SUNCE KONCERN d.d.

ANNUAL REPORT FOR THE YEAR 2019

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STATEMENT OF THE PERSONS RESPONSIBLE FOR PREPARATION THE FINANCIAL STATEMENTS

Pursuant to the provisions of the Capital Market Act, Ivan Potkrajčić, Member of the Management Board in charge of Finance, and Ivan Franić, Director of Accounting and Finance, are jointly responsible for preparation of the annual financial statements of Sunce koncern d.d. Zagreb, Trpinjska 9, OIB 06916431329 (Company), hereby give the following

STATEMENT

To the best of our knowledge, the annual audited financial statements for 2019 have been prepared using appropriate financial reporting standards and provide a true and fair view of the Company's assets and liabilities, losses and gains, financial position and operations.

The report of the Management Board of the Company for the period from 1 January to 31 December 2019 contains a true view of the development and results of operations and position of the Company, with a description of the most significant risks and uncertainties to which the Company is exposed.

Zagreb, 30 July 2020

CFO
Ivan Potkrajčić

Director of Accounting and Finance
Ivan Franić

Franić Ivan

MANAGEMENT RESPONSIBILITY FOR PREPARATION AND AUTHORIZATION OF FINANCIAL STATEMENTS

Based on the Accounting Act of the Republic of Croatia, the Management Board is required to ensure that the financial statements for each financial year are prepared in accordance with International Financial Reporting Standards ("IFRS") adopted by the European Union, so as to provide a true and fair view of the financial position and business results of Sunce koncern d.d. ("Company") for that period.

After making inquiries, the Management Board has a reasonable expectation that the Company has adequate resources to continue its operations for the foreseeable future. For this reason, the Management Board continues to adopt the going concern basis in preparing the financial statements.

When preparing the financial statements, the Management Board is responsible for:

- selection and consistent application of appropriate accounting policies;
- reasonable and prudent judgment and assessment;
- application of the applicable accounting standards and
- preparation of financial statements on the principle of continuing operations.

Management is responsible for keeping proper accounting records, which will reflect at any time with reasonable accuracy the financial position of the Company and comply with the Croatian Accounting Law. Management is also responsible for safeguarding the assets of the Company and hence taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Financial Statements are authorized by the Management Board on 30 July 2020 for submission to the Assembly of the Company at its acceptance, which is confirmed by a signature.

President of the Management Board

Tonči Boras

Member of the Management Board

Kristijan Gagulić

Member of the Management Board

Ivan Potkrajčić

Zagreb, 30 July 2020

Sunce koncern d.d.

Trpinjska 9

Zagreb

Building a better working world

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To the Shareholders of Sunce koncern d.d.;

Report on the audit of the financial statements

Qualified Opinion

We have audited the financial statements of Sunce koncern d.d. (the Company), which comprise the statement of financial position as at 31 December 2019, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the effects of the matter described in the paragraph 1 of Basis for Qualified Opinion section and except for the effects on the corresponding figures of the matter described in the paragraph 2 of Basis for Qualified Opinion section, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2019 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by EU ("IFRS as adopted by EU").

Basis for Qualified Opinion

1. As disclosed in Note 19, the Company presents the loan received from lenders in total amount of HRK 14,563 thousand. Out of this amount, HRK 1,755 thousand relates to the current portion of the loan that has maturity in 2020 in accordance with the long-term loan agreement, while the remaining amount of the loan is presented as a non-current liability as at 31 December 2019.

   Based on the fact that the Company was not in line with the provisions of the loan agreement relating to financial covenant that should be satisfied at the end of each financial year (calculated on consolidated basis of Sunce koncern Group) and no waiver from lenders was received prior to reporting date of 31 December 2019, the whole amount of the loan should be presented as a current liability as at 31 December 2019 since as at the reporting date the Company did not have an unconditional right to defer its settlement for at least twelve months after the reporting date. Accordingly, long-term liabilities to banks as at 31 December 2019 are overstated by HRK 12,808 thousand while short-term liabilities to banks are understated by the same amount.

2. During 2018, the Company has value adjusted the given loan to Sunce Global d.o.o. in the total amount of HRK 9,745 thousand for which collectability was not probable.

   Given that financial assets related to a given loan to a subsidiary had not been value adjusted in periods prior to 2018 when impairment indicators were identified, the loss for the year 2018 is overstated by HRK 9,745 thousand. Our audit opinion on the financial statements for the period ended 31 December 2018 was modified accordingly. Our opinion on the current period's financial statements is also modified because of the effect of this matter on the comparability of the current period's figures and the corresponding figures.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

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

Material uncertainty related to going concern

We draw attention to Note 25 in the financial statements which indicates that the Company`s legal successor results in 2020 will be largely affected by the COVID-19 pandemic. The Company's ability to continue as a going concern is dependent on the impact of COVID-19 pandemic on the financial year 2020 and the following seasons, and on the success in obtaining additional financing. These events or conditions indicate that a material uncertainty exists that may cast significant doubt on the Company's legal successor ability to continue as a going concern.

Our opinion is not further modified in respect of these matters.

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Emphasis of matter

We draw attention to Note 25 of the financial statements, which describes information in respect of legal merger of subsidiaries Hotel Alan d.d., Hoteli Brela d.d., Hoteli Tučepi d.d. and Hoteli Zlatni rat d.d. into the Sunce koncern d.d.which also changed its name to Sunce hoteli d.d. from 1 January 2020.

Our opinion is not further 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. In addition to the matter described in the *Basis for Qualified Opinion* section and *Material uncertainty related to going concern* section, we have determined the matter described below to be the key audit matter to be communicated in our report. 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. For the matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to this matter. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying financial statements.

Key Audit Matter	How we addressed Key Audit Matter
Investment in subsidiaries The Company has a significant amount of investments in subsidiaries with carrying amount of HRK 595,008 thousand as at 31 December 2019 (it represents 93% of the total assets). The assessment of the impairment indicators involves management judgement. Because of the significant amount of investment in subsidiaries and judgement involved in impairment assessment, we consider this matter as a key audit matter.	Audit procedures included understanding of the process and the controls designed by the Company relating to the assessment of the carrying value of respective investments. We performed procedures relating to testing of recoverable amounts of investments by reviewing the latest financial data of subsidiaries and analyzing financial indicators in order to identify potential impairment indicators. We also assessed the adequacy of disclosures included in Note 13 *Investment into subsidiaries* in the financial statements and if these are in line with the requirements of the IFRS as adopted by EU.

Other information included in The Company's Annual Report
Management is responsible for the other information. Other information consists of the information included in the Annual Report which includes the Management report and Corporate Governance Statement, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the Other information including the Management report and Corporate Governance Statement.

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 and Corporate Governance Statement, we also performed procedures required by the Accounting Act. Those procedures include considering whether the Management Report includes the disclosures required by Article 21 of the Accounting Act, and whether the Corporate Governance Statement includes the information specified in Article 22 of the Accounting Act.

Based on the procedures undertaken, to the extent we are able to assess it, we report that:

1. the information given in the enclosed Management report for the 2019 financial year are consistent, in all material respects, with the enclosed financial statements;

2 .the enclosed Management report for 2019 financial year is prepared in accordance with requirements of Article 21 of the Accounting Act;

3. Corporate Governance Statement, included in the Company's annual report, includes the information referred to in Article 22., paragraph 1., items 2, 5, 6 and 7 of the Accounting Act; and

4. elements of Corporate Governance Statement containing the information referred to in Article 22, paragraph 1, items 3 and 4 of the Accounting Act, included in the Company's annual report are prepared in accordance with requirements of the Accounting Act and are consistent, in all material respects, with the enclosed financial statements;

In addition, in the light of the knowledge and understanding of the entity and its environment obtained in the course of the audit, we are also required to report if we have identified material misstatements in the Management Report, Corporate Governance Statement and Annual Report. As described in the Basis for Qualified Opinion section above, the Company should have presented the loan as current liability due to the covenant breach and the Company should have accounted for the value adjustment of the financial assets in the periods prior to 2018 and not during 2018. We have concluded that the other information is materially misstated for the same reason with respect to the amounts of the respective items in the Annual Report.

Responsibilities of management and Audit Committee for the financial statements
Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS as adopted by EU, and for such internal control as management determines is necessary to enable the preparation of 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.

Audit Committee is responsible for overseeing the Company's financial reporting process.

Auditor's 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 auditor's 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 ISAs 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 ISAs, we exercise professional judgment and maintain professional scepticism 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 control.

- 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 control.

- 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 auditor's 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 auditor's 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 Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit. We also provide Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with Audit Committee, 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 auditor's 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.

Report on Other Legal and Regulatory Requirements
In compliance with Article 10(2) of Regulation (EU) No. 537/2014 of the European Parliament and the Council, we provide the following information in our independent auditor's report, which is required in addition to the requirements of ISAs:

Appointment of Auditor and Period of Engagement
We were initially appointed as auditors of the Company on 29 August 2017. Our appointment has been renewed annually by shareholder resolution, with the most recent reappointment on 28 June 2019, representing a total period of uninterrupted engagement appointment of three years.

Consistence with Additional Report to Audit Committee
We confirm that our audit opinion on the financial statements expressed herein is consistent with the additional report to the Audit Committee of the Company, which we issued on 29 July 2020 in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council.

Provision of Non-audit Services
We declare that no prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No. 537/2014 of the European Parliament and the Council were provided by us to the Company and its controlled undertakings within the European Union. In addition, there are no other non-audit services which were provided by us to the Company and its controlled undertakings and which have not been disclosed in the financial statements.

The partner in charge of the audit resulting in this independent auditor's report is Zvonimir Madunić.

Zvonimir Madunić
Member of the Board and certified auditor

30 July 2020

Ernst & Young d.o.o.
Radnička cesta 50
10000 Zagreb, Republic of Croatia

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2019

(in thousands of HRK)	Note	2019	2018
OPERATING INCOME			
Sales	4	24,711	21,977
Other operating income	5	7,712	1,470
		32,423	**23,447**
OPERATING EXPENSES			
Material expenses	6	(6,824)	(7,565)
Personnel expenses	7	(21,969)	(17,137)
Amortization and depreciation	11, 12 12.1	(2,758)	(695)
Other expenses	8	(7,813)	(14,041)
		(39,364)	**(39,438)**
Net operating loss		**(6,941)**	**(15,991)**
Financial income		668	1,940
Financial expenses		(1,253)	(1,378)
Net financial income / (expense)	9	**(585)**	**562**
Loss before tax		**(7,526)**	**(15,429)**
Income tax	10	-	-
Loss for the year		**(7,526)**	**(15,429)**
Other comprehensive income		-	-
Total comprehensive income		**(7,526)**	**(15,429)**
Earnings per share	17	**(1.40)**	**(3.03)**

STATEMENT OF FINANCIAL POSITION

AS OF 31 DECEMBER 2019

(in thousands of HRK)	**Note**	**31.12.2019.**	**31.12.2018.**
ASSETS			
NON-CURRENT ASSETS			
Intangible assets	11	177	75
Property, plant and equipment	12	2,268	2,391
Right-of-use asset	12.1	12,346	-
Investments in subsidiaries	13	595,008	595,008
Given loans	14	11,479	6,506
Other receivables		110	161
		621,388	**604,141**
CURRENT ASSETS			
Receivables from related parties	15	13,321	20,323
Trade receivables	15	428	538
Other receivables	16	1,813	953
Given loans	14	50	10,299
Cash and cash equivalents		213	3,480
		15,825	**35,593**
TOTAL ASSETS		**637,213**	**639,734**

SUNCE KONCERN d.d.

