VILLA DUBROVNIK d.d.

ANNUAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2019
WITH THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 DECEMBER 2019, 31 DECEMBER 2018 and 31 DECEMBER 2017

This version of our report is a translation from the original, which was prepared in Croatian language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

Content

Management Report

INTRODUCTION

Villa Dubrovnik, a hotel and travel-agency stock company, Vlaha Bukovca 6, Dubrovnik ("the Company") entered into the court register of the Commercial Court in Split - Permanent attendance in Dubrovnik with MBS: 060000978, PIN: 66669628743, aligned with the Companies Act on 27th September 1995.

Company's headquarters are in Dubrovnik, at Vlaha Bukovca 6.

The Company is represented jointly by Mrs. Mirna Lončar Stražičić, President of the Management Board and Mr. Burak Baykan, Member of the Management Board.

Company's core business is providing hotel accommodation services.

Hotel Villa Dubrovnik is a five-star hotel built in 1968 and has been completely reconstructed, remodelled and upgraded from 2006 to 2010.

The hotel has 56 rooms with a total of 120 beds.

The main types of services that the hotel Villa Dubrovnik provides and which are the primary source of income are as follows: Bed and Breakfast at the hotel, preparation and serving à la carte meals, preparation and serving of various types of beverages and drinks, providing spa & wellness services, providing services in the form of organization of excursions and transfers of guests staying at the hotel.

Hotel's operational period in 2019 was from 29th of March until 3th of November.

DEVELOPMENT OF THE COMPANY

The Company was incorporated through the conversion of the Villa Dubrovnik Hotel and Tourism Company, which was registered as a socially-owned company. The decision to convert the Company into a joint stock company was taken by the Management Board in 1993 and registered in the court register of the Commercial Court in Split in 1994. The Company was transformed into a joint stock company through the sale of shares with a nominal value equal to the estimated value of the Company. In the following years share capital had been increased on two separate instances and with the conversion from HRD (Hrvatski dinar) to the Croatian Kuna the share price was adjusted to HRK 100 in 1996. As at 31 December 2019 the Company had issued 830,019 shares with a nominal value of HRK 83,002 thousand.

During 2019 the then majority owner, Dogus Croatia d.o.o., signed a Share sale and purchase agreement with Company Martimus B.V. Amsterdam, Netherlands to sell 51% of their Villa Dubrovnik shares. Consequently, on 31 December 2019 the structure of ownership of Villa Dubrovnik d.d. was: Martimus B.V.: 51%, Dogus Croatia d.o.o.: 38.6%, CERP: 6.24%, small shareholders: 4.16%.

The Company has set ambitious goals in terms of developing the tourist product of the high level of quality through the implementation of international standards of quality tourist services. Villa Dubrovnik is a member of some of the most prestigious collections of luxury hotels such as The Virtuoso, The Leading Hotels of the World, Mr. & Mrs. Smith, American Express Fine Hotels & Resorts and Signature, Traveler Made etc.

Top quality of service has been rewarded with numerous national and international awards. In 2016 the Company received two prestigious awards from the Croatian National Tourist Board - the award for the best unique luxury hotel in the Republic of Croatia and the award for the best luxury hotel in the Republic of Croatia, justifying its exceptional position on the market and the quality of service it provides to its guests.

DEVELOPMENT OF THE COMPANY *(continued)*

In 2018, it received recognition from The Leading Hotels of the World for outstanding service quality in 2018 which is marketing organisation who represents over 400 hotels in more than 80 countries. In 2019, Villa Dubrovnik received the Green Globe Project environmental certification. It is an internationally recognized certification that has over 500 members in more than 100 countries around the world, and is awarded to companies that use technological innovations to effectively manage energy consumption and minimize environmental impact.

Villa Dubrovnik will endeavour to continue delivering positive results and remain one of the most exclusive and award-winning boutique hotels in Croatia and the region. By providing its services, the Company aims to promote Croatia and the Dubrovnik tradition, history and beauty in a luxury edition. One of the biggest challenges is the lack of adequate manpower and the Company believes this problem will intensify in the future. For the same reason, one of Company's main strategies is to manage people, their development, and to continually work on new solutions, educations, ideas, new markets and development opportunities. Investing in people will be implemented through various programs (educational seminars and workshops), through salary increases, bonuses at the expense of good and outstanding work and by providing better accommodation for seasonal employees. The Company will continue to invest in major markets such as the United States of America, the United Kingdom of Great Britain and Northern Ireland and European markets and will seek to position itself in some new markets, such as the Latin American markets.

In addition to positioning itself in new markets, the Company plans to introduce new sales channels in order to attract as many new guests as possible and increase investments in marketing activities and promotion. The Company plans to continue working on the service and product to remain a member of luxury associations and agencies to meet their demanding and high membership criteria. The Company is constantly working on innovative solutions that would improve guest satisfaction beyond providing the accommodation service that guests receive. We are working on innovative and unique solutions unique to the Villa Dubrovnik Hotel only to distinguish it from other hotels of the same categorization. In 2020 the Company will introduce new additional services and values for guests by giving gifts to VIP guests, introducing new facilities into the rooms, and introducing new protocols and standards. The Issuer's strategy is to make Villa Dubrovnik a unique and one of the best luxury hotels in the region, with continuous growth accompanied by investments in infrastructure, the introduction of innovative people-related solutions and the creation of added value by providing unique offers.

FINANCIAL INDICATORS

Total revenues

In 2017 the Company generated total revenue in the amount of HRK 53,133 thousand, or 18% more than in 2016. In 2018 total revenue was HRK 53,920 thousand or 1% more than in 2017. In 2019 total revenue was HRK 58,421 thousand or 8% more than in 2018.

Total operating revenues

In 2017 the Company generated operating revenue in the amount of HRK 51,704 thousand, or 18% more than in 2016. In 2018 total revenue was HRK 52,837 thousand or 2% more than 2017. In 2019 total operating revenue was HRK 58,119 thousand or 10% more than in 2018.

FINANCIAL INDICATORS *(continued)*

Sales revenues

In 2017 room revenue was HRK 38,682 thousand while food and beverage revenue was HRK 10,069 thousand . In 2018 room revenue amounts to HRK 40,076 thousand while food and beverage revenues, amounted to HRK 9,851 thousand. In 2019 room revenue was HRK 43,922 thousand while food and beverage revenue was HRK 10,884 thousand . Other sales operating revenues in 2017 were HRK 2,439 thousand , in 2018 HRK 2,477 thousand and in 2019 HRK 2,796 thousand .

In the three-year period from 2017 to 2019 there was an increase in Sales revenues (HRK 7,960 thousand in 2017, HRK 1,214 thousand in 2018, HRK 5,198 thousand in 2019). Increasing quality of service, increasing number of guests, arrival of certain groups at the hotel and increasing prices of services have all contributed to a significant increase in revenues compared to previous years.

In respect to profitability, EBITDA for 2017, 2018 and 2019 was positive, HRK 18,151 thousand in 2017, HRK 18,259 thousand in 2018, while in 2019 it was HRK 23,972 thousand.

In terms of guest structure about 85% of guests are individuals, while the remainder are classified within the group segment. Groups come in pre-season and post-season, and most often the hotel is reserved for groups as an exclusive hotel lease. Each year, the hotel raises the average room rate, well above the competition in the region, while maintaining the same occupancy rates. The main sales channels are direct inquiries and contracts with the world's most famous sales associations such as Fine Hotel & Resort, Virtuoso, Signature, Travel Leaders, etc., and online booking through Mr. & Mrs. Smith. The hotel has a large proportion of individual regular guests who book directly and have a long stay.

Operating expenses in 2017 amounted to HRK 42,588 thousand and have increased in 2018 by HRK 0.9 thousand or 2%, in 2019 are HRK 42,026 thousand. Staff costs in 2018 increased by 15% compared to 2017 when they amounted to HRK 12,181 thousand, in 2019 staff cost were HRK 14,113 thousand.

The Company endeavours to keep costs within budget each year, primarily taking into account the quality of service and customer satisfaction. There is a trend of investing in employees in the form of rising salaries, remuneration, meeting the costs of housing and food, etc.

Considering the above movements of revenue and expenditure positions, during the observed period the Company achieved an increase in profitability. Profitability is expected to be improved in the following years also.

RISK EXPOSURE

Villa Dubrovnik is exposed to various risks that are common for the tourism industry due to the impact of developments with respect to tourism services.

Global risks

Travel movements are subject to global risks relating to political turmoil, growing terrorism and the immigrant and health crisis over which the Company has no control.

Macroeconomic developments in the Republic of Croatia and in the emerging foreign markets, as well as the general fluctuations in goods and services prices, may have a significant impact on the competitiveness of hospitality sector and tourist demand as well as the arrival of foreign guests.

RISK EXPOSURE *(continued)*

Global risks *(continued)*

Coronavirus subsequent to 31 December 2019

Subsequent to 31 December 2019, in January 2020 the World Health Organisation (“WHO”) declared the novel coronavirus (COVID 19) outbreak a global health emergency. The rapid spread of the viral outbreak constitutes a natural disaster type event with potential far reaching consequences on various industries, especially those related to travel and tourism. Currently, major world countries have either enacted or are enacting widespread quarantine procedures and travel bans with travel in the foreseeable future highly discouraged. Both will reflect negatively on the Company`s ability to generate revenue in the oncoming 2020 tourist season.

Currency risk

The Company is mainly exposed to currency risk. Currency risk is reflected in business activities given the large share of revenues from sales denominated in foreign currency. The Company is exposed to changes in the value of the euro, because a significant part of receivables and foreign income are denominated in this currency, and its movements may have an impact on future business results and cash flows.

In addition, the Company continuously monitors its exposure to the parties with which it does business, as well as their creditworthiness, thereby allocating the risk of uncollectible receivables for given services. Moreover, it continuously monitors business risks and adapts measures and activities in accordance with market changes.

Credit risk

Credit risk stems from cash, deposits and receivables. In accordance with the Company's sales policies, co-operation is contracted with customers that have an appropriate credit history, i.e. they are contracted with advance payments, security deposit payments and major credit cards (for individual customers). To reduce credit risk, the Company continuously monitors its exposure to the parties with which it does business and their creditworthiness, obtains debt securities (bills of exchange, debentures), thereby reducing the risks of non-performance of its receivables for services provided.

Liquidity risk

Proper liquidity risk management implies maintaining a sufficient amount of cash, ensuring the availability of financial resources and the ability to settle all obligations.

Additional funds above the amount required for working capital is invested in interest-bearing deposits and money market deposits.

The spread of the coronavirus and its impact on global tourism have altered the overall risk situation for the Company subsequent to 31 December 2019 balance date. The liquidity risk has risen due to the fall in reservations and increase in cancellations. The Company is responding by adjusting operations, decisions and business activities as discussed further below. However, the course of the crisis is unpredictable, so that it is currently impossible to come to a definitive risk assessment.

RISK EXPOSURE *(continued)*

Regulatory risks

The risk of changes in tax and other regulations is also a significant risk for the Company and represent one of the most demanding risk management segments where the Company's options are limited.

Frequent changes in fiscal and para-fiscal regulations negatively affect the competitiveness in relation to peers as well as the profitability of the Company.

Business risks

Tourism in one of the primary industries in the Republic of Croatia. The core business of the Company is the hotel hospitality industry which is one of the most important sectors in tourism. Amongst others, the specific features of the hotel industry include the relatively short duration of production and service processes, the discontinuous flow of work processes, the inability to store a product, the constant readiness of workers and the means to produce and provide services that begin only at the time of arrival (customer), product variety and service, direct communication with guests and the need to constantly adapt to their requirements, specificity of working conditions (long standing, long walking, high temperatures, etc.), inability to accurately plan and distribute production and provide services in time, rigidity of volume and structure of assets which condition the dominant participation of fixed costs in the total cost of the hotel, the inability to fully harmonize the number of employees and the level of employment of capacity, elasticity of working hours, the need to differentiate the sales prices of hotel services, i.e. consumption adjustment.

