

AUDITORS REPORT TO THE OWNERS

We have audited the accompanying balance sheet of National Corporation for Tourism and Hotels (“the Corporation”) as of 31 December 2000 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 2000 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

21 March 2001
Abu Dhabi

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

31 December 2000

| | <i>Note</i> | <i>2000</i> <i>AED</i> | <i>1999</i> <i>AED</i> |
|-------------------------------------|-------------|---------------------------|---------------------------|
| ASSETS EMPLOYED | | | |
| PROPERTY, PLANT AND EQUIPMENT | 3 | 281,138,410 | 297,171,797 |
| CURRENT ASSETS | | | |
| Inventories | 4 | 10,340,927 | 11,181,921 |
| Accounts receivable and prepayments | 5 | 42,479,557 | 37,208,668 |
| Bank balances and cash | | <u>232,429,278</u> | <u>200,135,107</u> |
| | | <u>285,249,762</u> | <u>248,525,696</u> |
| CURRENT LIABILITIES | | | |
| Accounts payable and accruals | 6 | <u>33,800,119</u> | <u>22,406,283</u> |
| NET CURRENT ASSETS | | <u>251,449,643</u> | <u>226,119,413</u> |
| | | <u>532,588,053</u> | <u>523,291,210</u> |
| FUNDS EMPLOYED | | | |
| EQUITY | | | |
| Capital | 7 | 100,000,000 | 100,000,000 |
| Retained earnings | | 64,384,031 | 57,385,896 |
| Proposed dividend | 15 | <u>12,000,000</u> | <u>10,000,000</u> |
| | | <u>176,384,031</u> | <u>167,385,896</u> |
| NON-CURRENT LIABILITIES | | | |
| Term loan | 9 | 350,000,000 | 350,000,000 |
| Employees' terminal benefits | 10 | <u>6,204,022</u> | <u>5,905,314</u> |
| | | <u>356,204,022</u> | <u>355,905,314</u> |
| | | <u>532,588,053</u> | <u>523,291,210</u> |

Obaid Seif Al Nasser
CHAIRMAN

Abdulah K.M. Al Romaihi
DIRECTOR GENERAL

The attached notes 1 to 18 form part of these financial statements.

National Corporation for Tourism and Hotels

STATEMENT OF INCOME

Year Ended 31 December 2000

| | <i>Note</i> | <i>2000</i> <i>AED</i> | <i>1999</i> <i>AED</i> |
|---|-------------|---------------------------|---------------------------|
| Operating revenue | 12 | 137,080,365 | 131,193,469 |
| Direct operating expenses | 12 | <u>57,366,476</u> | <u>56,436,290</u> |
| GROSS PROFIT | 12 | 79,713,889 | 74,757,179 |
| OTHER INCOME | 13 | <u>16,741,532</u> | <u>12,690,502</u> |
| | | <u>96,455,421</u> | <u>87,447,681</u> |
| OTHER EXPENSES | | | |
| Interest on term loan | 9 | 7,000,000 | 402,739 |
| General and administration | 14 | 34,462,905 | 29,153,537 |
| Depreciation | 3 | 28,237,508 | 25,942,475 |
| Management fee and reimbursement of system cost | | 7,006,873 | 7,033,474 |
| Board of Directors' remuneration | | <u>750,000</u> | <u>760,000</u> |
| | | <u>77,457,286</u> | <u>63,292,225</u> |
| NET PROFIT FOR THE YEAR | | <u>18,998,135</u> | <u>24,155,456</u> |
| Earnings per share | | <u>19</u> | <u>24</u> |

The attached notes 1 to 18 form part of these financial statements.