STATEMENT OF FINANCIAL POSITION

AS OF 31 DECEMBER 2019

(in thousands of HRK)	**Note**	**31.12.2019.**	**31.12.2018.**
EQUITY AND LIABILITIES			
Capital and reserves			
Share (subscribed) capital	17	539,385	539,385
Share premium		67,837	83,266
Other reserves		123	497
Loss for the year		(7,526)	(15,429)
		599,819	**607,719**
NON-CURRENT LIABILITIES			
Liabilities to banks	19	12,808	14,530
Lease liabilities	12.1	10,742	-
		23,550	**14,530**
CURRENT LIABILITIES			
Liabilities to banks	19	1,755	1,751
Liabilities to related parties	18	4,218	10,207
Trade payables	20	2,266	1,208
Liabilities to employees		1,098	808
Tax, contributions and similar liabilities	21	1,878	2,833
Lease liabilities	12.1	1,817	-
Other current liabilities	22	812	678
		13,844	**17,485**
TOTAL EQUITY AND LIABILITIES		**637,213**	**639,734**

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2019

(in thousands of HRK)	Share capital	Share premium	Other reserves	Loss carried forward	Total
For the year ended 31 December 2018					
As at 1 January 2018	**488,706**	**24,420**	**720**	**(12,413)**	**501,433**
Share capital increase	50,679	71,036	-	-	121,715
Transfer to prior year losses	-	(12,190)	(223)	12,413	-
Loss for the year	-	-	-	(15,429)	(15,429)
As at 31 December 2018	**539,385**	**83,266**	**497**	**(15,429)**	**607,719**
For the year ended 31 December 2019					
As at 1 January 2019	**539,385**	**83,266**	**497**	**(15,429)**	**607,719**
Transfer to prior year losses	-	(15,429)	-	15,429	-
Effect of negative net assets merger of the subsidiary Sunce Global d.o.o.	-	-	(374)	-	(374)
Loss for the year	-	-	-	(7,526)	(7,526)
As at 31 December 2019	**539,385**	**67,837**	**123**	**(7,526)**	**599,819**

SUNCE KONCERN d.d.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2019

(in thousands of HRK)	Note	2019	2018
CASH FLOW FROM OPERATING ACTIVITIES			
Loss for the year		**(7,526)**	**(15,429)**
Adjustments:			
Amortization and depreciation	11,12	2,758	695
Interest income	9	(668)	(1,741)
Interest expenses	9	1,044	1,026
Value adjustment of given loans	8	-	10,640
Unrealised foreign currency exchange differences (loss)		39	15
Total adjustments		**3,173**	**10,635**
Cash flow from operations before changes in working capital		**(4,353)**	**(4,794)**
Changes in working capital (excluding the effect on the acquisition and disposal):			
- trade receivables		8,879	(7,636)
- other receivables		(2,491)	1,420
- liabilities		(3,432)	(541)
Total cash flow from operating activities		**2,956**	**(6,757)**
Cash generated from operations		**(1,397)**	**(11,551)**
Interest paid		(2,049)	(1,186)
Tax paid		-	-
Net cash flow from operating activities		**(3,446)**	**(12,737)**
Purchase of property, plant and equipment		(150)	(1,601)
Proceeds from sale of property, plant and equipment		-	53
Establishment of subsidiary		-	(10)
Merger of a subsidiary		15	
Interest received		332	-
Loans to related and third parties		-	(13,690)
Proceeds from loans from related and third parties		5,271	19,791
Net cash flow used in investing activities		**5,468**	**4,543**
Proceeds from borrowings		1,800	30,556
Lease principal repayment		(1,653)	-
Repayments of borrowings		(5,436)	(25,418)
Net cash flow used in financial activities		**(5,289)**	**5,138**
Net increase / (decrease) in cash and cash equivalents		**(3,267)**	**(3,056)**
At the beginning of the year		3,480	6,536
At the end of the year		213	3,480
Net increase / (decrease)		**(3,267)**	**(3,056)**

The notes to the financial statements are an integral part of these financial statements

NOTE 1 – GENERAL INFORMATION

Sunce koncern d.d. (the "Company") is a holding Company which has until the end of 2019 (until legal merger of subsidiaries) managed operations for the following subsidiaries: Hoteli Zlatni rat d.d., Hoteli Tučepi d.d., Hoteli Brela d.d., Hotel Alan d.d., Sunce Global d.o.o. (tourist agency which was merged into Sunce koncern d.d. at the beginning of 2019), and Sunce Vital d.o.o.., representing the Group and third-party hotel companies. The Company manages hotels and provides various advisory services in connection with the management and operations of the companies including advertisement and marketing services, real estate operations, procurement processes, providing services in nautical, rural, health, congress, sport and other forms of tourism. The Company was established as a private limited liability Company on 11 October 2004. The General Assembly agreed at its meeting held on 4 April 2007 to transform the Company from a limited Company to a public limited Company. Shares in the private limited Company in the amount of HRK 222,806,200 thousand have been transformed into 2,268,062 shares with HRK 100 par value per share.

According to the Resolution of the General Assembly dated 16 April 2010, the Company increased its share capital from the amount of HRK 222,806,200 by the amount of HRK 217,500,000 to the total amount of HRK 444,306,200. Increase of share capital was contributed in cash and other assets. Due to the increase, the Company issued 2,175,000 of new shares with HRK 100 per value per share. By the decision of the general assembly on the increase of share capital and issuance of shares and amendments of the Company's statute as of 31 August 2017, the decision of the management board on the final price for which new shares are issued, the rules for the allocation of new shares (allocation rules) and the mechanism for the allocation of new shares as of 11 September 2017. and the decision of the supervisory board as of 11 September 2017. on the approval of the aforementioned decision of the management board and the decision of the management board on the successful issuance, and the final number of new shares and the exact amount of the increase of the share capital as of 15 September 2017., and the decision of the supervisory board of 15 September 2017., the share capital of the Company was increased by the issue of new non-materializing regular shares for the purpose of cash payment and 444,000 new shares, each with a nominal value of HRK 100.00, so that the share capital from the previous 444,306,200.00 HRK increased for the amount of HRK 44,400,000.00 at the amount of HRK 488,706,200.00. On 10 August 2018, the general assembly of the Sunce koncern d.d. made a decision to increase the Company's share capital by investing in rights of 595,397 ordinary shares of the company HOTEL ALAN d.d. and issuing 506,788 new ordinary shares. The share capital of the Company increased by HRK 50,678,800 to HRK 539,385,000.

Based on the decision of General assembly on 28 February 2019, the Company legally merged the subsidiary Sunce Global d.o.o., the travel agency, thus the Company took over all activities relating to travel agencies.

The ultimate majority owner of the Sunce koncern d.d. is company Sunce Ulaganja d.o.o. (parent company).

Supervisory Board

Jako Andabak – President of the Supervisory Board (from 13 June 2017)

Sanja Gagulić – Deputy President of the Supervisory Board (from 13 June 2017)

Ružica Andabak – Supervisory Board member (from 13 June 2017)

Ana Volk – Supervisory Board member (from 13 June 2017)

Ratomir Ivičić – Supervisory Board member (from 1 July 2019)

Management Board

Tonči Boras – President of the Management Board (from 13 June 2017 to 31 July 2020)

Kristijan Gagulić – Management Board member (from 13 June 2017)

Ivan Potkrajčić – Management Board member (from 13 June 2017)

1.1 ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

Standards and Interpretations effective in the current period

The accounting policies adopted are consistent with those of the previous financial year except for the following amended IFRSs which have been adopted by the Company as of 1 January 2019:

IFRS 16 Leases

IFRS 16 was released in January 2016 and replaces IAS 17 Leases, IFRIC 4 Determining whether the Arrangement contains a lease, SIC 15 Operating leases - Incentives and SIC-27 Evaluating the substance of transactions in the legal form of a lease. IFRS 16 sets out the principles for recognizing, measuring, presenting and disclosing leases and requires lessees to report all leases individually in the Statement of financial position, similar to finance leases under IAS 17. The Standard includes two exceptions in recognition for the leases of "small value" assets (e.g. personal computers) and short-term lease with a period of 12 months or shorter. At the commencement date, the lessee recognizes the lease obligations and the assets which constitutes the right to use the underlying asset during the lease period, i.e. the right to use the property. Lessee is obliged to separately recognise the costs of interest on the lease obligations and the depreciation costs of the right of use assets. Lessee is also required to re-measure the lease obligations after certain events (e.g. changes in the lease period, changes in future lease payments resulting from a change in the index or the rate used to determine those payments). The lessee, generally, recognises the amount of remeasurement of those obligations as an adjustment to the right of use the asset.

The accounting treatment of the lessor according to IFRS 16 remains unchanged in relation to the previous IAS 17 requirements. The lessor continues to classify all leases using the same classification principles as in IAS 17 and separates two forms of lease: operating and finance lease. IFRS 16 also requires the lessee and the lessor to make more disclosures than previous IAS 17.

A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard’s transition provisions permit certain reliefs.

The Company has adopted standard from 1 January 2019 by applying the simplified transition approach and has not restated comparative amounts for the 2018, as permitted under specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019. The new accounting policies are disclosed in Note 2.14.

On adoption of IFRS 16, the Company recognised lease liabilities in relation to leases which had previously been classified as ‘operating leases’ under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate as of 1 January 2019. The weighted average lessee’s incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 3.15%.

In applying IFRS 16 for the first time, the Company has used the following practical expedients permitted by the standard:

- Applying single discount rate to a portfolio of leases with reasonably similar characteristics
- Accounting for operating leases with a remaining lease term of less than 12 months and lease contracts for which the underlying asset is of low value. The Company has leases of certain office equipment (i.e., printing and photocopying machines) that are considered of low value.

1.1 ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

IFRS 16 Leases (continued)

The change in accounting policy affected the following items in the balance sheet on 1 January 2019:

	(in thousands of HRK)
Right-of-use assets	14,252
Lease liabilities	14,252
Net impact on equity	**-**

The amount of the value of the right to use is equal to the lease liability adjusted for the current incremental borrowing rate.

Measurement of lease liabilities:	*(in thousands of HRK)*
Operating lease commitments disclosed as at 31 December 2018	16,311
Discounted using the incremental borrowing rate at the date of initial application	14,252
(Less):	
Short-term leases not recognized as a liability	-
Add:	
Adjustment as a result of a different treatment of extension and termination options	-
Lease liabilities recognized as at 1 January 2019	**14,252**
Of which are:	
Short-term lease liabilities	1,693
Long-term lease liabilities	12,559

IFRS 9: Prepayment features with negative compensation (Amendment)

IFRS 9 Amendments are effective for the annual periods starting at or after 1 January 2019 or later. The Amendment allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract (so that, from the perspective of the holder of the asset there may be ‘negative compensation’), to be measured at amortized cost or at fair value through other comprehensive income. Management have assessed that there is no material impact on financial statement of the Company.

IAS 28: Long-term Interests in Associates and Joint Ventures (Amendments)

IAS 28 Amendments are effective for the annual periods starting at or after 1 January 2019 or later. The Amendments relate to whether the measurement, in particular impairment requirements, of long-term interests in associates and joint ventures that, in substance, form part of the ‘net investment’ in the associate or joint venture should be governed by IFRS 9, IAS 28 or a combination of both. The Amendments clarify that an entity applies IFRS 9 Financial Instruments, before it applies IAS 28, to such long-term interests for which the equity method is applied. In applying IFRS 9, the Company does not take account of any adjustments to the carrying amount of long-term interests that arise from applying IAS 28. Management have assessed that there is no material impact on financial statement of the Company.

1.1 ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

IFRIC Interpretation 23: Uncertainty over Income Tax Treatments

IFRIC Interpretation is effective for the annual periods starting at or after 1 January 2019 or later. The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The Interpretation provides guidance on considering uncertain tax treatments separately or together, examination by tax authorities, the appropriate method to reflect uncertainty and accounting for changes in facts and circumstances. Management have assessed that there is no material impact on financial statement of the Company.

IAS 19: Plan Amendment, Curtailment or Settlement (Amendments)

IAS 19 Amendments are effective for the annual periods starting at or after 1 January 2019 or later. The Amendments require entities to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after a plan amendment, curtailment or settlement has occurred. The Amendments also clarify how the accounting for a plan amendment, curtailment or settlement affects applying the asset ceiling requirements. Management have assessed that there is no material impact on financial statement of the Company.

The IASB has issued the Annual Improvements to IFRSs 2015 – 2017 Cycle, which includes:

IFRS 3 Business Combinations and IFRS 11 Joint Arrangements: The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business. Management have assessed that there is no material impact on financial statement of the Company.

IAS 12 Income Taxes*:* The amendments clarify that the income tax consequences of payments on financial instruments classified as equity should be recognized according to where the past transactions or events that generated distributable profits has been recognized. Management have assessed that there is no material impact on financial statement of the Company.

IAS 23 Borrowing Costs*:* The amendments clarify paragraph 14 of the standard that, when a qualifying asset is ready for its intended use or sale, and some of the specific borrowing related to that qualifying asset remains outstanding at that point, that borrowing is to be included in the funds that an entity borrows generally. Management have assessed that there is no material impact on financial statement of the Company.