One of the risks of the tourism industry is seasonality caused by climate-related phenomena (variations in air temperature, precipitation, daylight levels) and institutional (holiday arrangements in year, the practice of going on vacation, school holidays, etc.).

The risk of the business environment is determined by the political, economic and social conditions in the country, as well as in the countries that gravitate towards the Republic of Croatia, which affect the business and business performance of domestic business entities. Business environment risk includes political, macroeconomic and economic risks.

ENVIRONMENTAL PROTECTION

The Company takes utmost care in adhering to the high level of environmental protection standards. Villa Dubrovnik is Green Globe certificated hotel since 2019 as the very first hotel in Croatia. Green Globe is the highest standard for sustainability worldwide. The company passed the Audit from Green Globe company with a high score of 92% as it complied with all 381 environmental indicators and protection standards.

ENVIRONMENTAL PROTECTION (*continued)*

The Sustainability Management Plan exists and it is communicated internally and externally and considers: Environmental, Sociocultural, Quality and Health & Safety Issues. The Sustainability Management Plan is fully integrated at the decision-making level and includes monitoring analysis/evaluation.

The Sustainability Management Plan includes an Environmental Policy addressing environmental issues. The Environmental Policy is published on both the organization's intranet and public website.

The business has a policy of favouring certified suppliers or suppliers following the best environmental and social practices (purchasing policy). Purchasing policy requires reusable, returnable and recycled goods where available.

Property purchases printing and writing papers, envelopes, invoices and business forms that use a minimum of 30% post-consumer recycled content or tree-free fibre or are PEFC or FSC labelled products.

Energy-efficient equipment is used (HVAC, boilers, chillers, laundry washing machines, and dryers) as determined by local energy rating standards, Energy Star or equivalent. Preventative maintenance policy in place with regular checks on all equipment. Monthly energy usage is reported as GHG/CO2-e emissions, including a breakdown by both Scope 1 and Scope 2 emissions. The hotel has a "green" roof reducing the urban heat island effect. The hotel develops and adopts a long term three-year action plan setting out the measures and timelines that reduce CO2-e emissions - Carbon Management Plan.

During 2019, there were no environmental incidents. The waste management system is well organized. Waste oils are collected on a regular basis in appropriate containers that are taken by specialized companies. Also, glass and plastic packaging, as well as chemicals, paper and cardboard and electronic waste are collected and appropriately recycled by a specialized company. As well, animal waste is handed over to certified collector. Waste water system was resolved by a direct connection to the public sewage system with prior treatment of the kitchen's wastewater, which is regularly controlled and aligned with the conditions of a valid water permit.

EMPLOYEES

During 2019, Villa Dubrovnik d.d. has employed an average of 79 workers (2018: 75). The number of employees on 31 December 2019 was 49, of which 26 were permanently employed. Overall, the number of employees at year end is the same when compared to December 31, 2018, while the average number of employees increased by 4. Net salaries, contributions and taxes are paid in timely manner. In addition, employees are insured against accidents at work, paid their appropriate awards, severance payments and monetary supports in the event of long-term sick leave.

Throughout the 2019 high season, the company employed up to 100 personnel in order to provide guests with the best service and justify the status of the highest category hotel in Croatia. Therefore, employee costs are a significant expense in the Company's total costs, and due to limited manpower and difficulties in finding adequate staff, the Company has been experiencing an increase in staff salaries every year.

The seasonality of the hotel requires that a certain number of employees are on seasonal contract (63% of the employees). Villa Dubrovnik hires employees regardless of gender, religion, nationality or any other form of discrimination.

The average duration of an employee's contract is 8 months. As a measure of retaining employees, the employees who are good performers are given a 9-month contract (with 9 months' labour contract they are entitled to compensation from the Croatian employment service for the next 3 months). Seasonal employees work until the closing of the hotel and during the rest of November and December they are on days off (based on overtime hours) and on annual leave. Most of seasonal employees start to work in March and beginning of April.

Villa Dubrovnik is a signatory to the Hospitality Industrial Relations Collective agreement. There is no internal collective agreement. Also Villa Dubrovnik has no internal employee's union.

All seasonal employees who are not from Dubrovnik are entitled to accommodation. Accommodations for employees are equipped with all the necessities that will make their life outside their home more comfortable (television, internet, kitchen with all appliances, proximity to the bus station etc.). For certain employees who manage to find accommodation in Dubrovnik on their own, there is a possibility of receiving a fee on their salaries for accommodation.

The canteen is free for all employees. Employees are entitled to both lunch and dinner at the hotel, even if they are not on shift.

All seasonal employees undergo an introductory training orientation to meet the high standards of the hotel. After orientation training, they undergo trainings within their departments, after which they become independent in their positions. All seasonal employees have a probation period of 2 months. After this deadline manager gives them feedback on performance.

In addition to training new employees, in order to maintain high standards of service, management trainings take place during February, which involves developing leadership skills for managers at all levels and coaching full-time employees.

All employees are familiar with the code of ethics that serves as the basis for employee behaviour at the hotel. In accordance with the Croatian labour law, Villa Dubrovnik fulfils its obligations on the basis of protection of the dignity and privacy of employees, internal reporting of irregularities as well as the protection of personal data (GDPR).

ACQUISITION OF OWN SHARES

Shareholders' equity as at 31 December 2019 has reached HRK 83,002 thousand; 830,019 shares with a nominal value of HRK 100 per share. Ownership structure as at 31 December 2019 was as follows: 51.00% Martimus B.V.; 38.60% Dogus Croatia d.o.o.; 6.24% CERP; 4.16% of small shareholders. By the end of 2019 the Company did not acquire treasury shares.

LEGAL CLAIMS

As at 31 December 2019, the Company is a defendant in several court cases. The Company recognised provisions for these court cases as Management considered appropriate in the given circumstances

REVIEW OF OPERATIONS DURING 2019 AND EXPECTATIONS FOR 2020

In 2019, extraordinary results were achieved and goals were met in terms of revenue, costs and guest satisfaction. By the decision of the General Assembly, the Company paid dividends for the results achieved from the previous year. There were no significant capital investments except those related to regular business and hotel needs. The effects of the Coronavirus result in significant uncertainties with respect to revenue expectations and net earnings.

Spread of the coronavirus significantly affects financial performance expectations for 2020

The ongoing spread of the coronavirus has led to a significant fall in demand for global travel and tourism. This has led to a decline in bookings and cancellations. In response, the Company has considered various measures which are further discussed below.

The Company has taken extensive steps in order to mitigate and minimize the negative effects on 2020 business operations and the going concern assumption. During preliminary analyses the Company experienced an initial decrease of some 10% in reservations (accounting for cancellations) with a trend of drastically increasing in the foreseeable future. Of the budgeted cash inflows for 2020 the Company currently expects to lose some 60% of cash inflows budgeted for the pre-season months (March-June) and some 40%-50% of cash inflows budgeted for high-season (July-August). Management believes that the reduction in cash inflows will contract in the post-season period (September-November) when the viral outbreak is expected to recede and Management expects to lose an average of 20%-25% of initially budgeted cash inflows in these two months. Overall for 2020 cash inflows could be expected to decrease by some 42%.

The Company has prepared and put in motion comprehensive crisis management procedures, as well as procedures for safeguarding liquidity and business continuity, and established transparent continuous communication with all stakeholders (guests, partners, employees, creditors, shareholders, competent state and local authorities).

In order to offset the negative cash trends the Company is planning or already has enacted, amongst others, the following actions and steps:

- postpone or cancel all unnecessary construction and refurbishment work for the hotel opening both in terms of capital expenditure and other operational expenses (postponed education seminars for employees, revaluation of contracts with monthly subcontractors in order to tailor provision of services as needed instead of monthly payments, renegotiation of lower prices with suppliers and service providers);
- the hotel opening will be postponed by a certain period depending on the number of guest reservations in order to optimize salary and operational expenses;

REVIEW OF OPERATIONS DURING 2019 AND EXPECTATIONS FOR 2020 *(continued)*

Spread of the coronavirus significantly affects financial performance expectations for 2020 (continued)

- the hiring of seasonal employees has been temporarily put on hold due to the prolongation of the hotel opening and a reduction of employee salaries while the hotel is closed is being considered. The Company monitors State measures regarding job conservation and will reinstate regular terms as soon as practicable.
- more extensive marketing campaigns in countries which were not seriously affected by the coronavirus outbreaks;
- for major cancellations alternative dates in post season are being offered in order to retain any cash received and long time business partners are being offered to move their reservations to the following year;
- monitor the state aid programs declared by Croatian government.

In a pessimistic scenario the Company expects to end the 2020 year with a cash deficit of some EUR 1.7 million. Depending on various measures the Company reasonably expects for their creditors to enact, Management believes it will be able to defer some EUR 1.8 million of payments through the deferral of management fee settlements, loan principal and interest repayments and corporate tax prepayments. Keeping in mind the Company has at their disposal an additional unused credit line amounting to some EUR 0.4 million management believes that, even with the decrease of forecasted operating cash flows, it will have sufficient funds to settle current liabilities as they fall due. However, there remains significant uncertainty in the operations of the foreseeable future.

Statement of Management Responsibility

The Management Board is required to prepare financial statements which give a true and fair view of the financial position of the Company and of the results of its operations and cash flows, in accordance with applicable accounting standards, and is responsible for maintaining proper accounting records to enable the preparation of such financial statements at any time. It has a general responsibility for taking such steps as are reasonably available to it to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

The Management Board is responsible for selecting suitable accounting policies to conform to applicable accounting standards and then apply them consistently; make judgements and estimates that are reasonable and prudent; and prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business.

Management is also responsible for the Management Report in accordance with the Croatian Accounting Act.

The Management report and Financial statements were authorised by the Management Board and is signed below to signify this.

Mirna Končar Stražičić

President of the Management Board

VILLA DUBROVNIK
hoteljersko turistički-agencijsko
dioničko društvo
DUBROVNIK, Vlaha Bukovca 6
4

Burak Baykan

Member of Management Board

4 May 2020
Vlaha Bukovca 6
Dubrovnik
Croatia

Independent Auditors’ Report to the shareholders of Villa Dubrovnik d.d.

Report on the Audit of the Financial Statements

Qualified Opinion

We have audited the financial statements of Villa Dubrovnik d.d. (“the Company”), which comprise the statements of financial position of the Company as at 31 December 2019, 31 December 2018 and 31 December 2017, its statements of comprehensive income, cash flows and changes in equity for the years then ended, and notes, comprising significant accounting policies and other explanatory information (further referred to as “the financial statements”).

In our opinion, except for the effects of the matters described in the Basis for Qualified Opinion section of our report, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2019, 31 December 2018 and 31 December 2017 and of its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as adopted by the European Union (“EU IFRS”).

Basis for Qualified Opinion

As described in Notes 14 and 15 of the financial statements, as at 31 December 2019, included within, respectively, loans given and trade and other receivables, are loan and related interest due from a related party, in the total amount of HRK 3,535 thousand. There are indications as at that date that the carrying amounts of the assets may be impaired. *IFRS 9 Financial instruments* requires that, where such indications exist, management makes an estimate of the assets’ recoverable amounts and recognizes an impairment loss, where necessary. No such estimate was performed. Had the impairment been properly accounted for as required by that Standard, as at 31 December 2019, loans given, trade and other receivables and retained earnings would have been decreased by HRK 3,200 thousand, HRK 335 thousand and HRK 2,899 thousand, respectively, and deferred tax assets increased by HRK 636 thousand. In addition, for the year then ended, other expenses would have been increased by HRK 3,535 thousand, income tax expense decreased by HRK 636 thousand and net profit decreased by HRK 2,899 thousand.

