

hit
universe of fun

Creating the Universe of Fun

Annual Report **2004**

reating the Universe of Fun
Hit Group Annual Report **2004**

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*W*it Group in 2004

**When she takes her first bite, her eyes close and her lips widen
into a smile which speaks of pleasure.**

A moment of silence.

**Two decades of experience, tradition and tastes, condensed
into a slice of time, which pauses for just a moment.**





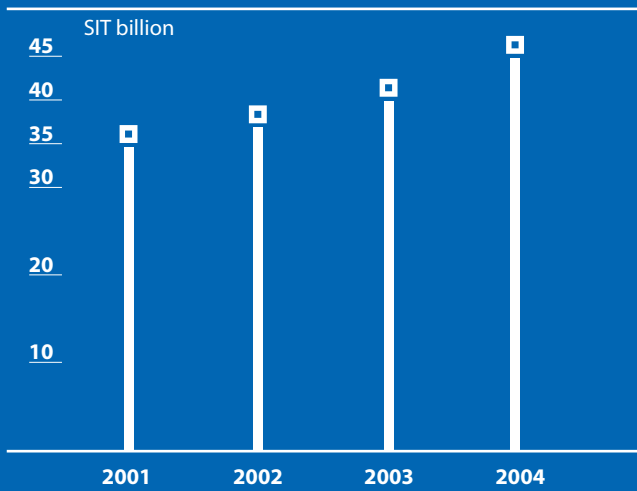
Maestral

Among the thousand-year-old olive groves on the picturesque Montenegrin coast, a fresh breeze blew in 2004 – the Maestral. Hit's largest foreign investment and the most complete tourist-entertainment complex in the southern Adriatic (Pržno, Montenegro).

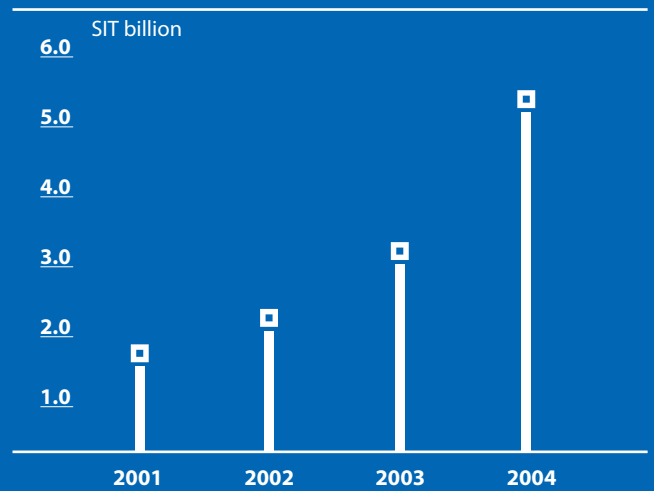
- SIT 46.7 billion in gross operating revenues (net sales revenues plus other operating revenues plus change in inventories of products and work in progress plus own work capitalised)¹
- SIT 5.2 billion in net profit
- SIT 43.3 billion in gross gaming revenues (gross operating revenues from games of chance before gaming tax and casino entrance fees inclusive of VAT)
- 1.6 million casino visitors
- 399 thousand overnight stays²
- 2,233 employees as at 31 December 2004
- 17 percent return on equity

1 The Kompas hoteli company, taken over in November 2004, is not included in the group income statement for 2004, but is included in the group balance sheet as at 31 December 2004.

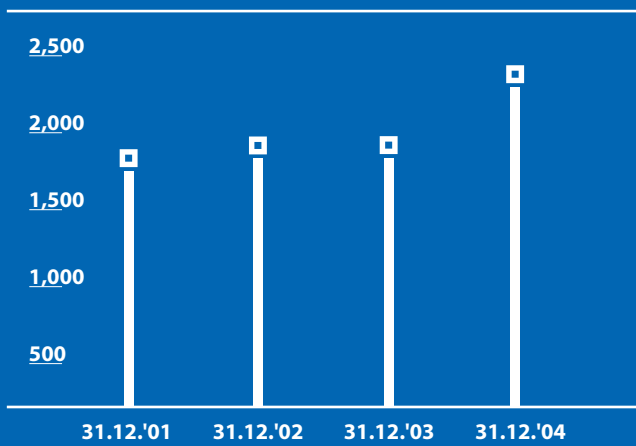
2 Inclusive of overnight stays at the Kompas hoteli company.



