# National Corporation for Tourism and Hotels

FINANCIAL STATEMENTS

31 DECEMBER 2003

**AUDITORS' REPORT TO THE SHAREHOLDERS OF**

**NATIONAL CORPORATION FOR TOURISM AND HOTELS**

We have audited the accompanying balance sheet of National Corporation for Tourism and Hotels ("the Corporation") as of 31 December 2003 and the related statements of income, cash flows and changes in equity for the year then ended. These financial statements are the responsibility of the Corporation's management. 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 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 statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Corporation as of 31 December 2003 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Signed by:
Bassam E Hage
Partner
Registration No. 258

2 March 2004
Abu Dhabi

# INCOME STATEMENT
Year ended 31 December 2003

| | Notes | **2003 AED** | 2002 AED |
|---|---|---|---|
| Operating revenues | 3 | **197,029,839** | 167,072,769 |
| Direct operating expenses | 3 | **(101,600,623)** | (74,511,486) |
| **GROSS PROFIT** | 3 | **95,429,216** | 92,561,283 |
| **OTHER OPERATING INCOME** | 4 | **3,740,047** | 3,586,181 |
| | | **99,169,263** | 96,147,464 |
| General and administration expenses | 5 | **(41,392,025)** | (38,524,553) |
| Depreciation | 6 | **(23,729,620)** | (22,386,753) |
| Management fee and reimbursement of system cost | | **(5,687,101)** | (5,652,201) |
| Board of Directors' remuneration | | **(750,000)** | (750,000) |
| **PROFIT FROM OPERATIONS** | | **27,610,517** | 28,833,957 |
| Interest income | | **2,459,922** | 4,463,103 |
| Interest on term loan | 16 | **(6,650,000)** | (6,979,864) |
| **NET PROFIT FOR THE YEAR** | | **23,420,439** | 26,317,196 |
| Basic earnings per share | 22 | **23** | 26 |

The attached notes 1 to 24 form part of these financial statements.

# BALANCE SHEET
At 31 December 2003

| | Notes | *2003* *AED* | *2002* *AED* |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 6 | **305,691,845** | 293,573,188 |
| Investment - available for sale | 7 | **2,396,563** | 2,396,563 |
| Investment in an associate | 8 | **2,500,000** | 2,500,000 |
| | | **310,588,408** | 298,469,751 |
| **Current assets** | | | |
| Inventories | 9 | **5,796,856** | 8,188,913 |
| Accounts receivable and prepayments | 10 | **85,095,047** | 68,963,207 |
| Bank balances and cash | 11 | **177,743,473** | 205,259,505 |
| | | **268,635,376** | 282,411,625 |
| **TOTAL ASSETS** | | **579,223,784** | 580,881,376 |
| **EQUITY AND LIABILITIES** | | | |
| **Capital and reserves** | | | |
| Share capital | 12 | **100,000,000** | 100,000,000 |
| Statutory reserve | 13 | **7,262,567** | 4,920,523 |
| General reserve | 14 | **50,000,000** | 50,000,000 |
| Retained earnings | | **37,747,121** | 31,668,726 |
| Proposed dividends | 15 | **15,000,000** | 15,000,000 |
| **Total equity** | | **210,009,688** | 201,589,249 |
| **Non-current liabilities** | | | |
| Term loan | 16 | **297,500,000** | 315,000,000 |
| Employees' end of service benefits | 17 | **6,668,027** | 7,043,570 |
| | | **304,168,027** | 322,043,570 |
| **Current liabilities** | | | |
| Accounts payable and accruals | 18 | **47,546,069** | 39,748,557 |
| Current portion of term loan | 16 | **17,500,000** | 17,500,000 |
| | | **65,046,069** | 57,248,557 |
| **TOTAL EQUITY AND LIABILITIES** | | **579,223,784** | 580,881,376 |

Obaid Seif Al Nasseri
CHAIRMAN

Abdulah K.M. Al Romaithi
MANAGING DIRECTOR

The attached notes 1 to 24 form part of these financial statements.