Standards and Interpretations issued by IASB and adopted by the EU but not yet effective

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

Conceptual Framework in IFRS standards

The IASB issued the revised Conceptual Framework for Financial Reporting on 29 March 2018. The Conceptual Framework sets out a comprehensive set of concepts for financial reporting, standard setting, guidance for preparers in developing consistent accounting policies and assistance to others in their efforts to understand and interpret the standards. IASB also issued a separate accompanying document, Amendments to References to the Conceptual Framework in IFRS Standards, which sets out the amendments to affected standards in order to update references to the revised Conceptual Framework.

1.1 ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

Conceptual Framework in IFRS standards (continued)

Its objective is to support transition to the revised Conceptual Framework for companies that develop accounting policies using the Conceptual Framework when no IFRS Standard applies to a particular transaction. For preparers who develop accounting policies based on the Conceptual Framework, it is effective for annual periods beginning on or after 1 January 2020.

IFRS 3: Business Combinations (Amendments*)* The IASB issued amendments in Definition of a Business (Amendments to IFRS 3) aimed at resolving the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The Amendments are effective for business combinations for which the acquisition date is in the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period, with earlier application permitted. These Amendments have not yet been endorsed by the EU and the Management anticipates that the adoption will have no material impact on the financial statements of the Company.

IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of 'material' (Amendments)
The Amendments are effective for annual periods beginning on or after 1 January 2020 with earlier application permitted. The Amendments clarify the definition of material and how it should be applied. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity'. In addition, the explanations accompanying the definition have been improved. The Amendments also ensure that the definition of material is consistent across all IFRS Standards. Management have assessed the impact of application of new standard and anticipates that the adoption will have no material impact on the financial statements of the Company.

Interest Rate Benchmark Reform - IFRS 9, IAS 39 and IFRS 7 (Amendments)
The amendments are effective for annual periods beginning on or after 1 January 2020 and must be applied retrospectively. Earlier application is permitted. In September 2019, the IASB issued amendments to IFRS 9, IAS 39 and IFRS 7, which concludes phase one of its work to respond to the effects of Interbank Offered Rates (IBOR) reform on financial reporting. Phase two will focus on issues that could affect financial reporting when an existing interest rate benchmark is replaced with a risk-free interest rate (an RFR). The amendments published, deal with issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative interest rate and address the implications for specific hedge accounting requirements in IFRS 9 Financial Instruments and IAS 39 Financial Instruments: Recognition and Measurement, which require forward-looking analysis. The amendments provided temporary reliefs, applicable to all hedging relationships that are directly affected by the interest rate benchmark reform, which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate. There are also amendments to IFRS 7 Financial Instruments: Disclosures regarding additional disclosures around uncertainty arising from the interest rate benchmark reform. Management have assessed the impact of application of new standard and anticipates that the adoption will have no material impact on the financial statements of the Company.

1.1 ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

Standards and Interpretations issued by IASB but not yet adopted by the EU

IFRS 17: Insurance Contracts The standard is effective for annual periods beginning on or after 1 January 2021 with earlier application permitted if both IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments have also been applied. IFRS 17 Insurance Contracts establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. The objective is to ensure that entities provide relevant information in a way that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that contracts within the scope of IFRS 17 have on the financial position, financial performance and cash flows of an entity. The standard has not been yet endorsed by the EU and is not applicable for the Company.

Amendment in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture *a*ddress the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively. The standard has not been yet endorsed by the EU and the Management anticipates that the adoption will have no material impact on the financial statements of the Company.

IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current (Amendments), effective for annual reporting periods beginning on or after January 1, 2022 with earlier application permitted. The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the balance sheet, debt and other liabilities with an uncertain settlement date should be classified as current or non-current. The amendments affect the presentation of liabilities in the balance sheet and do not change existing requirements around measurement or timing of recognition of any asset, liability, income or expenses, nor the information that entities disclose about those items. Also, the amendments clarify the classification requirements for debt which may be settled by the company issuing own equity instruments. These Amendments have not yet been endorsed by the EU. Management anticipates that the adoption will have no material impact on the financial statements of the Company.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

The financial statements of the Company have been prepared in accordance with the Croatian laws and regulations and International Financial Reporting Standards (IFRS) accepted in the European Union.

The financial statements are prepared on a historical cost basis.

Accounting policies have been applied consistently, unless otherwise stated. The financial statements were prepared in according to the principle of occurrence, under the going concern assumption.

The Company's financial statements are prepared in Croatian kunas as reporting currency. As of 31 December 2019, the exchange rate for 1 EUR was 7.442580 HRK (31 December 2018: HRK 7.417575).

Consolidated financial statements of the Company and its subsidiaries, which the Company also prepares, will be issued separately.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Foreign currencies

(a) Functional and presentation currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in Croatian kuna (HRK), which is the Company's functional 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 recognized in the income statement within finance income/expense. Assets and liabilities presented in EUR are translated at the average exchange rate of the Croatian National Bank, which as at 31 December 2019 amounted to 7.442580 (31.12.2018.: 7.417575).

2.3 Intangible assets

Intangible assets include software programs. Software licenses are capitalized according to their acquisition costs and costs incurred when being put to use. These costs are depreciated over their useful lives (4 years).

2.4 Property, plant and equipment

Property, plant and equipment include vehicles and office equipment. They are disclosed at historical acquisition costs reduced by accumulated depreciation and impairment, if necessary. Historical cost includes costs expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized 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. The carrying amount of the replaced part will not be recognized. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation of vehicles and equipment is calculated on a straight-line basis to allocate their cost over their estimated useful lives. Depreciation is calculated for each asset until the asset is fully depreciated or to their residual value, if significant.

The estimated useful life of property, plant and equipment:

	2019	**2018**
Vehicles	5 years	5 years
Office equipment	2 to 4 years	2 to 4 years

The residual value of equipment represents the estimated amount that the Company would currently receive from the sale of equipment reduced by the estimated selling costs in case the equipment has reached the age and state expected at the end of its useful life. The residual value of the equipment is zero if the Company expects its usage until the end of its useful life.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Property, plant and equipment (continued)

The residual value of equipment and the useful life are reviewed, and adjusted if appropriate, at each reporting date.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in line item “Other income” or “Other expenses” in the Statement of comprehensive income.

2.5 Impairment of non-financial assets

Assets that have an indefinite useful life (for example land and goodwill) are not subject to depreciation and are tested annually for impairment. Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset’s carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset’s fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.6 Investments in subsidiaries

Subsidiary is the company in which the Company has control, direct or indirect, over its business activities. Control exists when the Company has a power to govern the financial and operating activities of the subsidiary so as to obtain benefits from its business activities. Investments in subsidiaries are recognized at cost, adjusted for any impairment losses.

The Company prepares consolidated financial statements as separate document.

1.7 Financial asset

Classification

The Company classifies its financial assets in the following categories: financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income, and financial assets at amortised cost. The classification depends on the purpose for which the financial assets were acquired. The Management determines the classification of financial assets at initial recognition and re-evaluates this designation at every reporting date.

(a) Financial assets at fair value through profit or loss

This category includes financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by the Management. Assets in this category are classified as current assets except derivative financial instruments.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Financial asset (continued)

Classification (continued)

(b) Financial assets at fair value through other comprehensive income (OCI)

The Company measures financial assets at fair value through OCI if both of the following conditions are me:

- The financial asset is held within a business model with the objective of holding the financial assets to collect and selling contractual cash flows
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of the principal and interest on the principal amount outstanding.

For debt instruments at fair value through OCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for the financial assets measured at amortised cost. The remaining fair value changes are recognised in OCI. Upon derecognition, the cumulative fair value change recognised in OCI is recycled to profit or loss.

(c) Financial assets at amortised cost

The Company measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective of holding financial assets in order to collect contractual cash flows
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired. Financial assets at amortized cost include trade receivables.

Measurement and recognition

Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the Company committed to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the statement of comprehensive income. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Loans and receivables are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the “financial assets at fair value through profit or loss” category are presented in the statement of comprehensive income within “other (losses)/gains – net” in the period in which they arise.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Financial asset (continued)

Measurement and recognition (continued)

The interest on securities calculated using the effective interest method is recognised in the statement of comprehensive income as part of other income. Dividends on equity instruments are recognised in the statement of comprehensive income as part of other income when the right to receive payments is established.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Company establishes fair value by using valuation techniques. These include the use of recent arm’s length transactions and references to other instruments that are substantially the same, discounted cash flow analysis and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

Impairment of financial assets

The Company recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive.
ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL). For trade receivables and contract assets, the Company applies a simplified approach in calculating ECLs. Therefore, the Company does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. Financial assets are written off when there is no reasonable expectation of recovery.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Financial liabilities and equity instruments issued by the Company

Classification as debt or equity

Debt and equity instruments are classified either as financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Financial liabilities “at fair value through profit and loss”

Financial liabilities are classified as financial liabilities at fair value through profit or loss when they are either held for trading or are defined by the Company as such.

Financial liabilities at fair value through profit and loss are stated at fair value, with any resultant gain or loss recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability.

Other financial liabilities

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

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

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

Derecognition of financial liabilities

The Company derecognizes financial liabilities when, and only when, the Company’s obligations are discharged, cancelled or they expire.

2.9 Long-term deposits

Long term deposits are non-derivative financial assets with fixed or determinable payments that are not quoted in the active market. Long term deposits are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method.

2.10 Receivables

Receivables from customers and other receivables are initially recognized at fair value and are subsequently measured at amortized cost using the effective interest rate method, less any impairment loss for expected credit losses as described in note 2.7.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.11 Cash and cash equivalent

Cash and cash equivalents are stated in the statement of financial position at cost. For the purposes of the statement of cash flows, cash and cash equivalents consist of cash in bank and cash in hand.

2.12 Borrowings

Borrowings are recognized initially at fair value less transaction costs. In future periods borrowings are disclosed at amortized cost; all differences between income (less transaction costs) and purchase value are recognized in the income statement during the borrowing period using the effective interest method.

2.13 Accruals

Accruals are items of receivables or liabilities for which the criteria of revenue or expense recognition in the accounting period have not been met but are expected to be met in future periods, or items of income or expenses recognized in the accounting period on the basis of event criteria for which the criteria of receivables and liabilities recognition have not been met in the same accounting period, but they are expected to be met in future periods.

Accruals include prepayments and accrued income and accruals and deferred income.

Prepayments and accrued income are prepaid costs referring to costs of future periods for which the criteria of cost recognition in the accounting period have not been met and to the collection of undue income referring to the income of the current period for which the criteria of receivables recognition have not been met. Prepaid costs are recognized to the extent of the amounts paid.
The collection of undue income is recognized at the fair value of the consideration which is expected to be received of the receivable which is expected to be recognized.

Accruals and deferred income are deferred payments of costs which refer to costs of future periods for which the criteria of liabilities recognition have not been met or to income of future periods which refers to income of future periods for which the criteria of income recognition in the accounting period have not been met.
Deferred payments of costs are recognized at the fair value of the expected expenditure or liability.
The income of future periods is recognized to the extent of the amounts received or to the extent of recognized receivables.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.14 Leases

The Company evaluates contracts to determine whether a contract contains a lease or not. That is, a lease is a contract (or part of a contract) that transfers the right to use the property (the subject property), for a certain period of time, in exchange for compensation.

Company as lessee

The Company applies a single recognition and measurement approach to all leases, except for short-term leases and low-value leases. The Company recognizes lease obligations to pay leases and property, plant and equipment that represents the right to use the asset in question. There are two key concepts:

1. Right-of-use assets

The Company recognizes a right-of-use asset at the initial lease date (i.e., the date when the asset in question is available for use). Right-of-use assets are measured at cost less accumulated depreciation and impairment losses, modified for any revaluation of lease obligations. Right-of-use assets includes the amount of recognized lease obligations, direct costs incurred and lease payments made on or before the date of the lease, less any lease incentives received. Property, plant and equipment are depreciated on a straight-line basis over the term of the lease or the estimated useful life of the asset, whichever is earlier.

If ownership of the leased asset is transferred to the Company at the end of the lease term or the cost reflects the exercise of the purchase option, depreciation is calculated taking into account the estimated useful life of the asset. Right-of-use assets are presented in a separate line of the Statement of Financial Position.
Right-of-use assets are also subject to impairment. In accordance with accounting policies, depreciation is calculated as for Property, plant and equipment in accordance with IAS 16.