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

Year Ended 31 December 2000

| | 2000 AED | 1999 AED |
|--|---------------------|---------------------|
| OPERATING ACTIVITIES | | |
| Net profit for the year | 18,998,135 | 24,155,456 |
| Adjustments for: | | |
| Depreciation | 28,237,508 | 25,942,475 |
| Provision for employees' terminal benefits | 1,497,862 | 1,425,154 |
| Interest income | (13,641,419) | (9,808,860) |
| Interest charge | <u>7,000,000</u> | <u>402,739</u> |
| Operating profit before working capital changes | 42,092,086 | 42,116,964 |
| Decrease (increase) in inventories | 840,994 | (618,091) |
| (Increase) decrease in accounts receivable and prepayments | (5,270,889) | 1,152,897 |
| Increase (decrease) in accounts payable and accruals | <u>4,393,836</u> | <u>(14,865,576)</u> |
| Cash from operations | 42,056,027 | 27,786,194 |
| Employees' terminal benefits paid | <u>(1,199,154)</u> | <u>(826,557)</u> |
| Net cash from operating activities | <u>40,856,873</u> | <u>26,959,637</u> |
| INVESTING ACTIVITIES | | |
| Purchase of property, plant and equipment | (12,204,121) | (10,406,137) |
| Proceeds from sale of property, plant and equipment | - | 59,000 |
| Interest income | <u>13,641,419</u> | <u>9,808,860</u> |
| Net cash from (used in) investing activities | <u>1,437,298</u> | <u>(538,277)</u> |
| FINANCING ACTIVITIES | | |
| Dividends paid | <u>(10,000,000)</u> | <u>(10,000,000)</u> |
| Net cash used in financing activities | <u>(10,000,000)</u> | <u>(10,000,000)</u> |
| INCREASE IN BANK BALANCES AND CASH | 32,294,171 | 16,421,360 |
| Bank balances and cash at 1 January | <u>200,135,107</u> | <u>183,713,747</u> |
| BANK BALANCES AND CASH AT 31 DECEMBER | <u>232,429,278</u> | <u>200,135,107</u> |

The attached notes 1 to 18 form part of these financial statements.

National Corporation for Tourism and Hotels

STATEMENT OF CHANGES IN EQUITY

Year Ended 31 December 2000

| | <i>Share capital AED</i> | <i>Retained earnings AED</i> | <i>Proposed dividend AED</i> | <i>Total AED</i> |
|------------------------------|----------------------------------|--------------------------------------|--------------------------------------|----------------------|
| Balance at 1 January 1999 | 100,000,000 | 43,230,440 | - | 143,230,440 |
| Net profit for the year 1999 | - | 24,155,456 | - | 24,155,456 |
| Proposed dividend | <u>-</u> | <u>(10,000,000)</u> | <u>10,000,000</u> | <u>-</u> |
| 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 dividend | - | (12,000,000) | 12,000,000 | - |
| Dividends paid | <u>-</u> | <u>-</u> | <u>(10,000,000)</u> | <u>(10,000,000)</u> |
| Balance at 31 December 2000 | <u>100,000,000</u> | <u>64,384,031</u> | <u>12,000,000</u> | <u>176,384,031</u> |

The attached notes 1 to 18 form part of these financial statements.

National Corporation for Tourism and Hotels

NOTES TO THE FINANCIAL STATEMENTS

31 December 2000

1 ACTIVITIES

The financial statements of National Corporation for Tourism and Hotels (“the Corporation”) for the year ended 31 December 2000 were authorised for issue in accordance with a resolution of the Board of Directors on 21 March 2001.

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 a hotel 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 7 January 1975, which was amended for a period of 20 years from 31 December 1980, is in the process of being renewed.

Al Ain Inter-Continental Hotel

The hotel is managed by the Inter-Continental Hotels Corporation under the Operating and Management Agreement dated 26 January 1975 as amended for a period of 20 years from 31 December 1982.

Al Dhafra Beach Hotel

The hotel is managed by the Corporation.

The Corporation employed 954 employees as of 31 December 2000 (1999 : 773 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 Committee (IASC) and interpretations issued by the Standing Interpretations Committee of the IASC. The significant accounting policies adopted 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 are consistent with those used in the previous year. These financial statements have been presented in United Arab Emirates Dirhams (AED).

Property, plant and equipment

Property, plant and equipment is 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. 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

National Corporation for Tourism and Hotels

NOTES TO THE FINANCIAL STATEMENTS

31 December 2000

2 SIGNIFICANT ACCOUNTING POLICIES continued

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 non-collectible. An estimate for doubtful accounts is made when collection of the full amount is no longer possible. Bad debts are written off as incurred.

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' terminal 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. Actuarial gains and losses are recognised as income or expense where material. These gains and losses are recognised over the expected average employment periods of the employees.

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.

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 value of these financial instruments is based on their estimated fair value, calculated using methods such as net present value of future cash flows.