As described in Note 20 of the financial statements, as at 31 December 2019, the Company recognized a provision of HRK 1,367 thousand relating to an ongoing court case where it acts as a defendant. However, the amount of the provision does not include any penalty interest associated with the case, in respect of which, in our view, an outflow of resources is also probable. The above represents a departure from the requirements of *IAS 37 Provisions, Contingent Liabilities and Contingent Assets*. Had the interest been properly included in the amount of the provision, as required by that Standard, as at 31 December 2019, provisions and deferred tax assets would have been increased by HRK 1,156 thousand and HRK 208 thousand, respectively, and retained earnings decreased by HRK 948 thousand. In addition, for the year then ended, finance expense would have been increased by HRK 1,156 thousand, income tax expense decreased by 208 thousand and net profit decreased by HRK 948 thousand.

We conducted our audit in accordance with International Standards on Auditing. Our responsibilities under those standards are further described in the Auditors’ Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Croatia and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

This version of annual report is a translation from the original, which was prepared in Croatian language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

KPMG

Independent Auditors' Report to the shareholders of Villa Dubrovnik d.d. *(continued)*

Report on the Audit of the Financial Statements *(continued)*

Material Uncertainty Related to Going Concern

We draw attention to Note 25 of the financial statements, which indicates that, as at 31 December 2019, the Company's current liabilities exceeded its current assets by HRK 11,096 thousand, and also describes the negative effects the COVID-19 outbreak is expected to have on the Company`s business operations in the foreseeable future. Without financial support from the owners, the State of Croatia and banks in the form of financing, levies and tax breaks, and prolongation of debt maturities, as applicable, the Company may be unable to settle its liabilities as they fall due. As stated in Note 25, these events or conditions, along with other matters as set forth in that Note, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matters described in the *Basis for Qualified Opinion* and *Material Uncertainty Related to Going Concern* sections, above, we have determined the matters described below to be the key audit matters to be communicated in our report.

Impairment of tourism properties

The carrying amount of property, plant and equipment as at 31 December 2019, 31 December 2018 and 31 December 2017: HRK 114,670 thousand, HRK 121,227 thousand and HRK 129,258 thousand, respectively.

Refer to Notes 2.3 of *Accounting policies*, Note 4(b) of *Critical accounting estimates*, and Note 13 on *Property, plant and equipment* of the financial statements.

Key audit matter	How our audit addressed the matter
As at 31 December 2019, 31 December 2018 and 31 December 2017, the carrying amount of property, plant and equipment represented in excess of 90% of the Company's total assets. These assets, carried at cost less accumulated depreciation and any accumulated impairment losses, consist primarily of the hotel properties and related assets, and are subject to annual review to assess whether or not they may be impaired. In the process, all tourism properties are subjected to a detailed impairment review through the analysis of their value-in-use (based on the internal discounted cash flow model). The Company's assessment relies on significant management judgment and assumptions, including those in respect of discount rates, capitalisation rates, growth rates, occupancy rates, asset useful lives and revenue per available room.	Our audit procedures in this area, performed with the assistance of our own valuation specialists, included, among others: • Testing the design and implementation of the selected key controls in the area of impairment assessment, including those over management review and validation of the outcome of the impairment analysis; • Evaluating the appropriateness of the Company's impairment model against the requirements of the relevant financial reporting standards. Also, assessing whether the relevant model assumptions were consistent with the latest Management Board-approved budgets;

Independent Auditors' Report to the shareholders of Villa Dubrovnik d.d. *(continued)*

Report on the Audit of the Financial Statements *(continued)*

Key Audit Matters (continued)

Key audit matter	How our audit addressed the matter
Due to the above factors, accounting for impairment of the hotel properties was determined by us to be associated with a significant risk of material misstatement. As such it required our increased attention in the audit and was considered by us to be a key audit matter.	• Assessing the quality of the Company's forecasting process, which included, but was not limited to, comparing the actual performance of tourism properties with previous forecasts; • Challenging the key assumptions used in the impairment model, which included tracing the occupancy rates, revenue per available room and market growth rate to publicly available data, such as hotel industry reports, as well as to the Company`s historical experience. We also challenged other key test inputs, including estimated future costs, discount rates, asset useful life estimates and terminal multipliers by reference to historical performance of the property and inquiries of the Management Board members; • Performing a sensitivity analysis on the key assumptions applied in the impairment test to assess the range of possible alternative outcomes and identify any management bias in the impairment conclusions; • Considering the adequacy of the Company's disclosures in respect of the impairment test and the sensitivity of the outcome of the impairment assessment to changes in key assumptions.

Independent Auditors' Report to the shareholders of Villa Dubrovnik d.d. *(continued)*

Report on the Audit of the Financial Statements *(continued)*

Other Information

Management is responsible for the other information. The other information comprises the Management Report included in its Annual Report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

With respect to the Management Report, we also performed procedures required by the Accounting Act in Croatia ("Accounting Act"). Those procedures include considering whether:

- the Management Report has been prepared in accordance with the requirements of Article 21 of the Accounting Act.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and procedures above, in our opinion:

- the information given in the Management Report for the financial year for which the financial statements are prepared, is consistent, in all material respects, with the financial statements;
- the Management Report has been prepared, in all material respects, in accordance with the requirements of Article 21 of the Accounting Act;

In addition, in light of the knowledge and understanding of the entity and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the Management Report. As described in the *Basis for Qualified Opinion* section of our report, we identified material misstatements in the financial statements with respect to the Company's failure to account for the impairment of certain loans and related interest receivables, and with respect to its failure to include penalty interest in the estimate of the court case provision. We have concluded that the Management Report is materially misstated for the same reason with respect to amounts or other items in the Management Report affected by the matters which resulted in our qualified auditor's opinion on the financial statements.

This version of annual report is a translation from the original, which was prepared in Croatian language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

KPMG

Independent Auditors' Report to the shareholders of Villa Dubrovnik d.d. *(continued)*

Report on the Audit of the Financial Statements *(continued)*

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of the financial statements that give a true and fair view in accordance with EU IFRS, and for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with International Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal controls.

This version of annual report is a translation from the original, which was prepared in Croatian language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

Independent Auditors' Report to the shareholders of Villa Dubrovnik d.d. *(continued)*

Report on the Audit of the Financial Statements *(continued)*

Auditors' Responsibilities for the Audit of the Financial Statements (continued)

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal controls that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Independent Auditors' Report to the shareholders of Villa Dubrovnik d.d. *(continued)*

Report on the Audit of the Financial Statements *(continued)*

Report on Other Legal and Regulatory Requirements

We were appointed by those charged with governance on 4 October 2019 to audit the financial statements of Villa Dubrovnik d.d. for the year ended 31 December 2019, 31 December 2018 and 31 December 2017. Our total uninterrupted period of engagement is 6 years, covering the periods ending 31 December 2014 to 31 December 2019.

We confirm that we have not provided any prohibited non-audit services (NASs) referred to in Article 44 of the Audit Act. We also remained independent of the audited entity in conducting the audit.

The engagement partner on the audit resulting in this independent auditors' report is Tony Ilijanić.

KPMG Croatia d.o.o. za reviziju
Croatian Certified Auditors
Eurotower, 17th floor
Ivana Lučića 2a
10000 Zagreb
Croatia

KPMG Croatia
d.o.o. za reviziju
Eurotower, 17. kat
Ivana Lučića 2a, 10000 Zagreb
3

4 May 2020

Tony Ilijanić
Director, Croatian Certified Auditor

This version of annual report is a translation from the original, which was prepared in Croatian language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

VILLA DUBROVNIK D.D.
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2019, 2018 and 2017

	Note	**2019 HRK '000**	**2018 HRK '000**	**2017 HRK '000**
Operating revenue	5	57,602	52,404	51,190
Other operating income		517	433	514
Raw material and consumables used	6	(14,068)	(14,342)	(15,352)
Staff costs	7	(14,113)	(14,061)	(12,181)
Depreciation and amortisation		(7,879)	(8,897)	(9,035)
Other expenses	8	(5,966)	(6,175)	(6,020)
Operating profit		16,093	9,362	9,116
Finance income		302	1,083	1,429
Finance cost		(1,366)	(2,274)	(2,939)
Net finance cost	9	(1,064)	(1,191)	(1,510)
Profit before tax		15,029	8,171	7,606
Income tax expense	10	(2,817)	(1,546)	(1,414)
Profit for the year		12,212	6,625	6,192
Other comprehensive income		-	-	-
Total comprehensive income for the year		12,212	6,625	6,192
Earnings per share (in HRK) - basic and diluted	11	14.71	7.98	7.46

VILLA DUBROVNIK D.D.
STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2019, 2018 and 2017

	Notes	31 December 2019	31 December 2018	31 December 2017	1 January 2017
		HRK '000	**HRK '000**	**HRK '000**	**HRK '000**
ASSETS					
Non-current assets					
Intangible assets	12	682	775	461	-
Property, plant and equipment	13	115,768	121,974	129,274	136,834
Total non-current assets		**116,450**	**122,749**	**129,735**	**136,834**
Current assets					
Loans given	14	3,200	7,500	8,300	3,000
Inventories		723	647	663	544
Trade and other receivables	15	764	831	874	492
Cash and cash equivalents	16	6,036	1,095	957	3,504
Total current assets		**10,723**	**10,073**	**10,794**	**7,540**
TOTAL ASSETS		**127,173**	**132,822**	**140,529**	**144,374**
Equity					
Share capital	17	83,002	83,002	83,002	83,002
Capital and other reserves	17	4,616	4,284	4,228	4,228
Retained earnings / (losses)	17	15,425	7,695	1,126	(5,066)
Total equity		**103,043**	**94,981**	**88,356**	**82,164**
Non-current liabilities					
Non-current loans and borrowings	19	877	7,839	25,125	38,093
Provisions	20	1,434	1,656	1,653	1,592
Total non-current liabilities		**2,311**	**9,495**	**26,778**	**39,685**
Current liabilities					
Trade and other payables	18	10,868	7,724	8,734	7,003
Current loans and borrowings	19	7,508	19,005	15,040	14,926
Accrued expenses and deferred income	21	3,443	1,617	1,621	596
Total current liabilities		**21,819**	**28,346**	**25,395**	**22,525**
TOTAL EQUITY AND LIABILITIES		**127,173**	**132,822**	**140,529**	**144,374**

VILLA DUBROVNIK D.D.
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019, 2018 and 2017

	Share capital HRK '000	Capital reserves HRK '000	Statutory reserves HRK '000	Other reserves HRK '000	Retained earnings / (losses) HRK '000	Total equity HRK '000
Balance at 1 January 2017	**83,002**	**3,856**	**-**	**372**	**(5,066)**	**82,164**
Total comprehensive income for the period	-	-	-	-	6,192	6,192
Balance as at 31 December 2017	**83,002**	**3,856**	**-**	**372**	**1,126**	**88,356**
Balance at 1 January 2018	83,002	3,856	-	372	1,126	**88,356**
Total comprehensive income for the period	-	-	-	-	**6,625**	**6,625**
Transfers within equity	-	-	56	-	(56)	-
Balance at 31 December 2018	**83,002**	**3,856**	**56**	**372**	**7,695**	**94,981**
Balance at 1 January 2019	83,002	3,856	56	372	7,695	**94,981**
Total comprehensive income for the period	-	-	-	-	12,212	12,212
Transfers within equity	-	-	332	-	(332)	-
Dividends	-	-	-	-	(4,150)	**(4,150)**
Balance at 31 December 2019	**83,002**	**3,856**	**388**	**372**	**15,425**	**103,043**