2. Lease liability

On the first date of the lease, the Company recognizes lease obligations, measured at the present value of all lease payments that will arise during the lease term. Lease payments include fixed payments (including substantially fixed payments) less all lease incentive claims, variable lease payments that depend on an index or rate, and amounts expected to fall due under the guaranteed residual value.

Variable lease payments that do not depend on an index or rate are recognized as an expense in the period in which they are incurred or when the conditions that encourage payment are met. In calculating the present value of the lease, the Company uses its own incremental borrowing rate at the inception of the lease because the interest rate included in the lease is not easy to determine. After the commencement date, the amount of the lease liability is increased to reflect the release of interest and is reduced by the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there are changes, changes in lease periods, changes in rent (eg changes in future payments resulting from changes in the index or rate used to determine such leases) or changes in the assessment of the option to purchase the asset. Lease liabilities are presented in a separate line of the statement of financial position.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.14 Leases (continued)

Short-term leases and low-value leases

The Company applies the exemption for the recognition of short-term lease on its short-term leases (ie. leases that last 12 months or less). Leases that contain a purchase option cannot be classified as short-term leases. The Company applies the asset recognition exemption to leases of office equipment that are considered to be of low-value. Rent for short-term leases and leases of low-value assets are recognized as an expense on a straight-line basis over the term of the lease.

2.15 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods or services in the ordinary course of the Company's activities. Revenue is shown net of value-added tax, rebates, and discounts. Sales are recognized when the amount of revenue can be measured reliably and when it is probable that future economic benefits will flow to the entity. Revenue is recognized in the same period when the Company delivers the service and the costs for this service are incurred.

(a) Sales of trading goods

Revenue from the sale of trading goods is recognized when the Company has delivered products to the customer, the customer has discretion over determining the selling price, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery does not occur until the products have been transported to the specified location, the risks of loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, or the Company has objective evidence that all criteria for acceptance have been satisfied.

(b) Sales of services

Revenue from the sale of services is recognized in the same period when the Company has delivered services and the corresponding costs for performed services arise.

2.16 Financial income and expenses

Financial income and expenses comprise interest income on loans and borrowings using the effective interest method, interest income on funds invested dividend income, foreign currency losses and gains, gains and losses from changes in the fair value of financial assets at fair value through profit or loss.

Interest income is recognized in profit or loss as incurred, using the effective interest method. Dividend income is recognized on the date that the Company's right to receive payment is established.

Financial expenses comprise interest expense on borrowings and foreign currency losses.

Borrowing costs related directly to the purchase, construction or production of qualifying asset are capitalized during the period which is necessary for finishing and preparation of the asset for its intended use or sale. Other borrowing costs are recognized in the profit and loss account using the effective interest rate method.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.17 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. In addition, the Company is not obliged to provide any other post-employment benefits.

(b) Short term employee remunerations

The Company recognizes obligations for accumulated payments for absence from work based on unused vacation on reporting date.

2.18 Taxation

The Company provides for taxation liabilities in accordance with Croatian law. Corporate tax for the year comprises current and deferred tax.
Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the reporting date.

Deferred tax reflects the net tax effect of the temporary differences between the book values of the assets and the liabilities for the purpose of the financial reporting and values used for the purpose of establishing profit tax.

A deferred tax asset for the carry-forward of unused tax losses and unused tax credits is recognized to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilized. Deferred tax assets and liabilities are calculated using the tax rate applicable to the taxable profit in the years in which these assets and liabilities are expected to be collected or paid.

Current and deferred tax are recognized as an expense or income in profit or loss, except when they relate to items credited or debited directly to equity, in which case the tax is also recognized directly in equity.

2.19 Value added tax (VAT)

The Tax Authorities require the settlement of VAT on a net basis. VAT related to sales and purchases is recognized and disclosed in the balance sheet on a net basis. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

2.20 Contingent assets and liabilities

Contingent liabilities are not recognized in financial statements, but only disclosed in the notes to the financial statements.

Contingent assets are not recognized in the financial statements except when the inflow of economic benefits is virtually certain.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.21 Events after the reporting period

Subsequent events that provide additional information about the Company's position at the reporting date (adjusting events) are reflected in the financial statements. Subsequent events that are not adjusting events are disclosed in the notes when material.

NOTE 3 – FINANCIAL RISK MANAGEMENT AND KEY ACCOUNTING ESTIMATES

3.1 Financial risk factors

The Company's activities expose it to a variety of financial risks: foreign exchange risk, credit risk, liquidity risk and cash flow interest rate risk. Overall risk management in respect of these risks is carried out by the Company's Management.

(a) Foreign exchange risk

The Company is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to Euro. Foreign exchange risk arises from recognized assets and liabilities.

(b) Credit risk

Current asset that may subject the Company to concentrations of credit risk includes primarily trade and other receivables and cash. The Company has no significant concentrations of credit risk. The credit risk with respect to trade receivables is not significant due to the policy that customers should meet minimum credit worthiness requirements and the Company's strict collection and delivery measures.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities and the ability to meet all obligations. The Company aims to maintain flexibility in funding by keeping committed credit lines available.

(d) Cash flow and fair value interest rate risk

As the Company has no significant interest-bearing assets, the Company's income and operating cash flows are substantially independent of changes in market interest rates.

The Company's interest rate arises from long-term borrowings. Borrowings issued at variable rates expose the Company to cash flow interest rate risk. Borrowings issued at fixed rates expose the Company to fair value interest rate risk.

The Company does not use derivative instruments for active protection from exposure to cash flow interest rate risk and to fair value interest rate risk.

3.2 Capital risk management

The Company has no legal or other obligations for a formal capital risk management program. Further, no capital aims are followed internally. Pursuant to the Trading Company Act distribution to owners must not lessen the minimum amount of the share capital of HRK 20 thousand.

NOTE 3 – FINANCIAL RISK MANAGEMENT AND KEY ACCOUNTING ESTIMATES (continued)

3.3 Fair value estimation

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values due to their short-term nature.

3.4 Key accounting estimates

In preparing these financial statements management was required to use estimates and assumptions affecting the net carrying amount of the Company's assets and liabilities and their disclosure.

Estimates were used but are not restricted to:
- provisions for doubtful receivables,
- provisions for employee benefits.

Since future events and their effects cannot be determined with certainty, accounting estimates require judgment. The judgments used in preparing the financial statements are subject to change if new events, experiences, information and changes of the environment incurred. Actual results may differ from estimated results.

NOTE 4 – SALES

	2019	2018
	(in thousands of HRK)	
Management fee (Note 18) /i/	24,711	21,977
	24,711	**21,977**

/i/ The management fees per hotel are as follows:

	2019	2018
	(in thousands of HRK)	
Hoteli Tučepi d.d.	8,074	7,368
Hoteli Brela d.d.	7,565	6,364
Hoteli Zlatni rat d.d.	6,553	5,961
Hotel Alan d.d.	2,209	1,986
Salve Regina Marija Bistrica d.o.o.	310	298
	24,711	**21,977**

NOTE 5 – OTHER OPERATING INCOME

	2019	2018
	(in thousands of HRK)	
Call centre income	4,119	-
Agency fee income	1,445	-
Income from promotion	724	196
Income from suppliers' discounts	561	468
Rent income	8	12
Other	855	794
	7,712	**1,470**

NOTE 6 – MATERIAL EXPENSES

	2019	2018
	(in thousands of HRK)	
Professional services	(1,586)	(2,502)
Repair and maintenance	(1,091)	(611)
Rent	(1,008)	(2,223)
Advertising	(989)	(420)
Energy	(789)	(637)
Transport, telephone, postage	(478)	(508)
Small inventory	(254)	(210)
Utilities	(230)	(171)
Cleaning services	(155)	(79)
Material costs	(72)	(97)
Other expenses	(172)	(107)
	(6,824)	**(7,565)**

NOTE 7 – PERSONNEL EXPENSES

	2019	2018
	(in thousands of HRK)	
Net salaries	(11,396)	(9,204)
Tax and contributions from salaries /ii/	(6,580)	(5,451)
Contributions on salaries	(2,536)	(2,108)
Other employee benefits /i/	(1,443)	(343)
Unused vacation	(14)	(31)
Personnel expenses	**(21,969)**	**(17,137)**

As at 31 December 2019 the Company had 102 employees (2018: 64 employees).

/i/ Other employee benefits refer to Christmas and Eastern allowances, education and training, transportation to and from work, other income, students' work and the use of products and services for their own consumption.

/ii/ Contributions for pension insurance for 2019 amount up to HRK 3,522 thousand (2018: HRK 2,743 thousand).

NOTE 8 – OTHER EXPENSES

	2019	2018
	(in thousands of HRK)	
Receivables value adjustment	(2,117)	-
Representation	(1,643)	(1,087)
Commission expense	(1,095)	-
Employee travel expenses	(872)	(603)
Education and professional literature	(412)	(124)
Insurance premiums	(296)	(229)
Taxes, contributions, and membership fees	(208)	(205)
Bank fees	(167)	(93)
Value adjustment of given loans	-	(10,640)
Other operating expenses	(1,003)	(1,060)
	(7,813)	**(14,041)**

NOTE 9 – NET FINANCIAL INCOME / (EXPENSE)

	2019	2018
	(in thousands of HRK)	
Financial income		
Interest income from related parties (note 18)	668	1,741
Net foreign exchange profit from non-related parties	-	121
Net foreign exchange profit from related parties	-	78
	668	**1,940**
Financial expenses		
Interest expense on right-of-use assets (IFRS 16)	(498)	-
Interest expense from non-related companies	(369)	(781)
Interest expense from related companies (note 18)	(177)	(245)
Other financial expenses	(174)	(231)
Value adjustment of financial assets (IFRS 9)	-	(121)
Net loss on exchange rate differences – non-related	(35)	-
	(1,253)	**(1,378)**
Net financial income / (expense)	**(585)**	**562**

NOTE 10 – INCOME TAX

Calculation of corporate income tax liability for the year ended 31 December 2019 and 2018 was as follows:

	2019	2018
	(in thousands of HRK)	
Net loss for the year	**(7,526)**	**(15,429)**
Tax non-deductible expenses	4,480	12,585
Tax profit /(loss)	**(3,046)**	**(2,844)**
Corporate income tax	**-**	**-**

The corporate income tax rate is 18% for 2019 and 2018. The Tax Authority has not performed an audit of the Company's tax returns. In accordance with the regulations in the Republic of Croatia, the Tax Authority may at any time inspect the Company's books and records within 3 years following the year in which the tax liability is reported, may impose additional tax obligations and penalties. The Company's management is not aware of any circumstances, which may give rise to a potential material liability in this respect. At 31 December 2019 tax loss carried forward amount to HRK 12,072 thousand and can be used as follows:

	31.12.2019.	31.12.2018.
	(in thousands of HRK)	
2020	244	-
2021	300	-
2022	4,055	3,360
2023	3,758	2,844
2024	3,715	-
	12,072	**6,204**

Of the total tax loss carried forward in the amount of HRK 12,072 thousand, HRK 2,822 thousand relates to merged subsidiary Sunce Global d.o.o. The Company has not recognized deferred tax assets for unused tax losses because it believes that in the future it will not realise taxable profit on the basis of which the deferred tax assets will be used.