National Corporation for Tourism and Hotels

NOTES TO THE FINANCIAL STATEMENTS

31 December 2000

3 PROPERTY, PLANT AND EQUIPMENT

| | <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> |
|---------------------------------------|---------------------------------------|--|--|-----------------------------------|---|----------------------|
| Cost: | | | | | | |
| At 1 January 2000 | 294,000,000 | 69,048,086 | 3,973,418 | 1,446,188 | 4,217,368 | 372,685,060 |
| Additions | 3,050,670 | 4,582,586 | 114,329 | 942,000 | 3,514,536 | 12,204,121 |
| Transfer | - | 6,057,901 | 560,200 | - | (6,618,101) | - |
| Disposals | - | (28,300) | - | - | - | (28,300) |
| At 31 December 2000 | <u>297,050,670</u> | <u>79,660,273</u> | <u>4,647,947</u> | <u>2,388,188</u> | <u>1,113,803</u> | <u>384,860,881</u> |
| Depreciation: | | | | | | |
| At 1 January 2000 | 36,782,137 | 37,564,688 | 804,336 | 362,102 | - | 75,513,263 |
| Provided during the year | 12,131,688 | 15,007,653 | 597,853 | 500,314 | - | 28,237,508 |
| Eliminated on disposal | - | (28,300) | - | - | - | (28,300) |
| At 31 December 2000 | <u>48,913,825</u> | <u>52,544,041</u> | <u>1,402,189</u> | <u>862,416</u> | - | <u>103,722,471</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> |
| Net book value at 31 December 1999 | <u>257,217,863</u> | <u>31,483,398</u> | <u>3,169,082</u> | <u>1,084,086</u> | <u>4,217,368</u> | <u>297,171,797</u> |

4 INVENTORIES

| | <i>2000 AED</i> | <i>1999 AED</i> |
|------------------------------------|---------------------|---------------------|
| Engineering and operating supplies | 8,555,851 | 9,433,762 |
| Food and beverage | <u>1,785,076</u> | <u>1,748,159</u> |
| | <u>10,340,927</u> | <u>11,181,921</u> |

Inventories carried at net realisable value amounted to AED 5,148,293 (1999: AED 5,251,871). Inventories determined on a weighted average basis amounted to AED 9,614,260 (1999 : AED 10,458,584). The remaining balance has been determined on a first-in first-out basis.

National Corporation for Tourism and Hotels

NOTES TO THE FINANCIAL STATEMENTS

31 December 2000

5 ACCOUNTS RECEIVABLE AND PREPAYMENTS

| | <i>2000</i> | <i>1999</i> |
|--|-------------------|-------------------|
| | <i>AED</i> | <i>AED</i> |
| Trade accounts and notes receivable | 34,027,340 | 31,209,761 |
| Amounts due from related parties (note 11) | 799,092 | 318,878 |
| Other receivables | 4,819,157 | 3,396,413 |
| Prepaid expenses | <u>2,833,968</u> | <u>2,283,616</u> |
| | <u>42,479,557</u> | <u>37,208,668</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 ACCOUNTS PAYABLE AND ACCRUALS

| | <i>2000</i> | <i>1999</i> |
|--|-------------------|-------------------|
| | <i>AED</i> | <i>AED</i> |
| Trade accounts payable | 8,496,217 | 7,574,677 |
| Amounts due to related parties (note 11) | 1,217,169 | 1,992,624 |
| Interest payable on long-term loan | 7,402,739 | 402,739 |
| Other payables | 13,592,533 | 10,060,116 |
| Accrued expenses | <u>3,091,461</u> | <u>2,376,127</u> |
| | <u>33,800,119</u> | <u>22,406,283</u> |

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

7 CAPITAL

| | <i>Authorised fully paid-up 2000 AED</i> | <i>Authorised fully paid-up 1999 AED</i> |
|-----------------------|--|--|
| Parts 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 capital of the Corporation has been set at AED 100 million comprising 1 million parts of AED 100 each.

8 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.

National Corporation for Tourism and Hotels

NOTES TO THE FINANCIAL STATEMENTS

31 December 2000

9 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.

10 EMPLOYEES' TERMINAL BENEFITS

The Corporation provides for end of service benefits in accordance with the employees' contracts of employment. There were no material unrecognised actuarial gains or losses during the year.