## STATEMENT OF CASH FLOWS
Year ended 31 December 2003

| | *2003* | *2002* |
|---|---|---|
| | ***AED*** | *AED* |
| **OPERATING ACTIVITIES** | | |
| Net profit for the year | **23,420,439** | 26,317,196 |
| Adjustments for: | | |
| Depreciation of property, plant and equipment | **23,729,620** | 22,386,753 |
| Disposal of property, plant and equipment | **391,037** | 186,401 |
| Provision for employees' end of service benefits | **1,447,420** | 1,935,232 |
| Interest income | **(2,459,922)** | (4,463,103) |
| Interest charge | **6,650,000** | 6,979,864 |
| Operating profit before working capital changes | **53,178,594** | 53,342,343 |
| Inventories | **2,392,057** | 298,840 |
| Accounts receivable and prepayments | **(16,131,840)** | (22,179,142) |
| Accounts payable and accruals | **7,797,512** | 16,117,364 |
| Cash from operations | **47,236,323** | 47,579,405 |
| Employees' end of service benefits paid | **(1,822,963)** | (1,109,582) |
| Interest paid | **(6,650,000)** | (6,979,864) |
| Net cash from operating activities | **38,763,360** | 39,489,959 |
| **INVESTING ACTIVITIES** | | |
| Purchase of property, plant and equipment net of advances | **(36,239,314)** | (33,053,713) |
| Interest income | **2,459,922** | 4,463,103 |
| Purchase of available for sale investment | **-** | (2,396,563) |
| Investment in associate | **-** | (2,500,000) |
| Net cash used in investing activities | **(33,779,392)** | (33,487,173) |
| **FINANCING ACTIVITIES** | | |
| Dividends paid | **(15,000,000)** | (12,000,000) |
| Repayment of term loan | **(17,500,000)** | (17,500,000) |
| Cash used in financing activities | **(32,500,000)** | (29,500,000) |
| **DECREASE IN CASH AND CASH EQUIVALENTS** | **(27,516,032)** | (23,497,214) |
| Cash and cash equivalents at 1 January | **205,259,505** | 228,756,719 |
| **CASH AND CASH EQUIVALENTS AT 31 DECEMBER** | **177,743,473** | 205,259,505 |

The attached notes 1 to 24 form part of these financial statements.

## STATEMENT OF CHANGES IN EQUITY
Year ended 31 December 2003

| | *Share capital AED* | *Statutory reserve AED* | *General reserve AED* | *Retained earnings AED* | *Proposed dividends AED* | *Total AED* |
|---|---|---|---|---|---|---|
| Balance at 31 December 2001 | 100,000,000 | 2,288,803 | 50,000,000 | 22,983,250 | 12,000,000 | 187,272,053 |
| Net profit for the year 2002 | - | - | - | 26,317,196 | - | 26,317,196 |
| Proposed dividends | - | - | - | (15,000,000) | 15,000,000 | - |
| Dividends paid | - | - | - | - | (12,000,000) | (12,000,000) |
| Transfer to statutory reserve | - | 2,631,720 | - | (2,631,720) | - | - |
| Balance at 31 December 2002 | 100,000,000 | 4,920,523 | 50,000,000 | 31,668,726 | 15,000,000 | 201,589,249 |
| Net profit for the year 2003 | - | - | - | 23,420,439 | - | 23,420,439 |
| Proposed dividends | - | - | - | (15,000,000) | 15,000,000 | - |
| Dividends paid | - | - | - | - | (15,000,000) | (15,000,000) |
| Transfer to statutory reserve | - | 2,342,044 | - | (2,342,044) | - | - |
| Balance at 31 December 2003 | **100,000,000** | **7,262,567** | **50,000,000** | **37,747,121** | **15,000,000** | **210,009,688** |

The attached notes 1 to 24 form part of these financial statements.

