

**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 2001 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 2001 and the results of its operations and its cash flows for the year then ended in accordance with International Accounting Standards.

Signed by:
Bassam E Hage
Partner
Registration No. 258

19 March 2002
Abu Dhabi

National Corporation for Tourism and Hotels**BALANCE SHEET**

31 December 2001

	<i>Note</i>	<i>2001</i> <i>AED</i>	<i>2000</i> <i>AED</i>
ASSETS EMPLOYED			
PROPERTY, PLANT AND EQUIPMENT	3	283,092,629	281,138,410
CURRENT ASSETS			
Inventories	4	8,487,753	10,340,927
Accounts receivable and prepayments	5	46,784,065	42,479,557
Bank balances and cash	6	<u>228,756,719</u>	<u>232,429,278</u>
		<u>284,028,537</u>	<u>285,249,762</u>
CURRENT LIABILITIES			
Accounts payable and accruals	7	23,631,193	33,800,119
Current portion of term loan	11	<u>17,500,000</u>	-
		<u>41,131,193</u>	<u>33,800,119</u>
NET CURRENT ASSETS		<u>242,897,344</u>	<u>251,449,643</u>
		<u>525,989,973</u>	<u>532,588,053</u>
FUNDS EMPLOYED			
EQUITY			
Share capital	8	100,000,000	100,000,000
Statutory reserve	9	2,288,803	-
General reserve	10	50,000,000	-
Retained earnings		22,983,250	64,384,031
Proposed dividends	17	<u>12,000,000</u>	<u>12,000,000</u>
		<u>187,272,053</u>	<u>176,384,031</u>
NON-CURRENT LIABILITIES			
Term loan	11	332,500,000	350,000,000
Employees' end of service benefits	12	<u>6,217,920</u>	<u>6,204,022</u>
		<u>338,717,920</u>	<u>356,204,022</u>
		<u>525,989,973</u>	<u>532,588,053</u>

Obaid Seif Al Nasser
CHAIRMAN

Abdulah K.M. Al Romaiti
DIRECTOR GENERAL

The attached notes 1 to 21 form part of these financial statements.

National Corporation for Tourism and Hotels

STATEMENT OF INCOME

Year Ended 31 December 2001

	<i>Note</i>	<i>2001</i> <i>AED</i>	<i>2000</i> <i>AED</i>
Operating revenue	14	158,269,361	137,080,365
Direct operating expenses	14	<u>69,220,981</u>	<u>57,366,476</u>
GROSS PROFIT	14	89,048,380	79,713,889
OTHER INCOME	15	<u>13,145,230</u>	<u>16,741,532</u>
		<u>102,193,610</u>	<u>96,455,421</u>
OTHER EXPENSES			
Interest on term loan	11	7,000,000	7,000,000
General and administration	16	36,624,914	34,462,905
Depreciation	3	30,111,290	28,237,508
Management fee and reimbursement of system cost		4,819,384	7,006,873
Board of Directors' remuneration		<u>750,000</u>	<u>750,000</u>
		<u>79,305,588</u>	<u>77,457,286</u>
NET PROFIT FOR THE YEAR		<u>22,888,022</u>	<u>18,998,135</u>
Earnings per share	18	<u>23</u>	<u>19</u>

The attached notes 1 to 21 form part of these financial statements.

National Corporation for Tourism and Hotels**STATEMENT OF CASH FLOWS**

Year Ended 31 December 2001

	2001 AED	2000 AED
OPERATING ACTIVITIES		
Net profit for the year	22,888,022	18,998,135
Adjustments for:		
Depreciation	30,111,290	28,237,508
Provision for employees' end of service benefits	1,500,546	1,497,862
Interest income	(10,348,691)	(13,641,419)
Interest charge	<u>7,000,000</u>	<u>7,000,000</u>
Operating profit before working capital changes	51,151,167	42,092,086
Increase in inventories	1,853,174	840,994
Increase in accounts receivable and prepayments	(4,304,508)	(5,270,889)
(Decrease) increase in accounts payable and accruals	<u>(10,168,926)</u>	<u>4,393,836</u>
Cash from operations	38,530,907	42,056,027
Employees' end of service benefits paid	(1,486,648)	(1,199,154)
Interest paid	<u>(7,000,000)</u>	-
Net cash from operating activities	<u>30,044,259</u>	<u>40,856,873</u>
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(32,065,509)	(12,204,121)
Interest income	<u>10,348,691</u>	<u>13,641,419</u>
Net cash (used in) from investing activities	<u>(21,716,818)</u>	<u>1,437,298</u>
FINANCING ACTIVITIES		
Dividends paid	<u>(12,000,000)</u>	<u>(10,000,000)</u>
Net cash used in financing activities	<u>(12,000,000)</u>	<u>(10,000,000)</u>
(DECREASE) INCREASE IN BANK BALANCES AND CASH	(3,672,559)	32,294,171
Bank balances and cash at 1 January	<u>232,429,278</u>	<u>200,135,107</u>
BANK BALANCES AND CASH AT 31 DECEMBER	<u>228,756,719</u>	<u>232,429,278</u>

The attached notes 1 to 21 form part of these financial statements.