The movement on the provision is as follows:

| | <i>2000</i> | <i>1999</i> |
|--------------------------|--------------------|------------------|
| | <i>AED</i> | <i>AED</i> |
| Balance at 1 January | 5,905,314 | 5,306,717 |
| Provided during the year | 1,497,862 | 1,425,154 |
| Paid during the year | <u>(1,199,154)</u> | <u>(826,557)</u> |
| Balance at 31 December | <u>6,204,022</u> | <u>5,905,314</u> |

The principal actuarial assumptions used at the balance sheet date included the expected rate of increase in employee remuneration, the average length of employee service and the expected liability arising on completion of service discounted to its net present value using appropriate discount rates.

11 RELATED PARTY TRANSACTIONS

These represent transactions with related parties, ie. owners 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>2000</i> | <i>1999</i> |
|------------------------------|-------------|-------------|
| | <i>AED</i> | <i>AED</i> |
| Expenses | 3,100,995 | 3,080,648 |
| Management fee | 3,837,839 | 3,792,886 |
| Reimbursement of system cost | 3,169,034 | 3,240,588 |

During 2000 and 1999 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 6 respectively.

National Corporation for Tourism and Hotels**NOTES TO THE FINANCIAL STATEMENTS**

31 December 2000

12 GROSS PROFIT

| | <i>2000</i> | <i>1999</i> |
|-----------------------------------|--------------------|--------------------|
| | <i>AED</i> | <i>AED</i> |
| <i>Operating revenue:</i> | | |
| Rooms | 48,986,927 | 50,808,732 |
| Food and beverage | 72,272,828 | 64,862,715 |
| Others | <u>15,820,610</u> | <u>15,522,022</u> |
| | <u>137,080,365</u> | <u>131,193,469</u> |
| <i>Direct operating expenses:</i> | | |
| Rooms | 9,752,605 | 10,773,449 |
| Food and beverage | 42,194,740 | 40,253,838 |
| Others | <u>5,419,131</u> | <u>5,409,003</u> |
| | <u>57,366,476</u> | <u>56,436,290</u> |
| Gross profit | <u>79,713,889</u> | <u>74,757,179</u> |

Included in direct operating expenses is an amount of AED 22,494,411 (1999: AED 22,100,662) relating to payroll and employee related costs.

13 OTHER INCOME

| | <i>2000</i> | <i>1999</i> |
|-----------------|-------------------|-------------------|
| | <i>AED</i> | <i>AED</i> |
| Rental income | 876,228 | 794,322 |
| Interest income | 13,641,419 | 9,908,860 |
| Management fees | 238,112 | 234,376 |
| Miscellaneous | <u>1,985,773</u> | <u>1,752,944</u> |
| | <u>16,741,532</u> | <u>12,690,502</u> |

14 GENERAL AND ADMINISTRATION

| | <i>2000</i> | <i>1999</i> |
|-------------------------------------|-------------------|-------------------|
| | <i>AED</i> | <i>AED</i> |
| Payroll and employees related costs | 13,552,091 | 14,145,350 |
| Other expenses | 17,263,795 | 12,161,186 |
| Energy costs | <u>3,647,019</u> | <u>2,847,001</u> |
| | <u>34,462,905</u> | <u>29,153,537</u> |

15 PROPOSED DIVIDEND

Following the adoption of International Accounting Standard No. 10 (revised) – “Events After the Balance Sheet Date”, which became effective for financial statements covering periods beginning on or after 1 January 2000, the prior year figures for proposed dividends have been reclassified from liability to equity. The Board of Directors has proposed paying a dividend of 12% (1999: 10%) amounting to AED 12,000,000 (1999 : AED 10,000,000) subject to the approval of the owners at the annual general meeting.

National Corporation for Tourism and Hotels

NOTES TO THE FINANCIAL STATEMENTS

31 December 2000

16 FAIR VALUE OF FINANCIAL INSTRUMENTS

With the exception of the term loan (note 9), the fair values of the financial assets and liabilities are not materially different from their carrying values at the balance sheet date.

17 CAPITAL COMMITMENTS

The directors have authorised future capital commitments estimated at AED 150 million (1999 : AED 0.6 million).

18 CONTINGENT LIABILITIES

The Corporation has given bank guarantees amounting to AED 4,508,620 (1999: AED 145,000) in the normal course of business.