NOTE 11 – INTANGIBLE ASSETS

(in thousands of HRK)	**Software**	**Leasehold improvement**	**Total**
Purchase value			
As at 1 January 2018	**375**	**125**	**500**
Increase	-	-	-
As at 31 December 2018	**375**	**125**	**500**
Merger of Sunce Global d.o.o.	820	897	1,717
Increase	-	20	20
As at 31 December 2019	**1,195**	**1,042**	**2,237**
Accumulated amortization			
As at 1 January 2018	**(290)**	**(39)**	**(329)**
Amortization	(65)	(31)	(96)
As at 31 December 2018	**(355)**	**(70)**	**(425)**
Merger of Sunce Global d.o.o.	(647)	(896)	(1,543)
Amortization	(67)	(25)	(92)
As at 31 December 2019	**(1,069)**	**(991)**	**(2,060)**
Present value			
As at 1 January 2018	**85**	**86**	**171**
As at 31 December 2018	**20**	**55**	**75**
As at 31 December 2019	**126**	**51**	**177**

NOTE 12 – PROPERTY, PLANT AND EQUIPMENT

(in thousands of HRK)	**Plant and equipment**	**Tools, technical equipment and vehicles**	**Assets under construction**	**Total**
Purchase value				
As at 1 January 2018	**1,333**	**3,931**	**103**	**5,367**
Increase	-	-	1,601	1,601
Transfers	444	1,260	(1,704)	-
Disposal	-	(150)	-	(150)
As at 31 December 2018	**1,777**	**5,041**	**-**	**6,818**
Merger of subsidiary Sunce Global d.o.o.	1,079	1,123	-	2,202
Increase	-	-	129	129
Transfers	112	17	(129)	-
Disposal	-	-	-	-
As at 31 December 2019	**2,968**	**6,181**	**-**	**9,149**
Accumulated depreciation				
As at 1 January 2018	**(1,161)**	**(2,764)**	**-**	**(3,925)**
Depreciation	(143)	(456)	-	(599)
Disposal	-	97	-	97
As at 31 December 2018	**(1,304)**	**(3,123)**	**-**	**(4,427)**
Merger of subsidiary Sunce Global d.o.o.	(1,042)	(651)	-	(1,693)
Depreciation	(180)	(581)	-	(761)
Disposal	-	-	-	-
As at 31 December 2019	**(2,526)**	**(4,355)**	**-**	**(6,881)**
Present value				
As at 1 January 2018	**172**	**1,167**	**103**	**1,442**
As at 31 December 2018	**473**	**1,918**	**-**	**2,391**
As at 31 December 2019	**442**	**1,826**	**-**	**2,268**

Total gross carrying value of the Company's fully depreciated tangible assets still in use as at 31 December 2019 amounts to HRK 7,113 thousand (31 December 2018: HRK 3,858 thousand).

12.1 RIGHT-OF-USE ASSET AND LEASE LIABILITIES

This note contains information on leases where the Company is the lessee.

	31.12.2019.	1.1.2019.
Amounts recognized in the statement of financial position		
	(in thousands of HRK)	
Right-of-use assets		
Building	10,929	12,490
Vehicles	1,417	1,762
	12,346	**14,252**
Lease liabilities		
Short-term	1,817	1,693
Long-term	10,742	12,559
	12,559	**14,252**
Amounts recognized in the statement of comprehensive income for the period		
	(in thousands of HRK)	
Depreciation of right-of-use assets	1,905	-
Interest (Note 9)	498	-
	2,403	**-**

The total cash outflow for repayment of principal on leases in 2019 amounted to HRK 1,653 thousand.

NOTE 13 – INVESTMENTS IN SUBSIDIARIES

	2019 Ownership in %	2019 (in thousands HRK)	2018 Ownership in %	2018 (in thousands HRK)
Hoteli Zlatni Rat d.d. /i/	80.99 %	190,311	80.99 %	190,311
Hoteli Brela d.d. /i/	89.58 %	146,111	89.58 %	146,111
Hoteli Tučepi d.d. /i/	91.41 %	136,842	91.41 %	136,842
Hotel Alan d.d. /i/	97.96 %	121,714	97.96 %	121,714
Sunce Vital d.o.o. /i/	100.00 %	20	100.00 %	20
WOT Hotels Adriatic Management d.o.o.	49.00%	10	49.00 %	10
		595,008		**595,008**

/i/ Pursuant to the loan agreement concluded on 28 August 2018 between the companies Sunce koncern d.d., Hoteli Tučepi d.d., Hoteli Zlatni rat d.d., Hotel Alan d.d. and Hoteli Brela d.d. and the European Bank for Reconstruction and Development, Zagrebačka banka d.d., Privredna banka Zagreb d.d. and Erste & Steiermärkische Bank d.d. and the Agreement on securing the cash claim by establishing a pledge right on the shares that was concluded on 2 October 2018, a pledge has been established on the shares that Sunce koncern d.d. has in Hoteli Tučepi d.d., Hoteli Zlatni rat d.d., Hotel Alan d.d. and Hoteli Brela d.d. The pledge right was established in favour of Privredna banka Zagreb d.d.

NOTE 14 – GIVEN LOANS

During 2019 and 2018 the Company approved the following long-term loans to related parties:

	Interest rate	Maturity	31.12.2019.	31.12.2018.
			(in thousands of HRK)	
Lucidus d.d.	3.96%	December 2022	11,600	11,600
Hoteli Zlatni Rat d.d.	4.55%	-	-	5,031
Hotel Alan d.d.	4.55%	-	-	200
Sunce Vital d.o.o.	3.96%	December 2020	50	90
Loans value adjustment (MSFI 9)			(121)	(116)
			11,529	**16,805**

Loan maturity:

	31.12.2019.	31.12.2018.
	(in thousands of HRK)	
Within 1 year	50	10,299
From 2 to 5 years	11,479	6,506
Over 5 years	-	-
	11,529	**16,805**

NOTE 14 – GIVEN LOANS (continued)

The carrying amounts of loans are denominated in the following currencies:

	31.12.2019	31.12.2018
	(in thousands of HRK)	
HRK	11,529	16,805
	11,529	**16,805**

The loans are secured by promissory notes.

NOTE 15 – TRADE RECEIVABLES AND RECEIVABLES FROM RELATED PARTIES

	31.12.2019.	31.12.2018.
	(in thousands of HRK)	
Trade receivables – related parties (note 18)	12,226	19,410
Trade receivables	428	538
Total trade receivables	**12,654**	**19,948**
Interest receivable - related parties (note 18)	1,030	848
Cession receivable - related parties (note 18)	65	65
Total receivables	**13,749**	**20,861**

Fair value of trade receivables is approximate to their carrying value.

NOTE 15 – TRADE RECEIVABLES AND RECEIVABLES FROM RELATED PARTIES (continued)

As at 31 December 2019, trade receivables which were past due but not value adjusted relates to a number of individual customers for which there is no history of default.

	31.12.2019.	31.12.2018.
	(in thousands HRK)	
Trade receivables – related parties	14,455	19,410
Trade receivables – third parties	316	538
Value adjustment	(2,117)	-
	12,654	**19,948**

The ageing analysis of total trade receivables is as follows:

	31.12.2019	31.12.2018
	(in thousands HRK)	
Undue	3,618	5,329
90 days	4,788	5,689
90 – 180 days	4,069	1,580
180 – 360 days	142	1,829
more than 360 days	37	5,521
	12,654	**19,948**

The carrying amounts of the Company's trade and other receivables are denominated in the following currencies:

	31.12.2019	31.12.2018
	(in thousands HRK)	
HRK	13,749	20,861
	13,749	**20,861**

NOTE 16 – OTHER RECEIVABLES

	31.12.2019.	31.12.2018.
	(in thousands of HRK)	
Prepaid expenses and accrued income	833	161
Receivables from state	525	482
Given advances	455	292
Loans, deposits, etc	-	18
	1,813	**953**

NOTE 17 – SHARE (SUBSCRIBED) CAPITAL

As at 31 December 2019 the share capital of Sunce koncern d.d. consists of 5,393,850 shares, with a nominal value of HRK 100 per share that equals HRK 539,385 thousand.

The shareholders structure as of 31 December 2019 was as follows:

Shareholder	Total shares	Total nominal amount (in HRK)	Share %
Sunce Ulaganja d.o.o.	3,004,672	300,467,200	55.71
Lucidus d.d.	1,143,239	114,323,900	21.20
OTP banka d.d./Erste plavi OMF category B - custody account	892,898	89,289,800	16.55
Addiko bank d.d./Raiffeisen OMF category B - custody account	156,134	15,613,400	2.89
Addiko bank d.d./PBZ CO OMF - category B - custody account	70,460	7,046,000	1.31
Addiko bank d.d./Raiffeisen voluntary pension fund - custody account	68,795	6,879,500	1.28
OTP bank d.d./Erste plavi expert - voluntary pension fund - custody account	25,753	2,575,300	0.48
Addiko bank d.d./Raiffeisen OMF category A - custody account	8,895	889,500	0.16
OTP banka d.d./Erste plavi OMF - category A - custody account	8,162	816,200	0.15
Addiko bank d.d./PBZ CO OMF - category A - custody account	5,695	569,500	0.11
Other shareholders	9,147	914,700	0.16
Total	**5,393,850**	**539,385,000**	**100.00**

The shareholders structure as of 31 December 2018 is as follows:

Shareholder	Total shares	Total nominal amount (in HRK)	Share %
Sunce Ulaganja d.o.o.	3,004,672	300,467,200	55.71
Lucidus d.d.	1,143,239	114,323,900	21.20
OTP bank d.d./Erste plavi OMF category B - custody account	892,898	89,289,800	16.55
Addiko bank d.d./Raiffeisen OMF category B - custody account	156,134	15,613,400	2.89
Addiko bank d.d./PBZ CO OMF - category B - custody account	70,460	7,046,000	1.31
Addiko bank d.d./Raiffeisen voluntary pension fund - custody account	67,470	6,747,000	1.25
OTP bank d.d./Erste plavi expert - voluntary pension fund - custody account	25,753	2,575,300	0.48
Addiko bank d.d./Raiffeisen OMF category A - custody account	8,895	889,500	0.16
OTP bank d.d./Erste plavi OMF category A - custody account	8,162	816,200	0.15
Addiko bank d.d./PBZ CO OMF - category A - custody account	5,695	569,500	0.11
Other shareholders	10,472	1,047,200	0.19
Total	**5,393,850**	**539,385,000**	**100.00**

NOTE 17 – SHARE (SUBSCRIBED) CAPITAL (continued)

Earnings per share – basic and diluted

The basic earnings per share is calculated by dividing the profit for the year, available to the owners of the company by weighted average number of ordinary shares over the period, excluding treasury shares. The weighted average number of shares is calculated as the weighted average number of shares at the beginning of the period, corrected for the number of shares issued during the period multiplied by the weighted time factor.

	31.12.2019.	**31.12.2018.**
Loss for the year *(in thousands of kunas)*	(7,526)	(15,429)
Weighted average number of shares *(less treasury shares)*	5,393,850	5,086,107
Earnings per share *(in kunas)*	**(1.40)**	**(3.03)**

NOTE 18 – RELATED PARTY TRANSACTIONS

Transactions with related parties that relate to balances in the statement of financial position at 31 December 2019 and 2018 and the items of the statement of comprehensive income for the years then ended are as follows:

	Note	**2019**	**2018**
		(in thousands of HRK)	
RECEIVABLES			
Trade Receivables	15		
Hoteli Zlatni rat d.d.		6,919	4,964
Hoteli Tučepi d.d.		3,028	3,312
Hotel Alan d.d.		2,097	8,306
WOT Hotels Adriatic Asset Company d.o.o.		158	713
Stubaki d.d.		17	17
Izvor osiguranje d.d.		2	8
Lucidus d.d.		2	2
Lječilište Bizovačke Toplice		2	-
Sunce Vital d.o.o.		1	1
Salve Regina – Marija Bistrica d.o.o.		-	974
Hoteli Brela d.d.		-	634
Sunčane toplice d.o.o.		-	438
Jako Vino d.o.o.		-	21
Sunce Global d.o.o.		-	19
ŠKZ Sunce in liquidation		-	1
		12,226	**19,410**
Loan receivables	14		
Lucidus d.d.		11,479	11,484
Sunce Vital d.o.o.		50	90
Hoteli Zlatni Rat d.d.		-	5,031
Hotel Alan d.d.		-	200
		11,529	**16,805**

NOTE 18 – RELATED PARTY TRANSACTIONS (continued)

	Note	2019	2018
Interest receivable	15		
Lucidus d.d.		1,030	498
Hoteli Zlatni Rat d.d.		-	261
Sunce Global d.o.o.		-	81
Hotel Alan d.d.		-	8
		1,030	**848**
Cession and other receivables	15		
WOT Hotels Adriatic Asset Company d.o.o.		372	-
Stubaki d.d.		65	65
		437	**65**
LIABILITIES			
Trade payables			
Hoteli Tučepi d.d.		624	1,670
Salve Regina – Marija Bistrica d.o.o.		378	40
Jako Vino d.o.o.		100	215
Nest Plus d.o.o.		5	210
WOT Hotels Adriatic Asset Company d.o.o.		5	-
Hoteli Brela d.d.		-	731
Hoteli Zlatni Rat d.d.		-	197
Hotel Alan d.d.		-	117
Izvor osiguranje d.d.		-	100
Sunce Global d.o.o.		-	74
Sunčane toplice d.o.o.		-	3
		1,112	**3,357**
Borrowings			
Hoteli Tučepi d.d.		2,510	2,510
Hoteli Brela d.d.		857	2,738
		3,367	**5,248**
Interest payable			
Hoteli Tučepi d.d.		10	29
Hotel Brela d.d.		2	1,573
		12	**1,602**