## 1 ACTIVITIES

National Corporation for Tourism and Hotels ("the Corporation") was formed on 11 December 1996 in accordance with Law No. 7 of 1996, to own, manage and invest in hotels and leisure complexes and related businesses. As stated in the law, as of the date of its formation, the Corporation acquired from the Government of Abu Dhabi the ownership of Abu Dhabi Inter-Continental Hotel, Al Ain Inter-Continental Hotel and Al Dhafra Beach Hotel, all located in the Emirate of Abu Dhabi. Accordingly, the three hotels now operate as divisions of the Corporation. In addition, the Corporation manages on behalf of the Government of Abu Dhabi, two hotels located in Abu Dhabi and provides catering services. The registered head office of the Corporation is at P O Box 6942, Abu Dhabi, United Arab Emirates.

The activities of the Hotels owned by the Corporation are summarised as follows:

***Abu Dhabi Inter-Continental Hotel***
The hotel is managed by the Inter-Continental Hotels Corporation. The Operating and Management Agreement dated 26 April 2001 is for a period of 10 years from 1 January 2001, renewable for a further period of five years.

***Al Ain Inter-Continental Hotel***
The hotel is managed by the Inter-Continental Hotels Corporation. The Operating and Management Agreement dated 26 April 2001 is for a period of 10 years from 1 January 2001, renewable for a further period of five years.

***Al Dhafra Beach Hotel***
The hotel is managed by the Corporation.

The Corporation employed 1,554 employees as of 31 December 2003 (2002: 1,369 employees).

The financial statements of National Corporation for Tourism and Hotels for the year ended 31 December 2003 were authorised for issue in accordance with a resolution of the Board of Directors on 2 March 2004.

## 2 SIGNIFICANT ACCOUNTING POLICIES

**Basis of preparation**
The financial statements have been prepared in accordance with Standards issued or adopted by the International Accounting Standards Board (IASB), and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB.

The financial statements have been presented in United Arab Emirates Dirhams (AED).

**Accounting convention**
The financial statements are prepared under the historical cost convention, as modified for the measurement at fair value of available for sale investments.

The accounting policies are consistent with those used in the previous year.

**Operating revenue**
Operating revenue represents the invoiced value of goods and services supplied by the Corporation during the year. Interest revenue is recognised as the interest accrues.

**2 SIGNIFICANT ACCOUNTING POLICIES** continued

**Property, plant and equipment**
Property, plant and equipment are stated at cost less accumulated depreciation and any impairment in value. Land is not depreciated.

Depreciation is calculated on a straight line basis over the estimated useful lives of other assets as follows:

| | |
|---|---|
| Freehold buildings | 10 - 25 years |
| Fixtures and fittings | 5 years |
| Mechanical and electrical plant | 7 years |
| Motor vehicles | 4 years |

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount.

**Impairment and uncollectability of financial assets**
An assessment is made at each balance sheet date to determine whether there is objective evidence that a financial asset or group of financial assets may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss recognised for the difference between the recoverable amount and the carrying amount. Impairment losses are recognised in the income statement.

**Investments in associates**
The Corporation's investments in associates are accounted for under the equity method of accounting. These are entities in which the Corporation has between 20% to 50% of the voting power or over which it exercises significant influence. Investments in associates are carried in the balance sheet at cost, plus post-acquisition changes in the Corporation's share of net assets of the associate, less any impairment in value. The income statement reflects the Corporation's share of the results of its associates.

**Investments – available for sale**
All investments are initially recognised at cost, being the fair value of the consideration given and including acquisition charges associated with the investments. After initial recognition, investments are remeasured at fair value with unrealised gains and losses reported as a separate component in equity until the investment is sold, collected or otherwise disposed of.

When an investment is determined to be impaired the cumulative gain or loss previously reported in equity is included in the income statement.

**Inventories**
Inventories are stated at the lower of cost and net realisable value after making due allowance for any obsolete or slow moving items. Costs are those expenses incurred in bringing each product to its present location and condition, and are determined on a weighted average cost basis except for inventories at Al Dhafra Beach Hotel, which are determined on a first-in first-out basis.

**Accounts receivable**
Accounts receivable are stated net of provisions for amounts estimated to be impaired. Bad debts are written off as incurred.

**Cash and cash equivalents**
For the purpose of the statement of cash flows, cash and cash equivalents consist of bank balances and cash.

**2 SIGNIFICANT ACCOUNTING POLICIES** continued

**Accounts payable and accruals**
Liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

**Provisions**
Provisions are recognised when the Corporation has an obligation (legal or constructive) arising from a past event, and the costs to settle the obligation are both probable and able to be reliably measured.