National Corporation for Tourism and Hotels

STATEMENT OF CHANGES IN EQUITY

Year Ended 31 December 2001

	<i>Share capital AED</i>	<i>Statutory reserve AED</i>	<i>General reserve AED</i>	<i>Retained earnings AED</i>	<i>Proposed dividends AED</i>	<i>Total AED</i>
Balance at 31 December 1999	100,000,000	-	-	57,385,896	10,000,000	167,385,896
Net profit for the year 2000	-	-	-	18,998,135	-	18,998,135
Proposed dividends	-	-	-	(12,000,000)	12,000,000	-
Dividends paid	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(10,000,000)</u>	<u>(10,000,000)</u>
Balance at 31 December 2000	100,000,000	-	-	64,384,031	12,000,000	176,384,031
Net profit for the year 2001	-	-	-	22,888,022	-	22,888,022
Proposed dividends	-	-	-	(12,000,000)	12,000,000	-
Dividends paid	-	-	-	-	(12,000,000)	(12,000,000)
Transfer to general reserve	-	-	50,000,000	(50,000,000)	-	-
Transfer to statutory reserve	<u>-</u>	<u>2,288,803</u>	<u>-</u>	<u>(2,288,803)</u>	<u>-</u>	<u>-</u>
Balance at 31 December 2001	<u>100,000,000</u>	<u>2,288,803</u>	<u>50,000,000</u>	<u>22,983,250</u>	<u>12,000,000</u>	<u>187,272,053</u>

The attached notes 1 to 21 form part of these financial statements.

National Corporation for Tourism and Hotels

NOTES TO THE FINANCIAL STATEMENTS

31 December 2001

1 ACTIVITIES

The financial statements of National Corporation for Tourism and Hotels (“the Corporation”) for the year ended 31 December 2001 were authorised for issue in accordance with a resolution of the Board of Directors on 19 March 2002.

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, AlAin 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 provide 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 989 employees as of 31 December 2001 (2000 : 954 employees).

2 SIGNIFICANT ACCOUNTING POLICIES

Basis of Preparation

The financial statements have been prepared in accordance with International Accounting Standards issued by the International Accounting Standards Board (IASB) and interpretations issued by the Standing Interpretations Committee of the IASB.

The significant accounting policies adopted in the preparation of the financial statements are as follows:

Accounting convention

The financial statements are prepared under the historical cost convention.

The accounting policies have been consistently applied by the Corporation and, except for the changes in accounting policy due to the implementation of IAS 39 : “Financial Instruments: Recognition and Measurement” from 1 January 2001 discussed more fully below, are consistent with those used in the previous year.

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

Changes in accounting policy

The Corporation has adopted International Accounting Standard (IAS) 39 : ‘Financial Instruments : Recognition and Measurement’ for the year ended 31 December 2001. This has resulted in change in the accounting policies of the Corporation in respect of recognition and measurement of financial instruments. In accordance with the transitional provisions of this standard, any impact of the changes in policies is accounted for with effect from 1 January 2001 and no restatement in comparatives is required. The major change is:

National Corporation for Tourism and Hotels

NOTES TO THE FINANCIAL STATEMENTS

31 December 2001

2 SIGNIFICANT ACCOUNTING POLICIES continued

Provision for impairment of financial asset

The calculation of impairment provisions for doubtful debts is now based on the net present value of anticipated cash flows discounted at appropriate rates of interest. Previously, future recoveries were not discounted.

Effect of change in accounting policies

There was no difference arising from the change in accounting policies.

Property, plant and equipment

Property, plant and equipment are recorded at cost. The carrying amounts are reviewed at each balance sheet date to assess whether they are recorded in excess of their recoverable amount. Where carrying values exceed this recoverable amount assets are written down to their recoverable amount.

Depreciation

Depreciation is provided on a straight line basis on all property, plant and equipment, other than freehold land which is determined to have an indefinite life and capital work in progress. The rates of depreciation are based upon the following estimated useful lives:

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

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.

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 assets is determined and any impairment loss recognised for the difference between the recoverable amount and the carrying amount. Impairment losses are recognised in the statement of income.

Cash and cash equivalents

Cash and cash equivalents consist of bank balances and cash.

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.

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' length of service and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

National Corporation for Tourism and Hotels

NOTES TO THE FINANCIAL STATEMENTS

31 December 2001

2 SIGNIFICANT ACCOUNTING POLICIES continued

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.