NOTE 18 – RELATED PARTY TRANSACTIONS (continued)

REVENUES	**Note**	**2019**	**2018**
Management fee	4		
Hoteli Tučepi d.d.		8,074	7,368
Hoteli Brela d.d.		7,565	6,364
Hoteli Zlatni rat d.d.		6,553	5,961
Hotel Alan d.d.		2,209	1,986
Salve Regina – Marija Bistrica d.o.o.		310	298
		24,711	**21,977**
Interest income	9		
Lucidus d.d.		528	511
Sunce Global d.o.o.		73	485
Hoteli Zlatni Rat d.d.		59	731
Hotel Alan d.d.		5	8
Sunce Vital d.o.o.		3	6
		668	**1,741**
Other revenue	5		
Hoteli Tučepi d.d.		1,412	-
Hoteli Brela d.d.		1,410	-
Hoteli Zlatni Rat d.d.		1,040	-
WOT Hotels Adriatic Asset Company d.o.o.		456	-
Hotel Alan d.d.		132	-
Salve Regina – Marija Bistrica d.o.o.		94	
Sunčane toplice d.o.o.		1	-
		4,545	**-**

NOTE 18 – RELATED PARTY TRANSACTIONS (continued)

	Note	2019	2018
EXPENSES			
Rent	6		
Nest Plus d.o.o.		1,784	1,525
		1,784	**1,525**
Other expenses	6,8		
Nest plus d.o.o.		1,001	696
Jako vino d.o.o.		530	423
Salve Regina- Marija Bistrica d.o.o.		405	196
Izvor osiguranje d.d.		276	253
Hoteli Zlatni Rat d.d.		120	61
Hotel Brela d.d.		98	38
Hoteli Alan d.d.		56	7
Hoteli Tučepi d.d.		42	41
WOT Hotels Adriatic Asset Company d.o.o.		8	12
Sunčane toplice d.o.o.		3	2
Sunce Global d.o.o.		-	1,525
		2,539	**3,254**
Interest expense	9		
Hoteli Tučepi d.d.		100	91
Hoteli Brela d.d.		77	154
		177	**245**

NOTE 18 – RELATED PARTY TRANSACTIONS (continued)

	2019	2018
Management Board and Supervisory Board renumeration	*(in thousands of HRK)*	
Net salaries	1,474	1,391
Tax and surtax	639	725
Contributions	666	653
Other fees /i/	31	31
Management Board	**2,810**	**2,800**
Supervisory Board	3,023	2,213
	5,833	**5,013**

/i/ Other fees relate to Christmas allowances and unused vacations.

	31.12.2019	31.12.2018
	(in thousands of HRK)	
Non-current liabilities		
Long-term borrowing /i/	-	2,738
Less: the current maturity of the loan received /i/	-	(2,738)
	-	**-**
Current liabilities		
Current portion of non–current borrowings /i/	-	2,738
Short-term borrowing	3,367	2,510
Trade payables	839	3,357
Interest liabilities	12	1,602
	4,218	**10,207**

Borrowings relate to long-term loans received from related companies Hoteli Tučepi d.d. in the amount of HRK 2,510 thousand and Hoteli Brela d.d. in the amount of HRK 857 thousand. Loans mature annually with an agreed maturity date of 16 May 2021. However, on 1 January 2020 the Company merged subsidiaries including Hoteli Brela d.d. and Hoteli Tučepi d.d. whereby mutual obligations and receivables ceased to exist.

The loan is denominated in EUR and approved with an interest rate of 3-month Euribor + 5.95%. The loan is secured by the Company's promissory notes.

NOTE 19 – LIABILITIES TO BANKS

	31.12.2019	31.12.2018
	(in thousands of HRK)	
Non-current		
Bank borrowings /i/	14,563	16,280
Less: Current portion of non-current borrowings /i/	(1,755)	(1,750)
	12,808	**14,530**
Current		
Current portion of non-current borrowing /i/	1,755	1,751
Interest payable	-	-
	1,755	**1,751**

On 28 August 2018, a refinancing contract was signed of the Company's and subsidiaries total financial debt with the European Bank for Reconstruction and Development as an arrangement agent, and Erste & Steiermärkische Bank d.d., Privredna banka Zagreb d.d., and Zagrebačka banka d.d. as members of the trade unions of banks. The total value of the transaction was EUR 73 million, with all banks participating equally in this amount.

As at 31 December 2019, the Company was not in line with the provisions of the loan agreement relating to financial covenants that should be satisfied at the end of each financial year and did not have unconditional right to defer its settlement for at least twelve months after the reporting date. However, in July 2020 the Company have received official waiver from the lenders by which they accepted an exemption from a breached financial covenant and do not demand early repayment of the loan.

Additionally, due to the expected negative COVID-19 impact on the operating results of the Company in 2020 tourist season and potential cash gap until the next tourist season, moratorium on all payments due in 2020 have been granted by the lenders which will have positive effect on the liquidity of the Company.

NOTE 20 – TRADE PAYABLES

	31.12.2019.	31.12.2018.
	(in thousands of HRK)	
Trade payables	2,266	1,208
	2,266	**1,208**

NOTE 21 – TAX, CONTRIBUTIONS AND SIMILAR LIABILITIES

	31.12.2019	31.12.2018
	(in thousands of HRK)	
VAT liabilities	1,083	2,170
Contributions from and on salaries	535	433
Tax and surtax	260	230
	1,878	**2,833**

NOTE 22 – OTHER CURRENT LIABILITIES

	31.12.2019	31.12.2018
	(in thousands of HRK)	
Unused vacation days accrual	661	550
Accrued expenses	136	115
Forests contribution	6	5
Other current liabilities	9	8
	812	**678**

NOTE 23 – CONTINGENCIES AND COMMITMENTS

According to the Company's management and its legal counsel, as at 31 December 2019 there are no legal disputes that could result in significant losses for the Company and for which additional provisions should be recognized.

NOTE 24 – GOING CONCERN

The financial statements have been prepared under the going concern assumption. As at 31 December 2019, the Company reported current assets higher than current liabilities by HRK 1,981 thousand (2018: current assets higher than current liabilities by HRK 18,108 thousand).

Due to the COVID-19 pandemic, current and expected levels of operating results and cash flows from operations will not be sufficient to meet short-term liabilities, the Company's ability to continue as a going concern may depend on support from the Government of the Republic of Croatia through measures to assist the economy and financial support to banks as explained in Note 25 *Events after the reporting date*.

Management confirms the uncertainty surrounding the Company's ability to repay bank loans and settle its liabilities when they fall due. However, taking all the above measures as stated in Note 25 *Events after the reporting date*, and adjusting the business to future developments and planning additional measures, the Management Board believes that it will be able to maintain the liquidity of the Company in the coming period. Management believes that the preparation of the financial statements on the going concern basis is still appropriate.

NOTE 25 – EVENTS AFTER THE REPORTING DATE

COVID-19

The most significant event after the balance sheet date is the emergence of COVID-19 and its spread across all markets. The domestic tourism industry is directly affected by the disturbances caused by the COVID-19 crisis, but due to seasonality characteristics of the tourist season, the significance of the crisis impact will be most reflected in current year, July and August. In accordance with the current state of sales, the cumulative realization of revenues in July and August is expected to be 50% of last year.

In accordance with the new circumstances, measures and recommendations provided by the Government and the crisis headquarters, the Company postponed the planned opening of hotel facilities in April. During June 2020, the Company opened a part of its capacities in a way that in each destination where the Company operates, one facility was opened in June 2020. In accordance with the increase in demand for hotel accommodation, 4 hotels were additionally opened during the month of July: Neptun (Tučepi), Bonaca (Bol), Soline (Brela) and Alan (Starigrad).

The Company actively monitors all information related to the Coronavirus, especially in emitting markets, and takes all protection measures recommended by the Ministry of Health and the Institute of Public Health. The Company has taken a number of actions and measures in response to the disturbance caused by the COVID-19 crisis to adapt to the new circumstances. The measures and actions refer to the measures taken by the Company, but also those that are enabled by legal changes and adopted by the Government of the Republic of Croatia in order to help the tourism sector. All measures and actions can be summarized as follows:

- EMPLOYEES SAFETY - The Company increased the safety and employees workplace disinfection in the early stages of the epidemic in the Republic of Croatia, but in March 2020, homework was organized for all employees. Working from home in these circumstances increases the safety of our employees and their families. Depending on the development of the epidemiological situation in the Republic of Croatia and the gradual opening of various activities and freedom of outside movement, the Company will make a timely decision to suspend the work from home for all employees in the coming period.

NOTE 25 – EVENTS AFTER THE REPORTING DATE (continued)

COVID-19 (continued)

- CASH FLOW STABILIZATION - after increasing the security of employees and their families, the main measures and actions to be taken were identified in order to preserve the Company liquidity and stabilize the cash flow that needed to be adjusted to the new circumstances. The following actions and measures have been taken with a primary focus on wages as they account for 75% of the total one year overhead expenses:
    - In accordance with the measures for the preservation of jobs in the activities affected by Coronavirus (COVID-19), government grants were requested and approved to ensure a minimum wage of HRK 4,000 for 679 employees of Sunce hoteli d.d. and 21 employees of the subsidiary Aerodrom Brač d.o.o., which gives a total of 700 employees. An Agreement on grant support for job preservation in activities affected by Coronavirus was concluded with the Croatian Employment Service, which accepted the request for grant support for Sunce hoteli d.d. and the subsidiary Aerodrom Brač d.o.o. for payment of salaries for a total of 700 workers in the period from 1 March 2020 to 31 May 2020 in the total amount of HRK 7.4 million. In addition to the direct support in the form of partial payment of the net salary of employees, the incentive measures also provide the write-off of taxes and contributions to and from salaries for April and May 2020 in the same percentage the entrepreneur's income was reduced in April and May 2020. Pursuant to the decision of the Croatian Employment Service (CES) of 29 May 2020, incentives for job preservation have been extended to June, with the basic condition for receiving grant being the decline in income for May 2020, compared to May 2019 by a minimum of 50%. As the Company's facilities did not generate revenue in May 2020, the Company qualifies for incentives for June 2020. At the meeting session of the Management Board of the Croatian Employment Service (CES) on 9 July 2020, a decision was made on the continuation of the application of grants for the preservation of jobs in tourism and grants for salaries in the amount of HRK 4,000 for July and August 2020. Condition for grants in July 2020 is the revenue decline higher than 60% for June 2020. In June, the Company realized a revenue decline of more than 60% and meets the conditions for receiving incentive measures for the month of July 2020. Exercise of the right to incentive measures for August will be determined after the submission of the VAT form for July, and that is until August 20 2020.

    - Considering that the measure for support for job preservation paid by the Croatian Employment Service has been realized, all in accordance with the exemption from liability related to contribution for paid net salaries, the Company is also exempted from the liability to pay income tax and contributions to and from salary for the total amount of paid net salaries.

NOTE 25 – EVENTS AFTER THE REPORTING DATE (continued)

COVID-19 (continued)

- At the same time, gross salaries were reduced by 40% for all employees, including the Management Board, at least for the period from 1 April to 30 June 2020. During the job preservation grant, as well as in the following period when the hotel facilities are not operative, salaries will be provided in the amount of 60% of the gross salary, but not less than the amount of the grant. In addition, each employee will be compensated in the amount of HRK 600 net per month.

- All other unnecessary costs related to current maintenance investments as well as operating costs that are not necessary have been stopped. The Company did not have any capital investments for the 2020 season, however all investments in the preparation of future investments were suspended until a revised capital investment plan is made depending on the development of the situation caused by COVID-19 crisis.

However, the results for 2020 are extremely uncertain to predict, and additional liquidity further depends on negotiations with lenders, the outcome of which will determine the Company's ability to meet its financial obligations in the future. That mentioned, there is a material uncertainty that could lead to significant doubt about the Company's ability to continue on the going concern basis and therefore the Company may not be able to realize its assets and fulfil its obligations in the normal course of business.

Tax incentives

On 29 June 2020, based on the Certificate of the Ministry of the Economy, Entrepreneurship and Crafts in accordance with the Investment Promotion Act (NN 102/15, 25/18, 114/18, 32/20), the Company received the status of beneficiary tax incentives user (CLASS: 404-01/16-01/43). The investment project refers to the reconstruction and renovation of the hotels Berulia (5 *), Soline (4 *), and Alga (4 *) at the locations of Brela and Tučepi.