**Term loan**
The Corporation's term loan is carried on the balance sheet at its principal amount. Interest is charged as an expense as it accrues, with unpaid amounts included in "accounts payable and accruals".

**Employees' end of service benefits**
The Corporation provides end of service benefits to its employees. The entitlement to these benefits is usually based upon the employees' final salary and length of service, subject to completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

With respect to its UAE national employees, the Corporation makes accruals for contributions payable to the relevant government pension scheme calculated as a percentage of the employees' salaries.

**Foreign currencies**
Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to the income statement.

**Financial instruments**
Financial instruments include investments, receivables, bank balances and cash, payables and certain other assets and liabilities.

The fair value of interest bearing items is estimated based on discounted cash flow using interest rates for items with similar terms and risk characteristics. The fair value of investments traded in organised markets, is determined by reference to quoted market bid prices.

For unquoted equity investments, fair value is determined by reference to the market value of a similar investment or is based on the expected discounted cash flows.

## 3 SEGMENTAL INFORMATION

***Primary segment information***

For management purposes, the Corporation is currently organised into two major operating businesses. These businesses are the basis on which the Corporation reports its primary segmental information. These are:

- Hotels
- Catering services

| | *Hotels* | | *Catering services* | | *Total* | |
|---|---|---|---|---|---|---|
| | ***2003 AED*** | *2002 AED* | ***2003 AED*** | *2002 AED* | ***2003 AED*** | *2002 AED* |
| Operating revenue | **138,770,431** | 144,207,763 | **58,259,408** | 22,865,006 | **197,029,839** | 167,072,769 |
| Direct operating expenses | **(51,767,066)** | (54,859,706) | **(49,833,557)** | (19,651,780) | **(101,600,623)** | (74,511,486) |
| Gross profit | **87,003,365** | 89,348,057 | **8,425,851** | 3,213,226 | **95,429,216** | 92,561,283 |
| Other operating income | **3,740,047** | 3,586,181 | **-** | - | **3,740,047** | 3,586,181 |
| General and administration expenses | **(31,535,079)** | (32,355,492) | **-** | - | **(31,535,079)** | (32,355,492) |
| Unallocated general and administration expenses | | | | | **(9,856,946)** | (6,169,061) |
| Depreciation | **(20,168,334)** | (19,676,844) | **(1,881,175)** | (1,733,596) | **(22,049,509)** | (21,410,440) |
| Unallocated depreciation expenses | | | | | **(1,680,111)** | (976,313) |
| Management fee and reimbursement of system cost | **(5,687,101)** | (5,652,201) | **-** | - | **(5,687,101)** | (5,652,201) |
| Unallocated board of directors' remuneration | | | | | **(750,000)** | (750,000) |
| Profit from operations | | | | | **27,610,517** | 28,833,957 |
| Unallocated interest income | | | | | **2,459,922** | 4,463,103 |
| Unallocated interest on term loan | | | | | **(6,650,000)** | (6,979,864) |
| Net profit for the year | | | | | **23,420,439** | 26,317,196 |

| | *Hotels* | | *Catering services* | | *Total* | |
|---|---|---|---|---|---|---|
| | ***2003 AED*** | *2002 AED* | ***2003 AED*** | *2002 AED* | ***2003 AED*** | *2002 AED* |
| **Assets** | | | | | | |
| Segment assets | **347,661,658** | 342,043,587 | **25,644,815** | 13,774,452 | **373,306,473** | 355,818,039 |
| Unallocated corporate assets | | | | | **205,917,311** | 225,063,337 |
| Total assets | | | | | **579,223,784** | 580,881,376 |
| **Liabilities** | | | | | | |
| Segment liabilities | **341,178,817** | 358,274,525 | **15,953,439** | 7,062,876 | **357,132,256** | 365,337,401 |
| Unallocated corporate liabilities | | | | | **12,081,840** | 13,954,726 |
| Total liabilities | | | | | **369,214,096** | 379,292,127 |

Included in direct operating expenses is an amount of AED 30,846,561 (2002: AED 26,637,529) relating to payroll and employee related costs.