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.

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 statement of income.

Financial instruments

Financial instruments comprise of receivables, bank balances, cash, payables and certain other assets and liabilities. The fair values of the financial instruments are estimated using methods such as net present values of future estimated cash flows.

3 PROPERTY, PLANT AND EQUIPMENT

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

	2001 AED	2000 AED
Property, plant and equipment at net carrying amount	280,002,459	281,138,410
Advance to contractors	<u>3,090,170</u>	<u>-</u>
	<u>283,092,629</u>	<u>281,138,410</u>

	<i>Land and buildings AED</i>	<i>Fixtures and fittings AED</i>	<i>Mechanical and electrical plant AED</i>	<i>Motor vehicles AED</i>	<i>Capital work in progress AED</i>	<i>Total AED</i>
<i>Cost:</i>						
At 1 January 2001	297,050,670	79,660,273	4,647,947	2,388,188	1,113,803	384,860,881
Additions	13,443,712	9,053,528	-	1,058,220	5,419,879	28,975,339
Transfer	903,804	-	-	-	(903,804)	-
Disposals	<u>-</u>	<u>(71,505)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(71,505)</u>
At 31 December 2001	<u>311,398,186</u>	<u>88,642,296</u>	<u>4,647,947</u>	<u>3,446,408</u>	<u>5,629,878</u>	<u>413,764,715</u>
<i>Depreciation:</i>						
At 1 January 2001	48,913,825	52,544,041	1,402,189	862,416	-	103,722,471
Provided during the year	12,659,142	16,028,195	646,087	777,866	-	30,111,290
Disposals	<u>-</u>	<u>(71,505)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(71,505)</u>
At 31 December 2001	<u>61,572,967</u>	<u>68,500,731</u>	<u>2,048,276</u>	<u>1,640,282</u>	<u>-</u>	<u>133,762,256</u>
Net book value at 31 December 2001	<u>249,825,219</u>	<u>20,141,565</u>	<u>2,599,671</u>	<u>1,806,126</u>	<u>5,629,878</u>	<u>280,002,459</u>
Net book value at 31 December 2000	<u>248,136,845</u>	<u>27,116,232</u>	<u>3,245,758</u>	<u>1,525,772</u>	<u>1,113,803</u>	<u>281,138,410</u>

National Corporation for Tourism and Hotels

NOTES TO THE FINANCIAL STATEMENTS

31 December 2001

4 INVENTORIES

	<i>2001</i>	<i>2000</i>
	<i>AED</i>	<i>AED</i>
Engineering and operating supplies	6,884,326	8,555,851
Food and beverage	<u>1,603,427</u>	<u>1,785,076</u>
	<u>8,487,753</u>	<u>10,340,927</u>

Inventories carried at net realisable value amounted to AED 3,827,140 (2000: AED 5,148,293). Inventories determined on a weighted average basis amounted to AED 7,327,559 (2000 : AED 9,614,260). The remaining balance has been determined on a first-in first-out basis.

5 ACCOUNTS RECEIVABLE AND PREPAYMENTS

	<i>2001</i>	<i>2000</i>
	<i>AED</i>	<i>AED</i>
Trade accounts and notes receivable	56,075,075	50,087,723
Provision for impairment	<u>(16,910,299)</u>	<u>(16,060,383)</u>
Trade accounts and notes receivable, net of provision for impairment	39,164,776	34,027,340
Amounts due from related parties (note 13)	3,280,501	799,092
Other receivables	2,029,381	4,819,157
Prepaid expenses	<u>2,309,407</u>	<u>2,833,968</u>
	<u>46,784,065</u>	<u>42,479,557</u>

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.

The Corporation's terms of sale require amounts to be paid within 30 days of the date of sale.

6 BANK BALANCES AND CASH

Bank balances and cash consist of the following:

	<i>2001</i>	<i>2000</i>
	<i>AED</i>	<i>AED</i>
Demand deposits and cash	16,328,237	20,097,346
Fixed deposits	<u>212,428,482</u>	<u>212,331,932</u>
	<u>228,756,719</u>	<u>232,429,278</u>

Bank balances are held with banks operating in the United Arab Emirates. Fixed deposits carry interest at the appropriate market rates ranging from 1.5% to 3.5% (2000 : 6.5% to 6.8%).

National Corporation for Tourism and Hotels

NOTES TO THE FINANCIAL STATEMENTS

31 December 2001

7 ACCOUNTS PAYABLE AND ACCRUALS

	<i>2001</i>	<i>2000</i>
	<i>AED</i>	<i>AED</i>
Trade accounts payable	7,475,118	8,496,217
Amounts due to related parties (note 13)	252,431	1,217,169
Interest payable on long-term loan	-	7,402,739
Accrued expenses and other payables	13,021,391	13,592,533
Advance from customers	<u>2,882,253</u>	<u>3,091,461</u>
	<u>23,631,193</u>	<u>33,800,119</u>

Trade accounts payable are normally settled within 60 days of the date of purchase.