During 2017, 2018 and 2019, the Company invested a total of HRK 130 million of eligible costs for incentives in these hotels, on the basis of which a maximum aid intensity in amount of HRK 32.3 million was obtained. The tax inventive can be used from 2020 (payment of income tax for 2019) and the Company will start using tax relief from 2021 (payment of income tax for 2020). The Company is entitled to benefit from tax incentive until the end of 2027.

NOTE 25 – EVENTS AFTER THE REPORTING DATE (continued)

Merger of companies

On 28 June 2019, the General Assembly passed a decision to increase the share capital of Sunce koncern d.d. and issue new shares for the purpose of merging the subsidiaries Hotel Alan d.d., Hoteli Tučepi d.d., Hoteli Zlatni rat d.d. and Hoteli Brela d.d. ("Merged Company"), to the company Sunce koncern d.d. The share capital is increased as a consequence and due to the merger between the Issuer as the acquiring company and its subsidiaries as merged companies by issuing 560,735 new ordinary shares with a nominal value of HRK 100 each, thus increasing the share capital from 539,385,000 HRK for the amount of HRK 56,073,500 to the amount of HRK 595,458,500.

On 31 December 2019, the merger of the merged companies and the increase of the share capital of the Company by issuing new ordinary shares were registered in the Court Register of the Commercial Court in Zagreb. At the same time, the change of the company from SUNCE KONCERN d.d. for tourism and catering and the travel agency to SUNCE HOTELI joint stock company for tourism and catering, i.e. SUNCE HOTELI d.d. as an abbreviated name of the company, was entered in the Court Register.

NOTE 25 – EVENTS AFTER THE REPORTING DATE (continued)

Relationships with creditors and ensuring liquidity of the Company

Since the beginning of the COVID-19 crisis, the Company has been communicating with the bank union (European Bank for Reconstruction and Development (EBRD), Erste & Steiermärkische Bank d.d., Privredna banka Zagreb d.d. and Zagrebačka banka d.d.) regarding the framework of measures of the Government of the Republic of Croatia related to payment deferral of loans and the measure "loan for the preservation of financial stability", and in accordance with the abovementioned measures, a formal request was submitted through FINA as well as a direct request to the bank union. Communication can be summarized as follows:

- As of the date of publication of the audited report, the Company has signed an annex to the loan agreement approving a 12-month moratorium on all principal due in 2020 (installments 30 April 2020 and 31 October 2020), including interest. The loan will continue to be repaid regularly from April 30, 2021, when interest is due for the period from November 1, 2019 to April 30, 2021. Outstanding installments in 2020 are moved to the end of the repayment period on April 30, 2028, when they are due.

- In addition to aforementioned deferral of payment of the loan installment until 30 April 2021, the Company also took measures and directed communication to potential creditors of the Company to ensure additional liquidity that will be required after 31 October 2020. The Company is in the final phase of negotiations on the implementation of loans to preserve the financial stability of the Company in the approximate amount of € 10.8 million, with maturities from 2022 to 2025. The Management Board of the Company expects the realization of a loan placement at the end of September 2020, so that the Company has ready financial resources for the regular settlement of financial obligations by the next tourist season.

NOTE 26 - APPROVAL OF FINANCIAL STATEMENTS

The financial statements presented on the previous pages were prepared and approved for issuance by the Management Board on 30 July 2020.

Signed on the behalf of the Company:

President of the Management Board
Tonči Boras

Member of the Management Board
Kristijan Gagulić

Member of the Management Board
Ivan Potkrajčić

MANAGEMENT REPORT FOR THE YEAR 2019

1. General information

Sunce koncern d.d. was established as a limited liability company on 11 October 2004 at the Commercial Court in Zagreb under the registration number 080502040. On 4 April 2007, the general assembly of the company made a decision on restructuring the company from a limited liability company into a joint stock company.

The Company is registered for the provision of accommodation in hotels and provides a variety of consulting services to companies that include advertising and marketing services, property management, procurement, and services related to nautical, rural, health, congress, sports and other types of tourism, and as such manage the following subsidiary companies:

Company	Location	Nature of business	Ownership
Sunce koncern d.d.	Zagreb	Parent company	-
Hoteli Zlatni Rat d.d.	Bol	Hotels	80.99%
Hoteli Brela d.d.	Brela	Hotels	89.58%
Hoteli Tučepi d.d.	Tučepi	Hotels	91.41%
Hotel Alan d.d.	Starigrad	Hotels	97.96%
Aerodrom Brač d.o.o.	Supetar	Airport	50.18%
Sunce Vital d.o.o.	Zagreb	Healthcare	100.00%
Zlatni rat - Poljoprivreda d.o.o.*	Bol	Agriculture	80.99%
Zlatni rat - Servis d.o.o.*	Bol	Maintenance	80.99%
Zlatni rat - Tenis centar d.o.o.*	Bol	Tennis operator	80.99%
Plaža Zlatni Rat d.o.o.*	Bol	Beach management	80.99%
Eko - promet d.o.o.*	Bol	Transport	38.28%
Brač 500 Plus d.o.o.	Bol	Cable car management	56.24%
Brela Jakiruša d.o.o.	Brela	Preparation of food and beverages	89.58%

** Marked companies do not have records of assets and liabilities (inactive business), and have submitted requests to the Tax Administration for deletion from the court register*

Securities

The share capital amounts to HRK 539,385,000.00 and is divided into 5,393,850 ordinary shares, in the name of a nominal amount of HRK 100.00 each, held at the Central Depository Closing Company d.d. in a non-materialized form marked with the SUKC-R-A and ISIN mark HRSUKCRA0001. Share capital is paid in full.

All stocks are of the same rank and each gives (i) the right to one vote; (ii) the right to the payment of dividends and (iii) all other rights in accordance with Croatian law.

At the general assembly of shareholders on 31 August 2017, it was decided to increase the share capital by issuing new shares. The Company issued 444,000 new shares, which increased the total number of shares by 9.9%, and HRK 68.8 million of new funds was raised.

Sunce koncern d.d. as a majority owner, acquired second business share in a member of the Group, company SUNCE GLOBAL d.o.o. which represented 0.309% of the Company's share capital, after which it became the only member of the company. The merger contract was published on the commercial court register on 13 June 2018.

On 10 August 2018, the general assembly of the Sunce koncern d.d. made a decision to increase the share capital of the Company by assigning the rights intake of 595,397 ordinary shares of the company HOTEL ALAN d.d. and issuing 506,788 new ordinary shares. By this decision, the share capital of the Company increased from the amount of HRK 488,706,200 for the amount of HRK 50,678,800 to the amount of HRK 539,385,000.

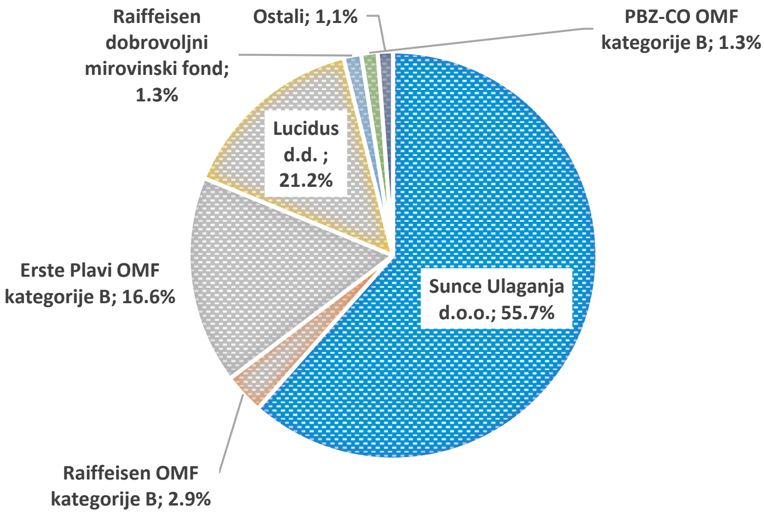
On 28 August 2018 a contract was signed with the European Bank for Reconstruction and Development (EBRD) as an arranger, as well as representatives of Erste & Steiermärkische Bank d.d., Privredna banka Zagreb d.d., and Zagrebačka banka d.d. as members of the trade unions of banks. The total value of the transaction is EUR 73 million, with all banks participating equally in this amount. Although the loan agreement was signed on 28 August 2018, the funds were paid out at the end of the fourth quarter of the same year after the fulfilment of all the above conditions under the Loan Agreement.

On 19 December 2018, Sunce koncern d.d. filed a request for the transfer of all shares of the Company from the segment of the regular market to the official market of the Zagreb Stock Exchange. Management of Zagreb Stock Exchange issued a decision on approving the transition of all 5,393,850 ordinary shares to the official market, which was carried out on 27 December 2018. 23.09% of the shares was distributed to the public, including three compulsory and/or voluntary pension fund management companies, but the Company intends to further increase the percentage of public share distribution by distributing more than 25% of the total number of shares to the public and due to that, the restructuring process was started by optimizing the organizational structure, with the ultimate goal of increasing capital by issuing new shares.

Sunce koncern d.d. is a holding company operating in the ownership and management as a shareholder in other hotel and tourism companies and companies whose activities are closely related to the tourism and hotel sector. Sunce koncern d.d. as a holding company is the dominant (parent) company of the Group, made up of its direct and indirect subsidiaries.

Since its foundation, Andabak family or Mr. Jako Andabak, together with related persons, has a dominant position in the Company. In one of the Company's shareholder, LUCIDUS d.d., Mr. Jako Andabak directly holds most of its share capital and voting rights. In addition, Mr. Jako Andabak, together with related persons, is the founder of SUNCE ULAGANJA d.o.o. By entering into a regulated market and increasing capital in September 2017, pension funds become significant minority shareholders.

Ownership structure of Sunce Koncern d.d. as at 31.12.2019.



Management Board:

- Tonči Boras, president
- Kristijan Gagulić, member
- Ivan Potkrajčić, member

Supervisory Board:

- Jako Andabak, president
- Sanja Gagulić, vice-president
- Ružica Andabak, member
- Ana Volk, member
- Ratomir Ivičić, member

Audit Committee:

- Ivan Augustin, president
- Sanja Gagulić, member
- Ružica Andabak, member

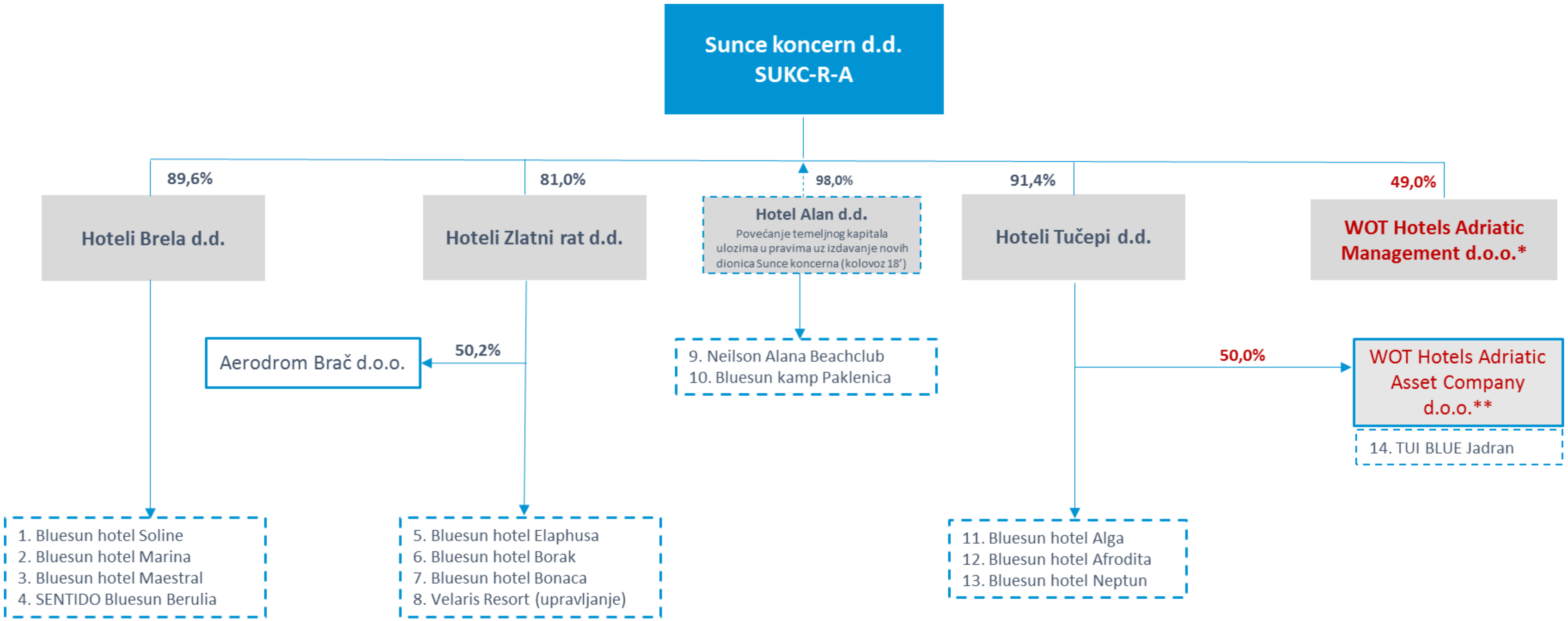
The Audit Committee of the Company was established in accordance with the amendments to the Audit Act.