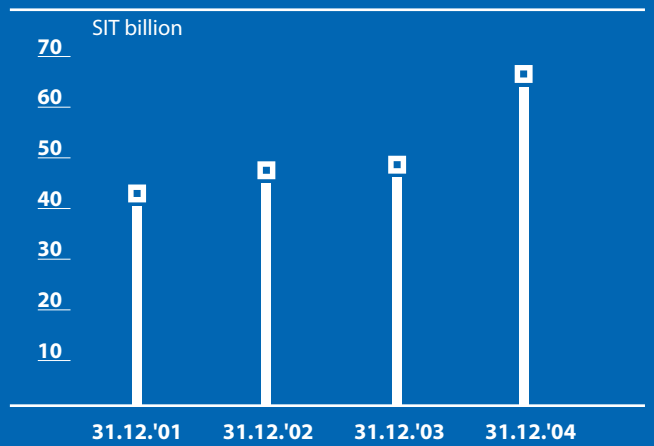
1. Gross operating revenues



2. Net profit



3. Number of employees as at 31 December



4. Balance sheet total as at 31 December

Hit Group in 2004

The role of the Hit Group in the Slovenian economy³

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004*
Number of employees at 31 December	1,510	1,546	1,546	1,575	1,611	1,565	1,710	1,856	1,855	2,233
Visits to the casinos per year (in thousands)	1,733	1,834	1,842	1,779	1,559	1,529	1,529	1,526	1,531	1,624
Overnight stays at hotels per year (in thousands)	76	81	80	95	99	110	187	208	214	399

Gross operating revenues before gaming tax and inclusive of casino entrance fees-related VAT (million SIT)**	18,402	24,463	28,978	32,408	32,724	33,187	39,693	44,508	47,782	55,578
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Gross operating revenues expressed as a percentage of Slovenia's foreign exchange inflow from tourism ***	14 %	14 %	15 %	18 %	18 %	15 %	15 %	15 %	15 %	15 %
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Total taxes and contributions paid (million SIT)	9,485	13,184	15,900	18,353	17,756	17,688	21,202	20,821	22,876	25,690
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Total taxes and contributions paid expressed as a percentage of Slovenia's budget revenues ****	2 %	2 %	2 %	2 %	2 %	2 %	2 %	2 %	2 %	2 %
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* The data for 2004 include also the Kompas hoteli company.

** Until 2000 the data refer to the Hit company only, whilst from 2001 the data include the aggregate gross operating revenues of the Hit Group before gaming tax and inclusive of casino entrance fees-related VAT.

*** (the sum of sales revenues in foreign currency before gaming tax and inclusive of casino entrance fees-related VAT generated by members of the Hit Group established in Slovenia) / (Slovenia's foreign exchange inflow from tourism)

**** (the sum of all taxes and duties paid by members of the Hit Group established in Slovenia) / (Slovenia's budget revenues)

³ Until 2000, the data relate to the Hit company only.



With new colours and new energy into the third decade



The year 2004 was for the Hit Group a year of many projects. Within our subsidiary, Hit Montenegro, we finished our biggest investment abroad, the Maestral tourist and entertainment resort in Montenegro; another subsidiary, Casino Kobarid, completed the Aurora gaming and entertainment centre in Kobarid and in Gornja Radgona we opened our first slot hall Casino Dama. In Kranjska Gora, which has been developing into our second tourist destination after Nova Gorica, we took over the Kompas hoteli company and thus – through its equity interests in other companies – gained control over the majority of hotels in the Upper Sava valley. We were also successful in helping our technological pillar to its own feet, and ended the year celebrating the 20th anniversary of gaming in Nova Gorica, as well as launching a revamped corporate brand "Hit Universe of Fun" and a new corporate image.

The year that is behind us was both very demanding and very successful. Despite the heavy workload of the employees due to the many projects in course, we were well above the targets and generated gross operating revenues of SIT 46.7 billion at group level or 14 percent more than in the previous year – mainly due to the quality of work and adequate promotional activities. We also made a net profit of SIT 5.2 billion. The government, too, has reason to be satisfied with our performance, given that we paid more than SIT 25 billion in contributions, taxes and other duties.