VILLA DUBROVNIK D.D.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019, 2018 and 2017

	2019 HRK '000	2018 HRK '000	2017 HRK '000
Cash flows from operating activities			
Profit after tax	12,212	6,625	6,192
Adjusted by:			
Income tax	2,817	1,546	1,414
Depreciation and amortisation	7,879	8,897	9,035
(Gain)/loss on sale of fixed assets	47	(64)	-
Net finance costs	1,064	1,191	1,510
Provisions	(222)	3	-
	23,797	**18,198**	**18,151**
Changes in:			
Trade and other receivables	203	166	(182)
Inventories	(76)	16	(119)
Trade and other payables	4,138	(240)	1,723
Cash generated from operating activities	**28,062**	**18,140**	**19,573**
Interest paid	(863)	(1,839)	(1,987)
Income tax paid	(1,986)	(2,355)	-
Net cash from operating activities	**25,213**	**13,946**	**17,586**
Cash flows from investing activities			
Interest received	-	103	20
Proceeds from sale of property, plant and equipment	-	97	-
Proceeds from borrowings given	5,000	14,769	3,000
Acquisition of property, plant and equipment	(1,054)	(1,944)	(1,936)
Loans given	(700)	(13,998)	(8,300)
Net cash used in investing activities	**3,246**	**(973)**	**(7,216)**
Cash flows from financing activities			
Proceeds from loans and borrowings	-	2,000	2,000
Repayment of loans and borrowings	(19,095)	(14,648)	(14,614)
Payment of lease liabilities	(273)	(187)	(303)
Dividends paid	(4,150)	-	-
Net cash generated from financing activities	**(23,518)**	**(12,835)**	**(12,917)**
Net (decrease)/increase in cash and cash equivalents	**4,941**	**138**	**(2,547)**
Cash and cash equivalents at 1 January	**1,095**	**957**	**3,504**
Cash and cash equivalents at 31 December	**6,036**	**1,095**	**957**

The accompanying notes form a part of these financial statements.

NOTE 1 – GENERAL INFORMATION

The company VILLA DUBROVNIK d.d. ("the Company") is a joint stock company registered in accordance with the Croatian law. The headquarters are situated in Dubrovnik, Vlaha Bukovca 6, entered into the court register of the Commercial Court in Split-Permanent attendance in Dubrovnik with MBS: 060000978, PIN: 66669628743.

As of 31 December 2019, the Company employed 49 persons (31 December 2018: 49, 31 December 2017: 40).

The Company's principal activities are accommodation and hospitality services. The Company has 56 accommodation units in use (with more than 120 beds) in a single hotel.

Management Board and Supervisory Board

Management Board

Mirna Lončar Stražičić – President, represents the Company jointly with member of the Management Board

Burak Baykan – Member, represents the Company jointly with President of the Management Board

Supervisory Board

Cem Ecevit – President of the Supervisory Board

Özlem Kavasoğlu – Member of the Supervisory Board

Eryigit Umur - Member of the Supervisory Board

Jacques Louis Morand - Member of the Supervisory Board

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below. These accounting policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The Company's financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("EU IFRS").

These are the Company's first financial statements prepared in accordance with IFRSs and IFRS 1 First-time Adoption of International Financial Reporting Standards has been applied. An explanation on how the transition to EU IFRS has affected the financial statements is further explained in note on *First time adoption of IFRS.*

The financial statements have been prepared under the historical cost convention. These financial statements have been prepared under the assumption that the Company will be able to continue as a going concern for all periods.

The preparation of financial statements in conformity with IFRS as adopted by the European Union requires the use of certain critical accounting estimates. It also requires the Management Board to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note on *Critical accounting estimates*.

Going concern

Financial statements are prepared on the going concern basis. The ability of the Company to continue to trade on a going concern basis may be dependent on the financial support of the owner and financial institutions as a major finance provider, which is explained in note on *Subsequent events - Coronavirus subsequent to 31 December 2019*.

2.2 Foreign currencies

(a) Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Company operates ("the functional currency"). The financial statements are presented in thousands of Croatian kuna (HRK), which is the Company's functional currency and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income within "Finance income/costs".

Foreign exchange gains and losses relating to borrowings and cash and cash equivalents are recorded in the statement of comprehensive income within Finance income and costs. All other foreign exchange losses and gains are recorded in the statement of comprehensive income within "Finance income/costs".

The exchange rate of kuna against the EUR as at 31 December 2019 was EUR 7.442580 HRK (31 December 2018: EUR 7.417575 HRK, 31 December 2017: HRK 7.513648, 1 January 2017: HRK 7.557787).

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

2.3 Property, plant and equipment

Property, plant and equipment is included in the statement of financial position at historical cost less accumulated depreciation and provision for impairment, where required. Historical cost includes the cost that is directly attributable to the acquisition of assets.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred. The cost of replacement of larger items of property, plant and equipment is capitalised, and the carrying amount of the replaced part is derecognised.

Land and assets under construction are not depreciated. Depreciation of items of property, plant and equipment is calculated using the straight-line method as follows:

Buildings	20 - 25 years
Plant and equipment	5 years
Tools, fittings, vehicles	5 years
Other tangible assets	5 years

Depreciation is calculated for each asset until the asset is fully depreciated. The assets' useful lives are reviewed, and adjusted if appropriate, at each reporting date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amounts.

2.3.1 Impairment of property, plant and equipment

The carrying amounts of the Company's tangible and intangible non-current assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that are largely independent from other assets and groups of assets. Impairment losses are recognised in income statement.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognised.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.4 Financial instruments

2.4.1 Financial assets

Recognition and initial measurement

As explained in note on *First time adoption of IFRS*, the Company has applied IFRS 9 from 1 January 2017. Trade receivables are initially recognized when originated. All other financial assets are initially recognized when the Company becomes a party to the contractual provisions of the financial instrument. The financial asset (except in case of trade receivables without a significant financial component) is initially measured at increased fair value, in case of an instrument not stated at FVTPL, for transaction costs that can be directly attributed to the acquisition or issue of the instrument concerned. Trade receivable without a significant financial component is initially measured at the transaction price.

Classification and subsequent measurement

On initial recognition, the financial assets are classified as measured at:

- amortised cost;
- FVOCI (fair value through other comprehensive income) - debt investments;
- FVOCI - investment in equity instruments;
- or FVTPL (fair value through the statement of profit or loss).

Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets the following conditions and is not classified as measured at FVTPL:

- it is held within a business model whose objective is to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash inflows that are solely payment of principal and interest on the principal amount outstanding.

All financial assets not classified as financial assets measured at amortised cost or at FVOCI are measured at FVTPL. On initial recognition, the Company may irrevocably classify a financial asset that otherwise meets the measurement requirements at amortised cost or at FVOCI as the asset measured at FVTPL if such classification eliminates or significantly reduces the accounting mismatch that would otherwise arise. Loans and receivables which make up most of the Company’s financial assets are held within a business model of holding for the purpose of collection.

Assessment whether contractual cash flows are solely payments of principal and interest

For the purpose of this assessment, which is relevant for the classification of financial assets at amortised cost, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as compensation for the time value of money, credit risk associated with the principal amount outstanding during a particular period of time and other basic lending risks and costs (e.g. liquidity risk and administrative costs) as well as a profit margin.

The structure of the Company's financial assets is simple, and primarily refers to trade receivables and loans issued. The aforementioned facilitates and minimizes the complexity of the assessment whether indicated financial asset meets the criterion of 'solely payments of principal and interest'. In addition, the Company doesn’t have separate business models for managing financial assets as defined under IFRS 9 since these assets have been managed within the regular business operation due to simplicity.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.4 Financial instruments (*continued*)

2.4.1 Financial assets (*continued*)

Subsequent measurement and recognition of gains and losses

The table below provides an overview of key provisions of the accounting policies that the Company uses for the subsequent measurement of financial assets and recognition of gains and losses by type of financial assets that are relevant to the Company:

Financial assets at amortised cost	These assets are measured after initial recognition at amortised cost using the effective interest rate method. The amortised cost is reduced by impairment losses. Interest income, positive and negative exchange differences, and impairment losses are recognised in profit or loss. Profit or loss on derecognition is recognized in profit or loss.

Derecognition

The Company derecognises a financial asset when the contractual rights related to the cash flows from the financial asset expire, or when transferring rights to the contractual cash flows in a transaction in which all of the risks and benefits of ownership of the financial asset are transferred or in which the Company neither transfers nor retains the risks and benefits of ownership but it does not retain control over the financial asset. When the Company carries out transactions whereby it transfers financial assets recognised in its statement of financial position, but retains all or substantially all of the risks and benefits of the transferred assets, such transferred assets are not derecognised.

2.4.2 Financial liabilities

Recognition and initial measurement

As explained in note on First time adoption of IFRS, the Company has applied IFRS 9 from 1 January 2017. Issued debt securities are initially recognized as incurred. All other financial liabilities are initially recognised when the Company becomes a party to the contractual provisions of the financial instrument. A financial liability is initially measured at fair value increased by transaction costs that are directly attributable to the acquisition or issue of the instrument concerned in case of an instrument that was not stated at FVTPL.

Classification and subsequent measurement

Financial liabilities are classified as measured at amortised cost or at FVTPL. A financial liability is classified as measured at FVTPL if it is classified as held for trading, if it is derivative or classified as measured at FVTPL at initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and negative exchange differences are recognised in profit or loss. All gains or losses on derecognition are also recognised in profit or loss.

Derecognition

The Company derecognises a financial liability when its contractual obligations are discharged or cancelled or expire. The Company also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value. On derecognition of a financial liability, the difference between the carrying amount and the consideration paid (including any non-cash assets transferred or liabilities accepted) is recognised in profit or loss.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.4 Financial instruments (*continued*)

2.4.3 Offseting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

2.4.4 Impairment of non-derivative financial assets

Recognition of impairment losses

The Company recognises loss allowances for ECLs on:

- trade and other receivables;
- loans given.

The Company recognises loss allowances at an amount equal to lifetime expected credit losses (“ECLs”), except for loans given, for which they are measured as 12-month expected credit loss (ECL).

Loss allowances for trade receivables are always measured at an amount equal to lifetime ECLs

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company’s historical experience and informed credit assessment, that includes forward-looking information.

The Company assumes that the credit risk on a financial asset has increased significantly if more than 30 days past due and generally considers a financial asset to be in default when it is unlikely that the debtor will pay its liabilities to the Company in full without recourse by the Company to actions such as realising security (if any is held) or if the financial asset is still outstanding for more than 360 days past due.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

Measurement of expected credit losses

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive).

ECLs are discounted at the effective interest rate of the financial asset.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.4 Financial instruments (*continued*)

2.4.4 Impairment of non-derivative financial assets (*continued*)

Credit-impaired financial assets

At each reporting date, the Company assesses whether financial assets are credit-impaired. A financial asset is ‘credit-impaired’ when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Examples of evidence that a credit impairment of financial assets is required include the following:

- significant financial difficulties of the borrower or issuer;
- a breach of contract such as delay in payment of liabilities;
- probability that a borrower will enter bankruptcy or other form of financial reorganisation; or
- disappearance of an active market for a particular security due to financial difficulties.

Presentation of expected credit losses in the statement of financial position

Provisions for ECLs on financial assets are deducted from the gross carrying amount of the assets.