Brand under which Sunce koncern d.d. manage members of its Group is Bluesun Hotels & Resorts, consolidated in the locations of Brela, Tučepi, Brač, Starigrad, Marija Bistrica with headquarters in Zagreb.

Through our own hotel brand - Bluesun Hotels & Resorts, we want to create a recognizable Croatian hotel chain. Our vision is focused on adherence to high standards and the introduction of innovation in the tourism market, and constantly improve the quality and enriching our offering and services, as a prerequisite for the continuous increase guest satisfaction as our most important goal.

The goal is to be known for the quality standard of service and products, and consistency in promoting excellence and innovations for future development. The Company's mission is to exceed guest expectations, inspire and motivate employees, and achieve outstanding financial results.

Sunce koncern primarily promotes hospitality and courtesy towards guests, and as a leading employer in the region is introducing innovation and increasing competitiveness in the Croatian market. In addition to monitoring the satisfaction of the guests and employees, the growth of standards, and the excellent grades of work performance and competencies, we hope for a good financial result as a benchmark for success.



Sunce koncern d.d. kao matično društvo čine i dodatnih članice, čiji rezultat ne utječe materijalno na poslovanje Grupe

Management društvo osnovano sa TUI AG, gdje TUI AG drži 51% udjela (26.09.2018)
***** Do 19.09.2018. godine ime tvrtke Punta Zlatarac Tučepi d.o.o.***

2. Financial indicators

Total revenues in 2019 amounted to HRK 33,091 thousand (2018: HRK 25,387 thousand).

Total expenditures in 2019 amounted to HRK 40,617 thousand (2018: HRK 40,816 thousand).

The realized loss for the current period amounts to HRK 7,526 thousand. In the same period last year, the Company realized a loss of HRK 15,429 thousand.

The structure of revenues in 2019 consists of sales revenues (75%, management fee), other revenues (23%) and interest and exchange rate revenues from affiliated and unrelated companies (2%), while expenditures mostly relate to employee costs in the amount of 54% and other operating expenses in the amount of up to 19% of total costs.

As of 31 December 2019 the Company had 102 employees (2018: 64 employees).

During 2019, the Management Board of the Company performed the actions provided for by the Law and the Articles of Association in conducting business and representing the company, and planned a business policy that was implemented with the care of an orderly and conscientious businessman.

As at 31 December 2019, the Company did not have any treasury shares and is not in the process of repurchasing them. As at 31 December 2019, the Company did not own any branch offices.

3. Risk management

Currency-price risk

Currency risk arises from future commercial transactions and recognized assets and liabilities. Most of the income and receivables are related to the EUR exchange rate. Therefore, the exchange rate fluctuations between the EUR and the HRK may have an impact on future business results and cash flow. The Company's credit liabilities are mainly related to the movement of EUR values. At the same time, contracts with foreign agencies and clients are contracted in foreign currencies, mainly in EUR. The management believes that the Company is not significantly exposed to price or currency risk.

Interest rate risk

The Group is exposed to interest rate risk as part of the loan is contracted at floating interest rates while most of the assets are non-interest bearing. Since the Company does not have significant assets generating interest income, Company revenues and cash flows from operating activities are not significantly dependent on changes in market interest rates. Interest rate risk arises from long-term loans. Loans granted at variable rates expose the Company to the risk of interest rate fluctuations. Loans at fixed rates expose the Company to a fair value interest rate risk. The Company does not use derivative instruments for active hedging against exposure to interest rate risk and fair value of interest rate risk.

Credit risk

Credit risk arises from cash and cash equivalents, and from trade receivables. The Company policies ensure that customer service is billed in cash or credit card and postponed payments are approved to customers who have a relevant credit history. From the credit risk - the risk of collecting customer receivables, the Company is hedged by means of payment collateral and by assessing the creditworthiness of customers. Currently, this risk cannot jeopardize the financial stability of Company.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial liabilities within the maturity. Liquidity risk management is the responsibility of the management board which has built a quality framework for monitoring short-term, mid-term and long-term financing and requirements related to liquidity risk. The Company manages liquidity risk by constantly monitoring the foreseeable and actual cash flow by comparing it with the maturity of financial assets and liabilities.

Market Risk

Market risk is the risk that changes in market prices, such as foreign currency and interest rates, will affect the Company's income or the value of their financial instruments. The aim of market risk management is to manage and control market risk exposure within acceptable parameters, optimizing return. There were no significant changes in the Company's market risk impact nor changes in the measurement and management of market risk.

4. The expected future development of the Company, research and development

The goal is to be known for the quality standard of service and products, and consistency in promoting excellence and innovations for future development. The Company's mission is to exceed guest expectations, inspire and motivate employees, and achieve outstanding financial results.

Sunce koncern primarily promotes hospitality and courtesy towards guests, and as a leading employer in the region is introducing innovation and increasing competitiveness in the Croatian market. In addition to monitoring the satisfaction of the guests and employees, the growth of standards, and the excellent grades of work performance and competencies, we hope for a good financial result as a benchmark for success.

5. Code of corporate governance

In support of the development and improvement of corporate governance practices in Croatia, corporate governance code of the Croatian Financial Services Supervisory Agency (HANFA) and the Zagreb Stock Exchange are available to companies. The code contains rules, recommendations and guidelines based on domestic legal and subordinate regulations governing corporate governance issues and is based on universally accepted corporate governance principles, including OECD principles.

Fundamental principles of the code imply the provision of transparent business operations, the definition of detailed procedures for the work of the board of directors and the supervisory board of the issuer, avoidance of conflicts of interest of the relevant persons in the issuer (management, supervisory board, senior management), establishment of effective internal control and effective system of accountability.

The Croatian Companies Act obliges companies whose shares are traded on the capital market to provide at least the information on the corporate governance code that obliges them and/or the corporate governance code that the company voluntarily applies outside of what is required by the regulations in the special chapter of the annual report. The law also stipulates that the company must state whether it departs from applying the corporate governance code and explaining the reasons for the deviations.

As the Company whose shares are quoted on the regular market at the Zagreb Stock Exchange d.d., Sunce koncern d.d. during the business year of 2019, applied the recommendations of the code of the Zagreb Stock Exchange and HANFA (the code is available at http://zse.hr/default.aspx?id=10865).

All reports and other prescribed information are publicly disclosed and available to the public in accordance with the Capital Market Act and the Rules of the Zagreb Stock Exchange.

The reasons for not applying or deviating from the specific recommendations of the code in 2019 are set out in the annual questionnaire that forms an integral part of the code and submits to the Zagreb Stock Exchange d.d. together with the annual financial statements for public disclosure on the Company's web pages and the Zagreb Stock Exchange d.d.

With the recommendations of the Code, the management board and supervisory board try to invest additional efforts in order to establish appropriate corporate governance of the Company, taking into account the structure and organization of the company, strategy and business objectives, distribution of authority and responsibility.

The Company applies the recommendations of the code, with certain deviations that it states and explains as follows.

The Company has not introduced the possibility to attend and vote at the shareholders' general meeting by using means of modern communication technology due to the fact that there was no need for that, nor there are such requests from shareholders. The Company will certainly consider such use of the funds of modern communications technology and will, as appropriate, allow its shareholders to use it for purposes of participation and voting at the general assembly.

For participation in the general assembly, pursuant to the statute of the Company, shareholders submit applications within the time prescribed by the Companies Act. The power of attorney is submitted to the Company until the last day of the application for participation in the general assembly. For the validity of the power of attorney, no public notary certification is required.

The supervisory board did not make a decision on the framework for its actions for 2019. For the purposes of future actions, the Company intends to make a decision on the framework plan for the actions of the supervisory board and data to be regularly and timely made available to the members of the supervisory board.

There is no long-term plan of succession in the Company in terms of the code, but there is already a framework plan for replacing staff in leading positions through continuous training programs.
In the annual report, all transactions involving the members of the supervisory board or related persons and the Company and related persons are disclosed in the notes to transactions with related parties, while the essential elements of such agreements or contracts are not disclosed in the report because these transactions are not of material importance to the Company. This also refers to the affairs in which the members of the management and the related persons and the Company and related persons took part.

As the Company was listed on the Zagreb Stock Exchange in June 2017, the audit committee was established in 2018, in accordance with the amendments to the audit Act. All the members of the audit committee are also members of the supervisory board, which is why they are exempted from the request for independence pursuant to Art. 65 st.7. of the Audit Act. The Company has no established internal audit function since the Company's board of directors applies the appropriate processes to monitor the major risks the Company is exposed to. One of the tasks of the audit committee is to annually consider the need to establish a special internal audit function in order to improve the internal control system.

Fees and other benefits from the Company or with related persons to the members of the management board and the supervisory board are presented consolidated and published in the annual report and are not presented for each individual member of the management board or the supervisory board in particular.

Corporate Governance Structure

The Companies Act gives the stock companies the ability to manage their organization by choosing between one-tier system (single-board system) or two-tier system (dual board system).

According to the customary domestic practice, the Sunce koncern is formed as a dualistic system characterized by the existence of a split supervisory board and administration. By this system, day-to-day management of the company was entrusted to the management. The work of the management board is supervised by the supervisory board, elected by the assembly.

General Assembly (Assembly of Shareholders)

The assembly is the highest body of the company's management. Shareholders at the general assembly exercise their primary management rights, deciding on the matters that are within the competence of that body. The general assembly elects the members of the supervisory board of the company. In addition, it considers financial statements and auditor's reports, carries out external auditor selection, decides on the use of profit and loss coverage (including dividend payment), increase and decrease in share capital as well as other issues as determined by the law and company statute.

Supervisory Board

The supervisory board is responsible for appointing, recalling, directing control of the work or supervising the management of the company's business.

Management

The management manages the affairs of the company and represents the company. The management manages the affairs of the company independently and at its own risk. In the performance of its duties, the administration is not bound by the instructions of other corporate bodies or by the instructions given to it by the majority shareholders or the supervisory board. Management is always required to act solely for the benefit of the company and shareholders, taking into account the interests of employees and the wider community, with the aim of increasing the value of the company.

Commission of the Company

The board of directors of the Company is provided for by the legal regulations and recommendations of the corporate governance code.

The Audit act requires each company in Croatia whose securities are listed on the regulated market (as defined by the law regulating the capital market) to appoint the audit committee and leave the possibility of forming other committees.

Tasks and membership of the audit committee are also regulated by the audit act.

The purpose of the audit committee is to assist the supervisory board of the Company in overseeing (i) the integrity of the financial statements, (ii) compliance with legal and regulatory requirements, (iii) the qualifications and independence of the auditing company, and, where applicable, (iv) the internal audit function.

External control

External control of the Company's operations primarily includes auditing of annual financial statements. These tasks are performed by an independent external auditor in accordance with the regulations governing accounting and auditing.

Independent external auditors are obliged, as clearly and unambiguously as possible, to express their opinion as to whether the financial statements prepared by the management are adequate to reflect the capital and financial position of the company and results for a certain period of time.

Independent external auditor of Sunce koncern d.d. is Ernst & Young d.o.o. Zagreb, Radnička cesta 50, 10000 Zagreb (EY). The first year of the EY's engagement is the audit of the financial statements for the year ended 31 December 2017.

President of the Management Board

Tonči Boras

Member of the Management Board

Kristijan Gagulić

Member of the Management Board

Ivan Potkrajčić