated in USD and have fixed interest rate.

In case an interest rate on long-term borrowings as of December 31, 2009, exceeded/was less by 1 percentage point annually, where other variables remain the same, the Company's net profit for the year ended December 31, 2009 would be greater/less by the amount of EUR 313 thousand (2008 – EUR 375 thousand), as a result of a lower/higher interest expense.

The Company analyses its exposure of interest rate risk on a dynamic basis whereas the Company still does not swap variable for fixed interest rates, and vice versa.

| | | thousands of EUR |
|---|---|---|
| | **December 31, 2009.** | **December 31, 2008.** |
| **Financial assets** | | |
| *Non-interest bearing* | | |
| Accounts receivables | 115 | 191 |
| Receivables for un-invoiced income | 43 | 45 |
| Cash and cash equivalents | 2,430 | 2,343 |
| | 2,588 | 2,579 |
| *Variable interest rate* | | |
| Other financial assets | 194 | - |
| | 2,782 | 2,579 |
| **Financial liabilities** | | |
| *Non-interest bearing* | | |
| Accounts payable | 309 | 158 |
| Accrued expenses | 445 | 525 |
| | 754 | 683 |
| *Fixed interest rate* | | |
| Long-term liabilities | - | 854 |
| Current portion of long-term debt | - | 1,797 |
| | - | 2,651 |
| *Variable interest rate* | | |
| Long-term liabilities | 14,492 | 17,343 |
| Current portion of long-term debt | 1,367 | 1,394 |
| | 15,859 | 21,546 |
| | 16,613 | 22,071 |
| | (15,665) | (21,546) |

## 28. FINANCIAL INSTRUMENTS (Continued)

**Credit risk**

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Company. Taking into account the Company's the business activities and the fact that the Company deals with private individuals the Company is exposed to the credit risk to a limited extent.

In addition, the Company does not have material credit risk concentration with reference to receivables, as it has a great number of unrelated customers with individually small amounts of debt.

The structure of accounts receivable as of December 31, 2009 is presented in the following table:

| | | | thousands of EUR |
|---|---|---|---|
| | Gross Exposure | Allowance for Impairment | Net Exposure |
| Accounts receivable not matured | 101 | - | 101 |
| Accounts receivable matured, and provided for | 65 | (65) | - |
| Accounts receivable matured, but not provided for | 14 | - | 14 |
| | 180 | (65) | 115 |

The structure of accounts receivable as of December 31, 2008 is presented in the following table:

| | | | thousands of EUR |
|---|---|---|---|
| | Gross Exposure | Allowance for Impairment | Net Exposure |
| Accounts receivable not matured | 161 | - | 161 |
| Accounts receivable matured, and provided for | 69 | (69) | - |
| Accounts receivable matured, but not provided for | 30 | - | 30 |
| | 260 | (69) | 191 |

*Accounts Receivable not matured*

Accounts receivable not matured recorded as of December 31, 2009 in the amount of EUR 101 thousand (December 31, 2008: EUR 161 thousand) mostly relate to amounts due from credit cards. These receivables mature within 30-60 days following the invoicing date, depending on the terms of payment. The average number of days' sales outstanding in 2009 counted 13 days.

*Accounts Receivable Matured and provided for*

In the previous periods, the Company calculated an allowance for impairment of matured receivables of EUR 65 thousand (2008: EUR 69 thousand) due from those customers whose creditworthiness has changed and which will not be collected in full.

## 28. FINANCIAL INSTRUMENTS (Continued)

### Credit risk (Continued)

*Accounts Receivable Matured and provided for (Continued)*

The Company did not make an allowance for impairment of receivables matured as of December 31, 2009 of EUR 14 thousand (December 31, 2008: EUR 30 thousand) given that the customer creditworthiness has not changed, and the Company holds that the present value of these receivables will be collected in full.

All accounts receivable matured, but not provided up to 30 days old.

***Managing Accounts Payable***

Accounts payable as of December 31, 2009 stated in the amount of EUR 309 thousand (December 31, 2008: RSD 158 thousand). These suppliers do not charge penalty against matured liabilities, whereas the Company duly settles accounts payable, as in accordance with financial risk management policies. The average days' outstanding for settling accounts payable in the course of 2009 amounted to 20 days (during the 2008 amounted to 27 days).