***Secondary segment information***

For operational and management reporting purposes, the Corporation is organised as one geographical segment. Accordingly, no secondary segment information is required to be provided.

## 4 OTHER OPERATING INCOME

| | *2003* *AED* | *2002* *AED* |
|---|---|---|
| Rental income | **1,065,364** | 1,151,064 |
| Management fees | **1,505,621** | 1,303,240 |
| Miscellaneous | **1,169,062** | 1,131,877 |
| | **3,740,047** | 3,586,181 |

## 5 GENERAL AND ADMINISTRATION EXPENSES

| | *2003* *AED* | *2002* *AED* |
|---|---|---|
| Payroll and employee related costs | **15,788,741** | 16,345,784 |
| Other expenses | **21,691,846** | 18,669,010 |
| Energy costs | **3,911,438** | 3,509,759 |
| | **41,392,025** | 38,524,553 |

## 6 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment at year-end consist of the following:

| | *2003* *AED* | *2002* *AED* |
|---|---|---|
| Property, plant and equipment at net carrying amount | **303,320,813** | 289,296,593 |
| Advance to contractors | **2,371,032** | 4,276,595 |
| | **305,691,845** | 293,573,188 |

| | *Land and buildings* *AED* | *Fixtures and fittings* *AED* | *Mechanical and electrical plant* *AED* | *Motor vehicles* *AED* | *Capital work in progress* *AED* | *Total* *AED* |
|---|---|---|---|---|---|---|
| Cost: | | | | | | |
| At 1 January 2003 | 311,355,953 | 99,266,305 | 5,411,197 | 3,851,793 | 25,290,229 | 445,175,477 |
| Additions | - | 7,258,967 | 1,887,900 | 1,270,400 | 27,727,610 | 38,144,877 |
| Disposals | - | (1,196,343) | - | (1,430,188) | - | (2,626,531) |
| Transfer | 24,621,609 | 2,242,898 | - | - | (26,864,507) | - |
| At 31 December 2003 | **335,977,562** | **107,571,827** | **7,299,097** | **3,692,005** | **26,153,332** | **480,693,823** |
| Depreciation: | | | | | | |
| At 1 January 2003 | 74,751,145 | 76,198,194 | 2,748,118 | 2,181,427 | - | 155,878,884 |
| Charge for the year | 13,752,683 | 8,358,905 | 777,598 | 840,434 | - | 23,729,620 |
| Disposals | - | (1,013,464) | - | (1,222,030) | - | (2,235,494) |
| At 31 December 2003 | **88,503,828** | **83,543,635** | **3,525,716** | **1,799,831** | **-** | **177,373,010** |
| Net carrying amount | | | | | | |
| At 31 December 2003 | **247,473,734** | **24,028,192** | **3,773,381** | **1,892,174** | **26,153,332** | **303,320,813** |
| At 31 December 2002 | 236,604,808 | 23,068,111 | 2,663,079 | 1,670,366 | 25,290,229 | 289,296,593 |

## 7 INVESTMENT-AVAILABLE FOR SALE

| | ***2003*** | *2002* |
|---|---|---|
| | ***AED*** | *AED* |
| ***Unquoted investment*** | | |
| Cost | **2,396,563** | 2,396,563 |

The investment represents 15% equity interest acquired by the Corporation in ADDAR, a company registered as a limited liability company in the United Arab Emirates.

The carrying amount of this investment is stated at amortised cost of AED 2,396,563. There is no practical means of estimating the fair value of this investment due to the unpredictable nature of future cash flows.

## 8 INVESTMENT IN ASSOCIATE

| | ***2003*** | *2002* |
|---|---|---|
| | ***AED*** | *AED* |
| Cost | **2,500,000** | 2,500,000 |

The investment represents a 50% equity participation in National Transportation Company LLC, a company incorporated in March 2002 in the United Arab Emirates as a limited liability company and commenced its commercial activities in July 2003. The Corporation's share in the results and the net assets of the associate have not been reflected in these financial statements as no audited financial statements are available for the associate at 31 December 2003. Management believe that the carrying value of the investment will ultimately be realised in full.