8 SHARE CAPITAL

	<i>Authorised fully paid-up 2001 AED</i>	<i>Authorised fully paid-up 2000 AED</i>
Shares of AED 100 each	<u>100,000,000</u>	<u>100,000,000</u>

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.

9 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 capital.

Distribution of this reserve is limited to any amounts in excess of 50% of 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.

10 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.

11 TERM LOAN

In accordance with article 4 of law no. 7 of 1996, on 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 the date of the loan agreement, 11 December 1996. 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 (2000 : nil) is included under current liabilities.

National Corporation for Tourism and Hotels

NOTES TO THE FINANCIAL STATEMENTS

31 December 2001

12 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:

	<i>2001</i>	<i>2000</i>
	<i>AED</i>	<i>AED</i>
Balance at 1 January	6,204,022	5,905,314
Provided during the year	1,500,546	1,497,862
Paid during the year	<u>(1,486,648)</u>	<u>(1,199,154)</u>
Balance at 31 December	<u>6,217,920</u>	<u>6,204,022</u>

In the opinion of management, no material difference would have arisen had the employees' end of service benefits provision been calculated on an actuarial basis.

13 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 statement of income are as follows:

	<i>2001</i>	<i>2000</i>
	<i>AED</i>	<i>AED</i>
Expenses	882,292	3,100,995
Management fee	3,708,199	3,837,839
Reimbursement of system cost	1,111,185	3,169,034

During 2001 and 2000 the Government of Abu Dhabi provided, at no cost to the Corporation, certain interior and exterior refurbishments of the Hotels.

Amounts due from and to related parties are disclosed in notes 5 and 7 respectively.

14 GROSS PROFIT

	<i>2001</i>	<i>2000</i>
	<i>AED</i>	<i>AED</i>
<i>Operating revenue:</i>		
Rooms	53,418,142	48,986,927
Food and beverage	88,165,924	72,272,828
Others	<u>16,685,295</u>	<u>15,820,610</u>
	<u>158,269,361</u>	<u>137,080,365</u>
<i>Direct operating expenses:</i>		
Rooms	10,888,556	9,752,605
Food and beverage	52,051,868	42,194,740
Others	<u>6,280,557</u>	<u>5,419,131</u>
	69,220,981	57,366,476
Gross profit	<u>89,048,380</u>	<u>79,713,889</u>

Included in direct operating expenses is an amount of AED 25,243,316 (2000: AED 22,494,411) relating to payroll and employee related costs.

National Corporation for Tourism and Hotels

NOTES TO THE FINANCIAL STATEMENTS

31 December 2001

15 OTHER INCOME

	<i>2001</i>	<i>2000</i>
	<i>AED</i>	<i>AED</i>
Rental income	1,092,174	876,228
Interest income	10,348,691	13,641,419
Management fees	420,760	238,112
Miscellaneous	<u>1,283,605</u>	<u>1,985,773</u>
	<u>13,145,230</u>	<u>16,741,532</u>

16 GENERAL AND ADMINISTRATION

	<i>2001</i>	<i>2000</i>
	<i>AED</i>	<i>AED</i>
Payroll and employees related costs	14,141,528	13,552,091
Other expenses	19,619,837	17,263,795
Energy costs	<u>2,863,549</u>	<u>3,647,019</u>
	<u>36,624,914</u>	<u>34,462,905</u>

17 PROPOSED DIVIDENDS

The Board of Directors has proposed paying a dividend of 12% (2000: 12%) amounting to AED 12,000,000 (2000 : AED 12,000,000) subject to the approval of the shareholders at the annual general meeting.

18 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:

	<i>2001</i>	<i>2000</i>
Net profit for the year	<i>AED</i> <u>22,888,022</u>	<u>18,998,135</u>
Ordinary shares in issue throughout the year	<u>1,000,000</u>	<u>1,000,000</u>
Earnings per share	<i>AED</i> <u><u>23</u></u>	<u><u>19</u></u>

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

19 FAIR VALUE OF FINANCIAL INSTRUMENTS

With the exception of the term loan (note 11), the fair values of the financial assets and liabilities are not materially different from their carrying values at the balance sheet date.

20 CAPITAL COMMITMENTS

The directors have authorised future capital commitments estimated at AED 122 million (2000 : AED 150 million).

21 CONTINGENT LIABILITIES

The Corporation has given bank guarantees amounting to AED 3,036,839 (2000: AED 4,508,620) in the normal course of business.