**Statement by the president
of the management board**

In the next year, we will not rest on our laurels: in accordance with our strategy, we are already preparing ourselves for new projects and looking for new opportunities. In the field of gaming, we have prepared a project of complete renovation of the Park gaming and entertainment centre in Nova Gorica, and are continuing with the preparations for the construction of another gaming and entertainment centre in Šentilj, the execution of which will depend also on the time schedule of other projects. Until the winter, we will build our second slot hall, this time in Vrtojba. In the field of classic tourism, we will improve the organisation of our subsidiaries in Kranjska Gora, and define the development strategy at company and group level in the area of the Upper Sava valley. In 2005, we will continue developing our technological pillar, and have already formed a company to that end, ICIT, which will be responsible for all our technological products. Whilst investing at home, we have not forgotten about the opportunities abroad. We have been considering seriously the possibility to start a casino in South America, and have been monitoring closely market developments in the South East Europe.

Being aware that the company's and group's development can not be effective without further development of our employees, we will continue investing in the training of existing and recruitment of prospective employees. We will continue developing the organisational culture, whereby we will focus on clear definitions of relationships and development of work processes, all with the purpose to rationalise our work and increase the company's efficiency both internally and in its relations with subsidiaries. In addition to all investment projects, we will also complete, in 2006, the revamping of corporate identity and image both at company and group level. Meaning that in addition to the already established corporate brand "Hit Universe of Fun", we will also launch two other brands, "Hit Stars" for the field of gaming and "Hit Holidays" for the field of classic tourism. At the end of 2006, the entire company will thus have adopted the new corporate image, and will be ready in the third decade of its existence to realise its full potential and ideas that in many aspects stretch beyond those of the environment in which we operate.

Branko Tomažič

President of the management board



hit stars

Shows, concerts, games of chance and excellent amusement in gaming and entertainment centres.



At www.hitstardust.com, the challenge of an online gaming experience at gaming tables and colourful slot machines, including video poker...

hit holidays

First-class holidays or just a short break in nine hotels and apartment properties situated in superior resort locations.

hit
universe of fun

Hit has grown into a universe of fun

In 2004, Hit celebrated the 20th anniversary of gaming in Nova Gorica. In the two decades, the company has grown into a diversified group that offers a wide spectre of tourist services. The core of the group remains the gaming and entertainment activity, which is however supplemented with ever new tourist services that enable our guests to spend quality leisure time on our premises.

Due to ever greater diversification of our offering we launched a revamped corporate image on the occasion of our 20th birthday, i.e., in December 2004. The Hit Group thus changed into new colours, and unveiled the new corporate brand "Hit Universe of Fun", to be followed in 2005 by other three umbrella brands "Hit Stars" that will cover the gaming and entertainment activity, "Hit Holidays" that will cover hotels, F&B and other tourist activities, and "Hit Stardust" that represents our online casino.

Organisational structure of the Hit Group

Hit, d. d., Nova Gorica, Slovenia

Daimond, trgovina in zastopanje, d. d.,
Šempeter pri Gorici, Slovenia

HTP Gorenjka Kranjska Gora, d. d., Slovenia

Kompas Hoteli, d. d., Kranjska Gora, Slovenia

Casino Kobarid, d. d., Most na Soči, Slovenia

Hit Montenegro, d. o. o., Montenegro

Hit Coloseum, d. o. o., Sarajevo, Bosnia and Herzegovina

Hit Netherland Antilles N. V., Bonaire

Hit Interactive N. V., Curaçao



Company name	Management board
Hit hoteli, igralnice, turizem d.d., Nova Gorica	President Branko Tomažič
Abbreviated name	Members Silvan Križman, Tomica Dumančič, employee representative (until 4 March 2004)
Registered office	Supervisory Board
SI 5000 Nova Gorica, Delpinova 7 a	Chairman Pavel Pirc
Telephone	Members Peter Velkavrh, Mirko Brulc,
+386 5 3364000	Darko Končan,
Fax	Aleš Furlan (until 18 February 2004), Igor Lapajne,
+386 5 3025557	Matej Brezigar (since 20 February 2004).
E-mail pr@hit.si	Capital
Web site www.hit.si	Share capital SIT 6,788,634,000
	Total number of shares 6,788,634
	Nominal value of each share SIT 1,000
	Principal activities • organisation of special games of chance • hotels • restaurants • retail sale • bars • activities of travel agencies • fair and amusement park activities • other entertainment activities nec