## 9 INVENTORIES

| | ***2003*** | *2002* |
|---|---|---|
| | ***AED*** | *AED* |
| Engineering and operating supplies | **2,293,993** | 5,925,794 |
| Food and beverage | **3,502,863** | 2,263,119 |
| | **5,796,856** | 8,188,913 |

Inventories carried at net realisable value amounted to AED 3,530,209 (2002: AED 2,546,531). Inventories determined on a weighted average basis amounted to AED 2,720,338 (2002: AED 4,547,551). The remaining balance has been determined on a first-in first-out basis.

### 10 ACCOUNTS RECEIVABLE AND PREPAYMENTS

| | ***2003*** | *2002* |
|---|---|---|
| | ***AED*** | *AED* |
| Trade accounts and notes receivable | **91,442,292** | 79,639,939 |
| Provision for impairment | **(19,323,120)** | (19,483,601) |
| Trade accounts and notes receivable, net of provision for impairment | **72,119,172** | 60,156,338 |
| Amounts due from related parties (note 21) | **3,295,165** | 1,627,995 |
| Other receivables | **3,475,984** | 2,843,843 |
| Prepaid expenses | **6,204,726** | 4,335,031 |
| | **85,095,047** | 68,963,207 |

The Corporation sells its services and products to a large number of customers. As amounts receivable are stated net of any required provision and are short term in nature, fair value approximates carrying value.

### 11 CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the statement of cash flows include the following balance sheet amounts:

| | ***2003*** | *2002* |
|---|---|---|
| | ***AED*** | *AED* |
| Demand deposits and cash | **18,780,909** | 15,544,398 |
| Fixed deposits | **158,962,564** | 189,715,107 |
| | **177,743,473** | 205,259,505 |

Bank balances are held with banks operating in the United Arab Emirates. Fixed deposits carry interest at market rates ranging from 1.2% to 1.4% (2002: 1.4% to 2.2%).

### 12 SHARE CAPITAL

| | *Authorised and fully paid-up* ***2003*** ***AED*** | *Authorised and fully paid-up* *2002* *AED* |
|---|---|---|
| Shares of AED 100 each | **100,000,000** | 100,000,000 |

In accordance with Law No. 7 of 1996 and the Corporation's articles of association, the share capital of the Corporation has been set at AED 100 million comprising 1 million shares of AED 100 each.

## 13 STATUTORY RESERVE

In accordance with Law No. 7 of 1996 and the Corporation's articles of association, 10% of the net profit of the year is to be transferred to statutory reserve. The transfer is to commence five years after the formation of the Corporation. The Corporation may resolve to discontinue such annual transfers when the reserve totals 50% of the share capital.

Distribution of this reserve is limited to any amounts in excess of 50% of the share capital, which may be required to enable the payment of the dividend proposed by the board of directors when the retained earnings are not sufficient for payment of a dividend of that amount.

## 14 GENERAL RESERVE

The general reserve has been established to enhance the equity base of the Corporation. Transfers to the general reserve are made upon the recommendation of the Board of Directors and approval of shareholders at the Annual General Meeting.

## 15 DIVIDENDS PAID AND PROPOSED

During the year, dividends of AED 15 per share totalling AED 15,000,000 relating to 2002 were paid.

The Board of Directors has proposed a cash dividend of AED 15 per share totalling AED 15,000,000 (2002: AED 15 per share totalling AED 15,000,000) which is subject to the approval of the shareholders at the Annual General Meeting.

## 16 TERM LOAN

In accordance with article 4 of law no. 7 of 1996, dated 11 December 1996, the Government of Abu Dhabi sold the three hotels namely, Abu Dhabi Inter-Continental Hotel, Al Ain Inter-Continental Hotel and Al Dhafra Beach Hotel to the Corporation for an amount of AED 350 million. The sale amount of AED 350 million has been granted as a long term loan by the Government of Abu Dhabi to the Corporation and is to be repaid over 20 years following a grace period of 5 years commencing from 11 December 1996 being the date of the loan agreement. The loan carries simple interest at 2% per annum to be charged after a grace period of 3 years.