### Liquidity risk

Responsibility for liquidity risk management rests with the Company's and Management Board, which is responsible for the management of the Company's short, medium and long-term funding and liquidity management requirements. The Company manages liquidity risk by maintaining adequate cash reserves, by borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

*Liquidity and interest risk tables*

The following table details the Company's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Company can be required to pay. The table includes both interest and principal cash flows.

thousands of EUR

| | Weighted Average effective interest rate (%) | Up to one month | From one month to three months | From three months to one year | From one year to five year | Over five year | Total |
|---|---|---|---|---|---|---|---|
| **2009** | | | | | | | |
| Non-interest bearing | - | 754 | - | - | - | - | 754 |
| Fixed interest rate instruments | - | - | - | - | - | - | - |
| Variable interest rate instruments | - | 187 | 370 | 1,642 | 18,907 | - | 21,106 |
| | | 941 | 370 | 1,642 | 18,907 | | 21,860 |
| **2008** | | | | | | | |
| Non-interest bearing | - | 683 | - | - | - | - | 683 |
| Fixed interest rate instruments | 7.500% | 142 | 373 | 1,282 | 855 | - | 2,652 |
| Variable interest rate instruments | 8.230% | 234 | 454 | 2,044 | 16,366 | 4,959 | 24,057 |
| | | 1,089 | 827 | 3,326 | 17,220 | 4,959 | 27,392 |

## 28. FINANCIAL INSTRUMENTS (Continued)

### Fair values

The fair values of financial assets and financial liabilities are determined as follows:

- The assumption used to estimate current fair values is that the book value of receivables and payables balances approximates to fair value because of their relative short maturities.
- The fair value of financial liabilities carried at amortized cost for disclosures purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to Company.

The following table represents the present value of financial assets and liabilities and their fair value as of December 31, 2009 and 2008

| | December 31, 2009 | | December 31, 2008 | |
|---|---|---|---|---|
| | **Carrying Value** | **Fair Value** | **Carrying Value** | **Fair Value** |
| **Financial assets** | | | | |
| Accounts receivable | 115 | 115 | 191 | 191 |
| Other financial assets | 194 | 194 | - | - |
| Receivables for un-invoiced income | 43 | 43 | 45 | 45 |
| Cash and cash equivalents | 2,430 | 2,430 | 2,343 | 2,343 |
| | 2,782 | 2,782 | 2,579 | 2,579 |
| **Financial liabilities** | | | | |
| Long-term liabilities | 14,492 | 14,492 | 17,343 | 17,343 |
| Other long-term liabilities | - | - | 854 | 854 |
| Current portion of long-term liabilities | 1,367 | 1,367 | 3,191 | 3,191 |
| Accounts payable | 309 | 309 | 158 | 158 |
| Accrued expenses | 445 | 445 | 525 | 525 |
| | 16,613 | 16,613 | 22,071 | 22,071 |

## 29. TAXATION RISKS

The Republic of Serbia tax legislation is subject to varying interpretations, and legislative changes occur frequently. The interpretation of tax legislation by tax authorities as applied to the transactions and activities of the Company may not concur with the views of the Company's management. Consequently, transactions may be challenged by the relevant tax authorities and the Company could be assessed additional taxes, penalties and interest, which can be significant. The fiscal periods remain open for review by the tax and customs' authorities with regard to the tax-paying entity's tax liabilities for a period of five years.

## 30. CURRENT ECONOMIC SITUATION AND ITS IMPACT ON THE COMPANY

The Company's operations were under the influence of the recent financial crisis and deteriorating economic conditions. Due to the current global crisis in the market and its weakening effects on domestic economic activities on the local market in the Republic of Serbia, the Company will probably operate in more difficult and uncertain economic environment. The impact of this crisis on the Company's business operations is currently not possible to fully predict and therefore there is an element of general uncertainty.

So far, the ongoing financial crisis has had a limited impact on the financial position and performance of the Company. During 2009, the Company had no liquidity issues.

However, the deteriorating economic situation in the country will probably impact the position of certain industries and the ability of some clients to meet their obligations which may impact the amount of necessary allowance for impairment and provisions formed against credit losses incurred in 2010, as well as other fields which require significant estimates from the management, and where the actual results may depart from the estimates.