Write-off of financial assets

The gross carrying amount of a financial asset is written off when the Company has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. The Company does not generally expect a significant refund of the amount written off.

2.5 Inventories

Inventories of food, beverages and trade goods are stated at the lower of cost and net realisable value. Cost is determined using the weighted average cost method. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.6 Trade receivables

Trade receivables are amounts due from customers for services performed in the ordinary course of business. If collection is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets. Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less impairment.

2.7 Cash and cash equivalents

Cash and cash equivalents comprise cash on accounts with banks and similar institutions and cash on hand, deposits held at call with banks and other short-term highly liquid instruments with original maturities of three months or less.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.8 Leases

The Company has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately.

Policy applicable from 1 January 2017

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company uses the definition of a lease in IFRS 16.

This policy is applied to contracts entered into, on or after 1 January 2017.

i. As a lessee

At commencement or on modification of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for the leases of property the Company has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Company recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Company by the end of the lease term or the cost of the right-of-use asset reflects that the Company will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company`s incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

The Company determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.8 Leases *(continued)*

Policy applicable from 1 January 2017 ***(continued)***

i. As a lessee (continued)

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, if the Company changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero. The Company presents right-of-use assets that do not meet the definition of investment property in 'property, plant and equipment' and lease liabilities in 'loans and borrowings' in the statement of financial position.

Short-term leases and leases of low-value assets

The Company has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including IT equipment. The Company recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

The Company has considered adoption of IFRS 16 and has concluded that the standard has minimal effect on the financial statements of the Company, as disclosed in note on *Property plant and equipment*.

2.9 Share capital

Ordinary shares are classified as equity. Gains directly attributable to the issue of new shares are presented in equity as a deduction, net of transactions costs and income tax.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.10 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business. If collection is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets. Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.11 Employee benefits

(a) Pension obligations and post-employment benefits

In the normal course of business through salary deductions, the Company makes payments to mandatory pension funds on behalf of its employees as required by law. All contributions made to the mandatory pension funds are recorded as salary expense when incurred. The Company does not have any other pension scheme and consequently, has no other obligations in respect of employee pensions except for amounts payable to each employee once retired. In addition, the Company is not obliged to provide any other post-employment benefits.

(b) Termination benefits

Termination benefits are payable when employment is terminated by the Company before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy.

(c) Short-term employee benefits

The Company recognises liabilities for accumulated compensated absences based on unused vacation days at the reporting date, as well as labour hours realised from the reorganisation of working hours not utilised up to the reporting date.

2.12 Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions for future operating losses are not recognised.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.13 Revenue recognition

IFRS 15 establishes a comprehensive framework for determining when and how much revenue it recognizes. According to IFRS 15, revenue is recognized in a way that shows the form of transfer of goods and services to customers. The amount recognized should reflect the amount the entity expects to be entitled to in return for those products and services.

(a) Sales of services

The Company generates revenue primarily from the accommodation services These services are provided based on fixed-price contracts. Revenues from hotel and tourism services are recognised over time when the services are provided.

(b) Food and beverages

The Company offers food and beverages in in hotel restaurants to its hotel guests and to other than hotel guests. Revenues are recognized when services are provided at the point of time.

Performance obligations and revenue recognition policies

Revenue is measured based on the consideration specified in a contract with a customer. The Company recognises revenue when it transfers control over a good or service to a customer

2.14 Earnings per share

Earnings per share are determined by dividing the profit or loss attributable to equity holders of the Company by the weighted average number of participating shares outstanding during the reporting year.

2.15 Value added tax

The Tax Administration requires the settlement of VAT on a net basis. VAT related to sales and purchases is recognised and disclosed in the statement of financial position on a net basis. Where receivables have been impaired for the purpose of adjustment, impairment loss is recorded for the gross amount of the debtor, including VAT.

2.16 Segment reporting

International Financial Reporting Standards as adopted by European Union define an operating segment as a component of an entity:

a) that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity),
b) whose operating results are regularly reviewed by the entity’s chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and
c) for which discrete financial information is available.

The Company is considered to be one operating segment providing hotel services in the city of Dubrovnik in Croatia. Management assesses the performance on the level of entire Company and, as such, the financial statements do not specify further segments. The Company operates exclusively in Croatia in one location, Dubrovnik.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.17 Standards issued and effective form January 1st 2017

IFRS 16 Leases

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

IFRS 16 replaces existing leases guidance, including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

The Company has considered adoption of IFRS 16 and has concluded that the standard has no material effect on financial statements of the Company.

2.18 Standards issued but not yet effective

Other standards

The following amended standards and interpretations are not expected to have a significant impact on the Company's financial statements:

- Amendments to References to Conceptual Framework in IFRS Standards;

- Definition of Business (Amendments to IFRS 3);

- Definition of Material (Amendments to IAS 1 and IAS 8);

- IFRS 17 Insurance Contracts.

NOTE 3 – FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Company's activities expose them to a variety of financial risks: market risk (including currency risk, cash flow and fair value interest rate risk and price risk), credit risk and liquidity risk. The Company does not have a written risk management programme, but overall risk management in respect of these risks is carried out by the Company's Management Board.

The accounting policies for financial instruments have been applied to the line items below:

	2019 HRK '000	2018 HRK '000	2017 HRK '000	1 January 2017 HRK '000
Financial assets at amortised cost				
Trade receivables	528	559	492	303
Deposits and loans given to related parties	3,200	7,500	8,300	3,000
Cash and cash equivalents	6,036	1,095	957	3,504
	9,764	**9,154**	**9,749**	**6,807**
Liabilities at amortised cost				
Trade and other payables	240	889	913	251
Liabilities for deposits	3,127	-	1,482	120
Trade payables - related parties	2,313	2,274	3,132	3,575
Liabilities for dividends	18	-	-	-
Trade payables in respect of emloyees	748	529	436	412
Other short term liabiltities	107	252	33	10
Loans and borrowings	8,385	26,844	40,165	53,019
Accrued expenses and deferred income	3,443	1,617	1,621	596
	18,381	**32,405**	**47,782**	**57,983**

NOTE 3 – FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

(a) Market risk

(i) Currency risk

The Company is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the euro (EUR). Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities.

Most of foreign sales revenues is denominated in EUR. Therefore, movements in exchange rates between the euro and kuna may have an impact on the results of future operations and future cash flow.

As at 31 December 2019, if the euro had weakened/strengthened by 1% (2018: 1%), with all other variables held constant, the Company's net profit for the year would have been HRK 904 thousand higher/lower (2018 HRK 2,182 thousand higher/lower; 2017: HRK 2,097 thousand higher/lower), mainly as a result of foreign exchange gains/losses on translation of EURO-denominated borrowings and foreign cash funds. EUR foreign exchange rate as at 31 December 2019 was HRK 7.442580 per 1 EURO (2018: 7.417575; 2017:7.513648).

(ii) Price risk

As at 31 December 2019, the Company did not have investment in equity securities and was not exposed to price risk. The Company is not exposed to commodity price risk.

(b) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers and loans given.

There were no impairment losses on financial assets and loans given recognised in profit or loss.

The maximum exposure of the Company to credit risk as at the reporting date:

	2019 HRK '000	2018 HRK '000	2017 HRK '000	1 January 2017 HRK '000
Trade receivables	528	559	492	303
Loans given	3,200	7,500	8,300	3,000
Cash and cash equivalents	6,036	1,095	957	3,504
Total	**9,764**	**9,154**	**9,749**	**6,807**

The exposure to credit risk for trade receivables and contract assets by geographic region was as follows:

	2019 HRK '000	2018 HRK '000	2017 HRK '000	1 January 2017 HRK '000
Croatia	3,618	7,766	8,442	3,273
Switzerland	103	-	-	-
Germany	7	-	115	-
Turkey	-	248	-	-
Other	-	45	235	30
	3,728	**8,059**	**8,792**	**3,303**

NOTE 3 – FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

(b) Credit risk (continued)

The exposure to credit risk for trade receivables and loans given by type of counterparty was as follows:

	2019 HRK '000	2018 HRK '000	2017 HRK '000	1 January 2017 HRK '000
Related parties - Limited liability Companies	3,535	7,975	8,358	3,027
Credit card companies	83	68	54	52
Tourist agencies	110	13	-	-
Other	-	3	380	224
	3,728	**8,059**	**8,792**	**3,303**

The credit quality of the Company's exposure is as follows:

	2019 HRK '000	2018 HRK '000	2017 HRK '000	1 January 2017 HRK '000
Loans given				
Neither past due nor impaired	3,200	7,500	8,300	3,000
	3,200	**7,500**	**8,300**	**3,000**
Trade receivables				
Neither past due nor impaired	70	98	33	91
Past due but not impaired	458	461	459	212
Past due and impaired	-	-	-	-
Impairment	-	-	-	-
	528	**559**	**492**	**303**

The Company deposits its cash at reputable banks in Croatia without a standardised credit rating.

The Company has policies in place to ensure that sales of services are made to customers with an appropriate credit history, i.e. the Company's policy ensures that sales to customers are settled through advance payments, in cash or by major credit cards (individual customers, i.e. natural persons).

The Management Board monitors the collectability of receivables through reports on individual balances of receivables. Trade receivables are impaired when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. The amount of all trade and other receivables has been impaired to their recoverable amount.

NOTE 3 – FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

(b) Credit risk (continued)

Receivables past due but not impaired as at the reporting date have the following maturities:

	2019 HRK '000	2018 HRK '000	2017 HRK '000	1 January 2017 HRK '000
Up to one month	30	53	20	11
1 to 3 months	126	36	389	16
3 to 6 months	17	81	50	185
6 to 12 months	-	291	-	-
Over 12 months	285	-	-	-
	458	**461**	**459**	**212**

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash while matching the timings of the cash inflows and outflows. The Management Board monitors available cash resources based on reports on the balance of cash and liabilities on a daily and monthly basis. Management believes the forecasted operating cash flows and their timings should provide sufficient funds to settle current liabilities as they fall due. Furthermore, Management does not believe any of the guarantees referred to in note on *Contingent assets and liabilities* will be activated in the foreseeable future.