The portion of the term loan due in less than one year of AED 17,500,000 (2002 : AED 17,500,000) is included under current liabilities.

## 17 EMPLOYEES' END OF SERVICE BENEFITS

The Corporation provides for end of service benefits in accordance with the employees' contracts of employment.

The movement on the provision is as follows:

| | ***2003*** ***AED*** | *2002* *AED* |
|---|---|---|
| Balance at 1 January | **7,043,570** | 6,217,920 |
| Provided during the year | **1,447,420** | 1,935,232 |
| Paid during the year | **(1,822,963)** | (1,109,582) |
| Balance at 31 December | **6,668,027** | 7,043,570 |

## 18 ACCOUNTS PAYABLE AND ACCRUALS

| | ***2003*** | *2002* |
|---|---|---|
| | ***AED*** | *AED* |
| Trade accounts payable | **25,539,924** | 14,702,826 |
| Amounts due to related parties (note 21) | **1,442,042** | 50,264 |
| Accrued expenses and other payables | **14,569,298** | 19,710,364 |
| Advance from customers | **1,989,989** | 3,178,423 |
| Retentions payable | **4,004,816** | 2,106,680 |
| | **47,546,069** | 39,748,557 |

## 19 CAPITAL COMMITMENTS

Estimated capital expenditure contracted for at the balance sheet date but not provided for :

| | ***2003*** | *2002* |
|---|---|---|
| | ***AED*** | *AED* |
| Property, plant and equipment | **27,883,095** | 43,534,718 |
| Real estate development project | **555,000** | - |

## 20 CONTINGENT LIABILITIES

The Corporation has given bank guarantees from which it is anticipated that no material liabilities will arise, amounting to AED 13,253,116 (2002: AED 11,277,614) in the normal course of business.

## 21 RELATED PARTY TRANSACTIONS

These represent transactions with related parties, ie. shareholders and the management company managing the Hotels. Pricing policies and terms of these transactions are approved by the Corporation's senior management.

Transactions with related parties included in the income statement are as follows:

| | ***2003*** | *2002* |
|---|---|---|
| | ***AED*** | *AED* |
| Expenses | **7,889,996** | 3,685,753 |
| Management fee | **4,578,140** | 4,465,078 |
| Reimbursement of system cost | **1,108,961** | 1,187,123 |
| Contribution to advertisement fund | **15,579** | 17,288 |

Amounts due from and to related parties are disclosed in notes 10 and 18 respectively.

## 22 BASIC EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the net profit for the year by the weighted average number of shares outstanding during the year as follows:

| | | ***2003*** | *2002* |
|---|---|---|---|
| Net profit for the year | ***AED*** | **23,420,439** | 26,317,196 |
| Ordinary shares in issue throughout the year | | **1,000,000** | 1,000,000 |
| Earnings per share | ***AED*** | **23** | 26 |

The Corporation has not issued any instruments which would have an impact on earnings per share when exercised.

## 23 RISK MANAGEMENT

**Interest rate risk**
The Corporation is exposed to interest rate on its interest bearing assets and liabilities (bank deposits and term loan).

**Credit risk**
Credit risk represents the accounting loss that would be recognised if customers fail to perform as contracted. To reduce the exposure to credit risk, the Corporation performs credit evaluation of its customers but generally does not require collateral. The Corporation places its cash with commercial banks operating in the United Arab Emirates.

**Liquidity risk**
The Corporation limits its liquidity risk by ensuring bank facilities are available. The Corporation’s terms of sale require amounts to be paid within 30 days of the date of sale. Trade payables are normally settled within 60 days of the date of purchase.

**Foreign currency risk**
The management consider that the Corporation is not exposed to significant currency risk. The majority of its transactions and balances are in either UAE Dirhams or US Dollars. As the UAE Dirham is pegged to the US Dollar, balances in US Dollars are not considered to represent significant currency risk.

## 24 FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of the Corporation’s financial assets and liabilities approximates their carrying amounts with the exception of the available for sale investment and the term loan. Information on their principal characteristics is presented in notes 7 and 16 respectively.