Total cash available at 31 December 2019 amounts to some HRK 6 million bringing a net cash deficit to some HRK 3.6 million in the short term. In order to meet any short-term financing needs the Company maintains a line of credit amounting to HRK 3 million with a reputable bank in Croatia which can be drawn down as necessary. Following June, cash inflows from hotel guests are expected to increase. At that time the loan facilities would be fully repaid freeing up some additional HRK 8 million of cash in 2021. This excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. For relevant events which affects liquidity, refer to note on *Subsequent events Coronavirus subsequent to 31 December 2019.*

NOTE 3 – FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

(c) Liquidity risk (continued)

The table below analyses the Company's financial assets and liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

as at 31 December 2019 *(in thousands of HRK)*	**Carrying amount**	**Contractual cash flows**	**3 months or less**	**3-6 months**	**6-12 months**	**1-2 years**	**2-5 years**
Non-interest bearing assets							
Trade receivables	528	528	91	103	334	-	-
	528	**528**	**91**	**103**	**334**	**-**	**-**
Interest bearing assets							
Deposits and loans given to related parties	3,200	3,309	-	-	-	3,309	-
Cash and cash equivalents	6,036	6,036	6,036	-	-	-	-
	9,236	**9,345**	**6,036**	**-**	**-**	**3,309**	**-**
	9,764	**9,873**	**6,127**	**103**	**334**	**3,309**	**-**

as at 31 December 2019 *(in thousands of HRK)*	**Carrying amount**	**Contractual cash flows**	**3 months or less**	**3-6 months**	**6-12 months**	**1-2 years**	**2-5 years**
Non-interest bearing liabilities							
Trade payables	240	240	240	-	-	-	-
Liabilities for deposits	3,127	3,127	-	3,127	-	-	-
Trade payables - related parties	2,313	2,313	-	-	2,313	-	-
Liabilities for dividends	18	18	18	-	-	-	-
Trade payables in respect of emloyees	748	748	748	-	-	-	-
Other short term liabiltities	107	107	107	-	-	-	-
Accrued expenses and deferred income	3,443	3,443	410	-	3,033	-	-
	9,996	**9,996**	**1,523**	**3,127**	**5,346**	**-**	**-**
Interest bearing liabilities							
Loans and borrowings	8,385	8,150	2,461	2,461	2,723	506	-
	8,385	**8,150**	**2,461**	**2,461**	**2,723**	**506**	**-**
	18,381	**18,146**	**3,984**	**5,588**	**8,069**	**506**	**-**

NOTE 3 – FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

(c) Liquidity risk (continued)

as at 31 December 2018 (in thousands of HRK)	Carrying amount	Contractual cash flows	3 months or less	3-6 months	6-12 months	1-2 years	2-5 years
Non-interest bearing assets							
Trade receivables	559	559	559	-	-	-	-
	559	**559**	**559**	**-**	**-**	**-**	**-**
Interest bearing assets							
Deposits and loans given to related parties	7,500	7,722	5,074	-	-	2,648	-
Cash and cash equivalents	1,095	1,095	1,095	-	-	-	-
	8,595	**8,817**	**6,169**	**-**	**-**	**2,648**	**-**
	9,154	**9,376**	**6,728**	**-**	**-**	**2,648**	**-**

as at 31 December 2018 (in thousands of HRK)	Carrying amount	Contractual cash flows	3 months or less	3-6 months	6-12 months	1-2 years	2-5 years
Non-interest bearing liabilities							
Trade payables	889	889	889	-	-	-	-
Trade payables - related parties	2,274	2,274	-		2,274	-	-
Liabilities for dividends	-	-	-	-	-	-	-
Trade payables in respect of emloye	529	529	529	-	-	-	-
Other short term liabiltities	252	252	252	-	-	-	-
Accrued expenses and deferred income	1,617	1,617	474	-	1,143	-	-
	5,561	**5,561**	**2,144**	**-**	**3,417**	**-**	**-**
Interest bearing liabilities							
Loans and borrowings	26,844	27,718	3,495	3,495	12,713	7,592	423
	26,844	**27,718**	**3,495**	**3,495**	**12,713**	**7,592**	**423**
	32,405	**33,279**	**5,639**	**3,495**	**16,130**	**7,592**	**423**

NOTE 3 – FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

(c) Liquidity risk (continued)

as at 31 December 2017 *(in thousands of HRK)*	**Carrying amount**	**Contractual cash flows**	**3 months or less**	**3-6 months**	**6-12 months**	**1-2 years**	**2-5 years**
Non-interest bearing assets							
Trade receivables	492	492	492	-	-	-	-
	492	**492**	**492**	**-**	**-**	**-**	**-**
Interest bearing assets							
Deposits and loans given to related parties	8,300	8,678	-	-	8,678	-	-
Cash and cash equivalents	957	957	957	-	-	-	-
	9,257	**9,635**	**957**	**-**	**8,678**	**-**	**-**
	9,749	**10,127**	**1,449**	**-**	**8,678**	**-**	**-**

as at 31 December 2017 *(in thousands of HRK)*	**Carrying amount**	**Contractual cash flows**	**3 months or less**	**3-6 months**	**6-12 months**	**1-2 years**	**2-5 years**
Non-interest bearing liabilities							
Trade payables	913	913	913	-	-	-	-
Liabilities for deposits	1,482	1,482	-	1,482	-	-	-
Trade payables - related parties	3,132	3,132	-	-	3,132	-	-
Liabilities for dividends	-	-	-	-	-	-	-
Trade payables in respect of emloyees	436	436	436	-	-	-	-
Other short term liabiltities	33	33	33	-	-	-	-
Accrued expenses and deferred income	1,621	1,621	419	-	1,202	-	-
	7,617	**7,617**	**1,801**	**1,482**	**4,334**	**-**	**-**
Interest bearing liabilities							
Loans and borrowings	40,165	42,432	3,676	3,676	9,056	17,905	8,119
	40,165	**42,432**	**3,676**	**3,676**	**9,056**	**17,905**	**8,119**
	47,782	**50,049**	**5,477**	**5,158**	**13,390**	**17,905**	**8,119**

3.2 Fair value estimation

Fair value represents the amount at which an asset could be exchanged, or a liability settled between knowledgeable and willing parties acting in their best interest.

The carrying amounts of current trade and other receivables and trade payables approximate their fair value. The carrying amount of borrowings approximates their fair value due to market interest rates on borrowings.

NOTE 4 – CRITICAL ACCOUNTING ESTIMATES

Estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under existing circumstances. The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Estimated useful life of tangible and intangible assets

Depreciation rates are initially determined in line with the best estimation of useful life of the assets. The Company estimates the consistency of the depreciation rates on a yearly basis. During 2019, 2018 and 2017 there were no changes to the accounting estimates related to depreciation rates compared to prior period.

(b) Carrying amount of property, plant and equipment

Management considered the recoverable amount of the net present value of the fixed assets using a discounted cash flow method. Management will continue to monitor the recoverability of property, plant and equipment in future periods.

(c) Provision for court cases

The Company is involved in legal actions which have arisen from the regular course of its operations. Management makes estimates when the probable outcome of a legal action has been assessed, based on the opinion of legal advisors. For more details see note on *Contingent assets and liabilities.*

(d) Segment reporting

The Company consider that there is one operating segment, providing hotel services in the city of Dubrovnik in Croatia. Management assesses the performance on the level of entire Company and, as such, the financial statements do not specify further segments. The Company operates tourism properties exclusively in Croatia in one location, the city of Dubrovnik.

NOTE 5 – REVENUE

Revenue streams

The Company generates revenue primarily from the accommodation services, food and beverages sales and provision of ancillary hotel services to its customers.

	2019 HRK '000	2018 HRK '000	2017 HRK '000
Accomodation	43,922	40,076	38,682
Food and beverages	10,884	9,851	10,069
Spa centre revenue	1,083	878	874
Other services	1,713	1,599	1,565
	57,602	**52,404**	**51,190**

The Company's sales revenues can be classified according to the customers' origin:

	2019 HRK '000	2018 HRK '000	2017 HRK '000
Domestic customers	689	817	1,162
Foreign customers	43,233	39,259	37,520
	43,922	**40,076**	**38,682**

Foreign customers	2019 HRK '000	%	2018 HRK '000	%	2017 HRK '000	%
United States	19,804	46%	15,799	40%	14,214	38%
United Kingdom	7,229	17%	7,843	20%	7,711	21%
France	1,672	4%	840	2%	983	3%
Australia	1,305	3%	1,139	3%	1,349	4%
Canada	1,040	2.4%	863	2%	136	0%
Germany	1,296	3.0%	2,600	7%	2,480	7%
Brazil	867	2%	474	1%	624	2%
Other*	10,020	23%	9,701	25%	10,022	25%
	43,233	**100%**	**39,259**	**100%**	**37,519**	**100%**

NOTE 5 – REVENUE (continued)

The Company's sales revenues are classified according to the sales channel and type of service:

	2019 HRK '000	2018 HRK '000	2017 HRK '000
Revenue from hotel services			
Individual guests	37,129	35,404	31,330
Groups	5,063	2,984	3,942
Allotment	1,730	1,688	3,410
	43,922	40,076	38,682
Revenue from anicillary services			
Food and bevarages - pension breakfast	2,351	2,216	2,431
Food and bevarages - à la carte	8,533	7,635	7,638
Revenue from services rendered to hotel guests	1,713	1,599	1,565
Spa centre revenue	1,083	878	874
	13,680	12,328	12,508
Total sales revenue	**57,602**	**52,404**	**51,190**

NOTE 6 – COST OF MATERIALS AND SERVICES

Raw material and consumables used	2019 HRK '000	2018 HRK '000	2017 HRK '000
Consumables - Food and beverages	2,733	3,006	2,873
Electricity	803	824	722
Gas and fuel	246	218	233
Materials used	1,271	1,096	1,339
	5,053	**5,144**	**5,167**
Other external expenses			
Management fees	3,026	2,819	3,218
Marketing	1,921	2,767	3,841
Maintenance	1,474	1,024	753
Professional services	449	825	72
Utilities	904	914	822
Intellectual services	716	392	653
Concession	45	82	-
Telepohone and postal expenses	142	183	111
Rental expenses	82	47	147
Other	256	145	568
	9,015	**9,198**	**10,185**

Costs of concession are accounted for under IFRS 16 and are split between the fixed and variable portion. The fixed portion is calculated as a right-of-use asset disclosed in note on *Property Plant and Equipment* and the variable portion is taken directly into profit and loss as disclosed in this note.

NOTE 7 – STAFF COSTS

	2019 HRK '000	2018 HRK '000	2017 HRK '000
Gross salaries and wages	12,229	12,049	10,457
Contributions on salaries	1,884	2,012	1,724
	14,113	**14,061**	**12,181**

During 2019 personnel expenses include HRK 2,386 thousand of defined contributed pension contributions (2018: HRK 2,324 thousand, 2017: HRK 2,008 thousand).

The average number of employees, based on sum of all working hours in 2019 was 79 (2018: 75; 2017: 71).

NOTE 8 – OTHER EXPENSES

	2019 HRK '000	2018 HRK '000	2017 HRK '000
Agency fees	2,455	2,256	3,096
Bank and other charges	772	775	791
Reimubrsement of staff expenses	1,221	1,456	522
Entertainment	351	380	439
Membership fees, contributions and	109	312	415
Insurance premiums	325	319	349
Provision expenses	-	-	60
Other	733	677	348
	5,966	**6,175**	**6,020**

NOTE 9 – FINANCE INCOME/COST

	2019 HRK '000	2018 HRK '000	2017 HRK '000
Finance income			
Interest income	136	274	78
Foreign exchange gains	166	809	1,351
	302	**1,083**	**1,429**
Finance cost			
Interest expense	1,020	1,854	1,987
Foreign exchange losses	346	420	952
	1,366	**2,274**	**2,939**
Net finance cost	**(1,064)**	**(1,191)**	**(1,510)**

NOTE 10 – INCOME TAX

Reconciliation of current income tax expense:

	2019 HRK '000	2018 HRK '000	2017 HRK '000
Loss before tax	**15,029**	**8,171**	**7,606**
Income tax benefit at 18%	2,705	1,471	1,369
Non-deductible expenses	135	90	47
Non-taxable income	(23)	(15)	(2)
Income tax	**2,817**	**1,546**	**1,414**
Effective rate	19%	19%	19%

NOTE 11 – EARNINGS PER SHARE (basic and diluted)

Basic

Basic earnings per share are calculated by dividing the profit attributable to shareholders of the Company by the weighted average number of ordinary shares in issue during the year, excluding ordinary shares purchased by the Company and held as treasury shares.

	2019 HRK '000	2018 HRK '000	2017 HRK '000
Profit for the year (in thousands of HRK)	**12,212**	**6,625**	**6,192**
Weighted average number of shares (basic and diluted)	830,019	830,019	830,019
Earnings per share (basic and diluted) (in HRK)	**14.71**	**7.98**	**7.46**

NOTE 12 – INTANGIBLE ASSETS

	Software HRK '000
COST	
At 1 January 2017	**192**
Additions	461
At 31 December 2017	**653**
At 1 January 2018	**653**
Additions	367
Transfer	53
At 31 December 2018	**1,073**
At 1 January 2019	**1,073**
Additions	55
At 31 December 2019	**1,128**
ACCUMULATED DEPRECIATION & IMPAIRMENT LOSSES	
At 1 January 2017	**192**
At 31 December 2017	**192**
At 1 January 2018	**192**
Charge for the year	106
At 31 December 2018	**298**
At 1 January 2019	**298**
Charge for the year	148
At 31 December 2019	**446**
CARRYING VALUE	
At 1 January 2017	**-**
At 31 December 2017	**461**
At 31 December 2018	**775**
At 31 December 2019	**682**

NOTE 13 – PROPERTY, PLANT AND EQUIPMENT

	Land HRK '000	Buildings HRK '000	Plant and equipment HRK '000	Assets under construction and advances given HRK '000	Total HRK '000
COST					
At 1 January 2017	**10,083**	**137,238**	**24,241**	**-**	**171,562**
Additions	-	4	1,001	470	1,475
Transfer	-	447	7	(454)	-
At 31 December 2017	**10,083**	**137,689**	**25,249**	**16**	**173,037**
At 1 January 2018	**10,083**	**137,689**	**25,249**	**16**	**173,037**
Additions	-	396	397	784	1,577
Transfer	-	-	-	(53)	(53)
Disposals and write offs	-	-	(463)	-	(463)
At 31 December 2018	**10,083**	**138,085**	**25,183**	**747**	**174,098**
At 1 January 2019	**10,083**	**138,085**	**25,183**	**747**	**174,098**
Additions	-	823	331	418	1,572
Transfer	-	56	11	(67)	-
Disposals and write offs	-	-	(596)	-	(596)
At 31 December 2019	**10,083**	**138,964**	**24,929**	**1,098**	**175,074**
ACCUMULATED DEPRECIATION & IMPAIRMENT LOSSES					
At 1 January 2017	**-**	**21,767**	**12,961**	**-**	**34,728**
Charge for the year	-	5,513	3,522	-	9,035
At 31 December 2017	**-**	**27,280**	**16,483**	**-**	**43,763**
At 1 January 2018	**-**	**27,280**	**16,483**	**-**	**43,763**
Charge for the year	-	5,525	3,266	-	8,791
Disposals and write offs	-	-	(430)	-	(430)
At 31 December 2018	**-**	**32,805**	**19,319**	**-**	**52,124**
At 1 January 2019	**-**	**32,805**	**19,319**	**-**	**52,124**
Charge for the year	-	5,603	2,128	-	7,731
Value adjustment	-	-	(549)		(549)
At 31 December 2019	**-**	**38,408**	**20,898**	**-**	**59,306**
CARRYING VALUE					
At 1 January 2017	**10,083**	**115,471**	**11,280**	**-**	**136,834**
At 31 December 2017	**10,083**	**110,409**	**8,766**	**16**	**129,274**
At 31 December 2018	**10,083**	**105,280**	**5,864**	**747**	**121,974**
At 31 December 2019	**10,083**	**100,556**	**4,031**	**1,098**	**115,768**

NOTE 13 – PROPERTY, PLANT AND EQUIPMENT (*continued)*

Tangible assets have been pledged as collateral for the Company's loans and borrowings as stated in note on *Loans and borrowings.*

At 31 December 2019 property, plant and equipment includes right-of-use assets of HRK 969 thousand related to a leased beachfront and maritime domain that does not meet the definition of investment property. When measuring lease liabilities for leases, the Company discounted lease payments using its incremental borrowing rate at 1 January 2017. The weighted average rate applied is 3% on leased beachfront and 4.92% on vehicles.

NOTE 14 – LOANS GIVEN

	31 December 2019 HRK '000	31 December 2018 HRK '000	31 December 2017 HRK '000	1 January 2017 HRK '000
Loans given at amortised cost				
To related parties	3,200	7,500	8,300	3,000

At 31 December 2019 loans given to a related party Dogus Marina Hoteli d.o.o., Šibenik amounted to HRK 3.2 million (2018: HRK 7.5 million, 2017: HRK 8.3 million). Interest rate on the loans was set to 3.96% (2018: 4.5%, 2017: 4.97%) and repayment was due in 2019.

NOTE 15 – TRADE AND OTHER RECEIVABLES

	31 December 2019 HRK '000	31 December 2018 HRK '000	31 December 2017 HRK '000	1 January 2017 HRK '000
Trade receivables	193	84	434	-
Trade receivables from related parties	335	475	58	463
Impairment for doubtful receivables	-	-	-	(160)
	528	**559**	**492**	**303**
Receivables from State	47	3	58	5
Other receivables	189	269	324	184
	236	**272**	**382**	**189**

NOTE 16 – CASH AND CASH EQUIVALENTS

	31 December 2019 HRK '000	31 December 2018 HRK '000	31 December 2017 HRK '000	1 January 2017 HRK '000
Cash at bank	6,035	1,094	956	3,503
Cash in hand	1	1	1	1
	6,036	**1,095**	**957**	**3,504**

NOTE 17 – CAPITAL AND RESERVES

Share capital

	31 December 2019 HRK '000	31 December 2018 HRK '000	31 December 2017 HRK '000	1 January 2017 HRK '000
Share capital	83,002	83,002	83,002	83,002
Capital reserves	3,856	3,856	3,856	3,856
Statutory reserves	388	56	-	-
Other reserves	372	372	372	372
Retained earnings / (losses)	15,425	7,695	1,126	(5,066)
	103,043	**94,981**	**88,356**	**82,164**

Company's share capital amounted to HRK 83,002 thousand and comprises of 830,019 ordinary shares with a nominal value of HRK 100 per share.

Capital Reserves in the amount of HRK 3,856 thousand were created in 2012 based on the decision to convert outstanding liabilities into equity i.e. reserves. This reserve is distributable.

NOTE 17 – CAPITAL AND RESERVES *(continued)*

Statutory reserves are formed pursuant to the Companies Act, which requires 5% of the years gain in excess of accumulated losses transferred to this reserve until it reaches 5% of share capital. The increase during the years represents the allocation from prior year profits. This reserve is not distributable.

Other reserves relate to amounts from allocated profits in periods before the total reconstruction of the Hotel that started 2007. This reserve is not distributable.

The ownership structure is shown in the table below:

	31 December 2019 HRK '000	31 December 2018 HRK '000	31 December 2017 HRK '000
Martimus B.V.	51.00%	0.00%	0.00%
Dogus Croatia d.o.o.	38.60%	89.60%	89.60%
CERP / Republic of Croatia	6.24%	6.24%	6.50%
Others	4.16%	4.16%	3.90%
	100%	**100%**	**100%**

The ultimate parent of the Company is Martimus B.V. which is in turn owned by Ferit Sahenk. In 2018 and 2017 the ultimate parent company is Dogus Holding A.S which is ultimately owned by individuals of the Turkish Sahenk family.

NOTE 18 – TRADE AND OTHER PAYABLES

	31 December 2019 HRK '000	31 December 2018 HRK '000	31 December 2017 HRK '000	1 January 2017 HRK '000
Current liabilities from operations				
Trade payables	240	889	913	251
Trade payables - related parties	2,313	2,274	3,132	3,575
Liabilities for deposits	3,127	-	1,482	120
Income tax liabilities	1,433	602	1,409	-
Advances received	2,285	2,703	1,024	2,284
Employee liabilities	748	529	436	412
Taxes, contributions and similar	597	475	305	351
Liabilities for dividends	18	-	-	-
Other short term liabiltities	107	252	33	10
	10,868	**7,724**	**8,734**	**7,003**

NOTE 19 – LOANS AND BORROWINGS

	31 December 2019 HRK '000	31 December 2018 HRK '000	31 December 2017 HRK '000	1 January 2017 HRK '000
Non-current liabilities				
Croatian Bank for Reconstruction and Development (i)	320	7,527	16,928	26,385
Kent bank (ii)	-	-	5,685	11,300
Kent bank revolving (iii)	-	-	2,000	-
Non-current portion of lease liabilities	557	312	512	408
	877	**7,839**	**25,125**	**38,093**
Current liabilities				
Croatian Bank for Reconstruction and Development (i)	7,232	9,184	9,303	9,358
Kent bank (ii)	-	5,612	5,548	5,448
Kent bank revolving (iii)	-	4,000	-	-
Other	-	15	1	-
Current portion of lease liabilities	276	194	188	120
	7,508	**19,005**	**15,040**	**14,926**

(i) Repayment is contracted through 32 quarterly instalments at an annual interest rate of 4% per annum up to 31 December 2020 and 30 June 2021. As collateral a mortgage over the Company's property was pledged.

(ii) Principal repayment is contracted through 30 instalments (with maturity 31/5, 30/6, 31/7, 31/8, 30/9 and 31/10 of each year) the first of which is due in 2015, while the last is due in 2019. The agreed interest rate is variable 3-month Euribor + 5.5% per annum.

(iii) Revolving bank loan facility for working capital needs.

NOTE 19 – LOANS AND BORROWINGS *(continued)*

Reconciliation of movements of liabilities to cash flows arising from financing activities is shown below:

	Liabilities HRK '000
At 1 January 2017	**53,019**
Proceeds from loans and borrowings	2,000
Repayment of loans and borrowings	(14,614)
Payment of lease liabilities	(303)
Net cash generated from financing activities	**(12,917)**
The effect of changes in foreign exchange rates	**63**
Other changes	
Interest expense	1,987
Interest paid	(1,987)
Total liability-related other changes	**-**
At 31 December 2017	**40,165**
At 1 January 2018	**40,165**
Proceeds from loans and borrowings	2,000
Repayment of loans and borrowings	(14,648)
Payment of lease liabilities	(187)
Net cash generated from financing activities	**(12,835)**
The effect of changes in foreign exchange rates	**(501)**
Other changes	
Interest expense	1,854
Interest paid	(1,839)
Total liability-related other changes	**15**
At 31 December 2018	**26,844**
At 1 January 2019	**26,844**
Proceeds from loans and borrowings	-
Repayment of loans and borrowings	(19,095)
Payment of lease liabilities	(273)
Net cash generated from financing activities	**(19,368)**
The effect of changes in foreign exchange rates	**752**
Other changes	
Interest expense	1,020
Interest paid	(863)
Total liability-related other changes	**157**
At 31 December 2019	**8,385**

NOTE 20 – PROVISIONS

	31 December 2019 HRK '000	31 December 2018 HRK '000	31 December 2017 HRK '000	1 January 2017 HRK '000
Provisions for court cases	1,434	1,656	1,653	1,592
	1,434	**1,656**	**1,653**	**1,592**

The Company is a defendant in a number of court cases. Based on the best estimate of the Management Board and legal advisors of the Company, provision was made for court cases that are likely to result in a loss for the Company.

NOTE 21 – ACCRUED EXPENSES AND DEFERRED INCOME

	Accrued expenses HRK '000	Unused holiday HRK '000	Total HRK '000
As at 1 January 2017	**68**	**528**	**596**
Recognised in period	1,202	419	1,621
Released in period	(68)	(528)	(596)
As at 31 December 2017	**1,202**	**419**	**1,621**
As at 1 January 2018	**1,202**	**419**	**1,621**
Recognised in period	1,143	474	1,617
Released in period	(1,202)	(419)	(1,621)
As at 31 December 2018	**1,143**	**474**	**1,617**
As at 1 January 2019	**1,143**	**474**	**1,617**
Recognised in period	3,220	410	3,630
Released in period	(1,330)	(474)	(1,804)
As at 31 December 2019	**3,033**	**410**	**3,443**

At 31 December 2019 accrued expenses include HRK 3,026 thousand (2018: HRK 1,120 thousand, 2017: HRK 1,157 thousand) of management fee expenses as disclosed in the note on *Cost of materials and services.*

NOTE 22 – CONTINGENT LIABILITIES AND COMMITMENTS

22.1 Maritime concession – right of use

Part of the land used by the Company is located near the waterfront and forms a maritime domain as deemed by State Authorities. Procedures for obtaining the concession approvals were finalised during July 2018, which resulted in future contractual payments in terms of a fixed and variable fee. In line with the above, the Company incurs fixed and variable concession costs as of 2018. The variable portion is shown in the note on *Cost of materials and services.*

22.2 Guarantees issues

The Company's policy is to provide financial guarantees only for related party or own liabilities.

The Company has issued several guarantees and other insurance instruments to banks and suppliers on its own behalf or behalf of related parties totalling EUR 0.6 million (31 December 2018: EUR 4.4 million, 31 December 2017: EUR 3.4 million).
Furthermore, as at 31 December 2018 the Company was a guarantor and was jointly and severally liable for a related party's bank loan, which was settled in full by this related party at the end of January 2019, resulting in expiry of this guarantee.

22.3 Commitments

Lease liabilities

As at 31 December 2019 the Company`s contractual commitments relating to lease agreements (including interest) entered into amounted to HRK 993 thousand (31 December 2018: HRK 534 thousand, 31 December 2017: HRK 756 thousand).

Management fee

In January 2017, the Company has signed a management service agreement with Dogus Otel Isletmeciligi ve Yonetim Hizmetleri A.S. whereby the management fee was determined in three levels. A basic fee in the form of a percentage of gross revenue of the hotel, an incentive fee which is calculated as a percentage of the adjusted gross operating profit ("AGOP") and a technical services fee which is calculated as a percentage of capital expenditures and purchased fixed asset. During 2018, a new annex was signed to this management contract by which the basic fee portions was reduced by 25%.

These management fee contracts will give rise to an annual committed expense for future periods.

NOTE 22 – CONTINGENT LIABILITIES AND COMMITMENTS (continued)

22.3 Commitments (continued)

Marketing and services fees

Until 2019 the Company had in force marketing and services agreements with Dogus Otel Isletmeciligi ve Yonetim Hizmetleri A.S. for the procurement of promotion, advertising and marketing services which will be carried out worldwide and Dogus Otel Yatirimlari ve Turizm A.S. to provide consultancy services regarding legal and administrative process management, determination for strategic objective, investment plan and risk management. Both contracts are no longer valid from 2019 and no further expenses are expected.

22.4 Court cases

The Company is defendant in a number of legal proceedings. Based on the legal advice, the Company made a provision, which the Company considers reasonable and sufficient in these circumstances. In addition to legal disputes to which provision is recognized in the balance sheet, the Company is a defendant in a number of other legal disputes. For these cases provision is not recognized in the financial statements since the Management and legal counsel believe that it is unlikely that the above proceedings will result in loss for the Company.

NOTE 23 – RELATED PARTY TRANSACTIONS

Transactions between the Company and related parties comprise items included in the statement of comprehensive income and statement of financial position and include the following:

	2019 HRK '000	2018 HRK '000	2017 HRK '000
Revenue			
Dogus Marina Hoteli d.o.o.	136	244	78
Antur	1	230	28
Dogus Otel I	11	151	-
	148	**625**	**106**
Expenses			
Dogus Otel I. (management fee)	3,538	5,027	6,037
Antur	29	24	74
Marina Dalmacija d.o.o.	4	13	37
Dogus Marina Hoteli d.o.o.	21	-	4
Mercati	-	-	5
Dogus Croatia d.o.o.	62	172	51
	3,654	**5,236**	**6,208**

NOTE 23 – RELATED PARTY TRANSACTIONS (continued)

	31 December 2019 HRK '000	31 December 2018 HRK '000	31 December 2017 HRK '000
Trade and other receivables			
Dogus Marina Hoteli d.o.o. - principal	3,200	7,500	8,300
Dogus Marina Hoteli d.o.o. - interest	335	198	58
Dogus Otel I.	-	29	-
Antur	-	248	-
	3,535	**7,975**	**8,358**
Current liabilities			
Dogus Otel I. (management fee)	5,300	3,336	4,190
Antur	13	27	57
Dogus Croatia d.o.o.	3	22	5
Dogus Marina Hoteli d.o.o.	8	-	7
Marina Dalmacija d.o.o.	5	10	37
	5,329	**3,395**	**4,296**

Key management

The Management Board comprises 2 members as at 31 December 2019 (31 December 2017 and 2018: 2 members).

	2019 HRK '000	2018 HRK '000	2017 HRK '000
Management board compensation			
Net salaries	655	705	598
Pension contributions	131	125	121
Health insurance conribution	176	202	174
Taxes and surtaxes on salaries	285	343	287
	1,247	**1,375**	**1,180**

The Key management of the Company consists of 5 Directors - Director of rooms division, Director of finance, Director of food and beverage, Director of sales and marketing and Director of human resources.

	2019 HRK '000	2018 HRK '000	2017 HRK '000
Key management compensastion			
Net salaries	948	901	814
Pension contributions	295	274	240
Health insurance conribution	244	237	206
Taxes and surtaxes on salaries	232	206	117
	1,719	**1,618**	**1,377**

The Supervisory Board received no compensation for their services.

NOTE 24 – FIRST TIME ADOPTION OF IFRS

As stated in note on Summary of significant accounting policies , these financial statements are prepared in accordance with IFRSs as adopted by the European Union. The accounting policies set out in note on Summary of significant accounting policies have been applied in preparing the financial statements for the year ended 31 December 2017, 31 December 2018 and 31 December 2019.

As of 1 January 2017 the Company adopted International Financial Reporting Standards. Financial statements for the year ended 31 December 2016 were prepared in accordance with Croatian Financial Reporting Standards.

Explanation of influence of reclassifications in the statement of comprehensive income and changes in equity with the first application of IFRS on 1 January 2017:

- Prepaid expenses and accrued income amounting to HRK 92 thousand presented as a separate line item in CFRS was reclassified as Prepaid expenses and accrued income within Current assets under IFRS.
- Share capital amounting to HRK 86,858 thousand presented in line with CFRS was reclassified as Share capital amounting to HRK 83,002 thousand and Capital reserves amounting to HRK 4,228 thousand presented under IFRS.
- Accrued expenses and deferred income amounting to HRK 596 thousand presented as a separate line item in CFRS was reclassified as Accrued expenses and deferred income within Current liabilities under IFRS.
- Within the Statement of Cash flows, changes in trade and other receivables amounting to HRK 20 thousand were reclassified from net cash from operating activities to interest received within net cash used in investing activities.

NOTE 25 – SUBSEQUENT EVENTS

New guarantees issued

In March 2020 the Company became a guarantor for a related party loan and is severally and jointly liable for the entirety of the owed amount of EUR 10,136 thousand.

Coronavirus subsequent to 31 December 2019

Subsequent to 31 December 2019, in January 2020 the World Health Organisation ("WHO") declared the novel coronavirus (COVID 19) outbreak a global health emergency. The rapid spread of the viral outbreak constitutes a natural disaster type event with potential far reaching consequences on various industries, especially those related to travel and tourism. Currently, major world countries have either enacted or enacting widespread quarantine procedures and travel bans while travel in the foreseeable future is highly discouraged. Both will reflect negatively on the Company`s ability to generate revenue in the oncoming 2020 tourist season. The Company`s management expects to successfully mitigate any negative effects of these events by carefully monitoring their reservations subledger for the oncoming season and adjusting their pricing, cost structure and marketing policy accordingly (price reductions, switching marketing to less-affected countries, etc.) in addition to delaying capital expenditures.

At a macro level Governments in Europe and across the world are intervening at unprecedented levels to support the companies affected by the outbreak. The proposed measures include financial support to businesses and employees as well as tax breaks. Governments have reacted quickly to introduce new rounds of quantitative easing and other stimulus packages. Banks and other lenders are preparing to provide additional support to borrowers in the form of interest holidays and deferring amortisation payments. Management is in regular contact with the Company's lenders, providing regular updates in terms of planned business performance.
The ongoing spread of the coronavirus has led to a significant fall in demand for global travel and tourism. This has led to a decline in bookings and cancellations as discussed above. In response, the Company has considered various measures which are further discussed below.

The Company has taken extensive steps in order to mitigate and minimize the negative effects on 2020 business operations and the going concern assumption. During preliminary analyses the Company experienced an initial decrease of 10% in reservations (accounting for cancellations) with a trend of drastically increasing in the foreseeable future. Of the budgeted cash inflows for 2020 the Company currently expects to lose some 60% of cash inflows budgeted for the pre-season months (March-June) and some 40%-50% of cash inflows budgeted for high-season (July-August). Management believes that the reduction in cash inflows will contract in the post-season period (September-November) when the viral outbreak is expected to recede and Management expects to lose an average of 20%-25% of initially budgeted cash inflows in these two months. Overall for 2020 cash inflows could be expected to decrease by some 42%.

The Company has prepared and put in motion comprehensive crisis management procedures, as well as procedures for safeguarding liquidity and business continuity, and established transparent continuous communication with all stakeholders (guests, partners, employees, creditors, shareholders, competent state and local authorities).

NOTE 25 – SUBSEQUENT EVENTS *(continued)*

Coronavirus subsequent to 31 December 2019 (continued)

In order to offset the negative cash trends the Company is planning or already has enacted, amongst others, the following actions and steps:

- postpone or cancel all unnecessary construction and refurbishment work for the hotel opening both in terms of capital expenditure and other operational expenses (postponed education seminars for employees, revaluation of contracts with monthly subcontractors in order to tailor provision of services as needed instead of monthly payments, renegotiation of lower prices with suppliers);
- the hotel opening will be postponed by a certain period depending on the number of guest reservations in order to optimize salary and operational expenses;
- the hiring of seasonal employees has been temporarily put on hold due to the prolongation of the hotel opening and a reduction of employee salaries while the hotel is closed is being considered. The Company monitors State measures regarding job conservation and will reinstate regular terms as soon as practicable;
- more extensive marketing campaigns in countries which were not seriously affected by the coronavirus outbreaks;
- for major cancellations alternative dates in post season are being offered in order to retain any cash received and long- time business partners are being offered to move their reservations to the following year.

At the reporting date, the Company's current liabilities exceeded its current assets by HRK 11,096 thousand (31 December 2018: HRK 18,273 thousand, 31 December 2017: HRK 14,601 thousand).

In a pessimistic scenario the Company expects to end the 2020 year with a cash deficit of some EUR 1.7 million. Depending on various measures the Company reasonably expects for their creditors to enact, Management believes it will be able to defer some EUR 1.8 million of payments through the deferral of management fee settlements, loan principal and interest repayments and corporate tax prepayments. Keeping in mind the Company has at their disposal an additional unused credit line amounting to some EUR 0.4 million management believes that, even with the decrease of forecasted operating cash flows, it will have sufficient funds to settle current liabilities as they fall due.

Furthermore, as described in the "New guarantees issued" section of this note and subsequent to the balance sheet date, the Company became a guarantor for a related party loan amounting to EUR 10,136 thousand.

Any effects of provisions for the guaranteed amount have not been taken into account when calculating net cashflows as Management understands the related party Dogus Marina Hoteli d.o.o. will successfully renegotiate the terms of the guaranteed loan and which will not be called immediately due and payable by the lending bank. Should these negotiations not be successful, there exists a possibility that the Company will have additional liabilities should guarantees be activated.

The ultimate outcome of the matter cannot presently be determined. Accordingly, there exists material uncertainties related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.