Profile of the parent company Hit

2004

Shareholder	No. of shares	Stake in %	Votes in %
Ordinary shares			
Slovenska odškodninska družba, d.d.	1,357,727	20.00	33.33
Kapitalska družba, d. d.	1,357,727	20.00	33.33
Nova Gorica municipality	1,022,614	15.06	25.11
Šempeter-Vrtojba municipality	183,726	2.71	4.51
Kranjska Gora municipality	131,699	1.94	3.23
Rogaška Slatina municipality	11,541	0.17	0.28
Novo mesto municipality	8,146	0.12	0.21
Total ordinary shares	4,073,180	60.00	100
Preference shares	2,715,454	40.00	/
Total shares	6,788,634	100.00	





Annual Report 2004

Victory.

**A euphoric raising of the hands accompanies a kiss
which follows a passionate tango.**

**The gentle sound of clinking glasses, a crowd of different
people joined in the enjoyment of the festivities.**

They will return. As they have so often.





Aurora

Morning glow in a deep valley at the foot of the Alps. The Aurora gaming and entertainment center, Hit's most attractive "greenfield" investment (Kobarid, Slovenia).



Januar	<ul style="list-style-type: none"> • Hit acquires a majority interest in the Hit Interactive company, which offers online games of chance
Februar	<ul style="list-style-type: none"> • Hit Mega Jackpot in the amount of EUR 802,000 is won in the Perla gaming and entertainment centre
April	<ul style="list-style-type: none"> • Hit sells the shares of the Terme 3000 company • Hit's supervisory board appoints the president and a member of the management board for a period of five years • HTP Gorenjka takes over the Špik Hotel in Gozd - Martuljek.
Maj	<ul style="list-style-type: none"> • Hit Racing Team with Nina Jerančič as driver participates for the first time in a race on the Mugello circuit.
Junij	<ul style="list-style-type: none"> • Opening of the renovated Maestral tourist and entertainment resort in Pržno, Montenegro
Julij	<ul style="list-style-type: none"> • Opening of the new Aurora gaming and entertainment centre in Kobarid, Slovenia
Avgust	<ul style="list-style-type: none"> • The general meeting approves profit distribution as proposed, and adopts changes to the statute that will enable the management board to increase the Hit's share capital
Oktober	<ul style="list-style-type: none"> • Hit makes an offer to acquire the shares of the Kompas hoteli company
November	<ul style="list-style-type: none"> • Hit acquires 97.35 percent of shares of the Kompas hoteli company • Opening of the first Hit's slots hall Casino Dama in Gornja Radgona, Slovenia • Formation of a new corporate communications department reporting directly to the management board
December	<ul style="list-style-type: none"> • Celebration of 20 years of gaming in Nova Gorica • Launch of a new corporate image at company and group level • Hit Mega Jackpot in the amount of EUR 735,909 is won in the Park gaming and entertainment centre

Major events in 2004

Introduction

At the end of 2004, the group comprised eight companies, two more than at the end of 2003. Four subsidiaries were established in Slovenia, two in the territory of the former Yugoslavia, and two in the Netherland Antilles.

In the middle of the year, the Hit Montenegro company completed the second phase of renovation of its tourist and entertainment resort Maestral. For this reason, the year 2005 will be the first normal business year in which the resort will operate using all of its capacities throughout the year.

For the Hit Interactive company, 2004 was the first year of operations and thus a year of stabilisation of operations. The Casino Kobarid company completed the construction of its gaming and entertainment centre Aurora in July 2004 and began normal operations in August of the same year.

Operations of the HTP Gorenjka company in 2004 were marked by resumed operations of the Grand Hotel Prisank that was being renovated until the end of 2003, and incorporation of the Špik Hotel and auto camp in Gozd - Martuljek on 1 May 2004. In November of the same year, Hit took over also the Kompas hoteli company, thus gaining control over the majority of hotels in the Upper Sava valley.

The Hit Coliseum company continued with the upgrading of the Coliseum Club from a classic casino to a gaming and entertainment centre, what positively affected the number of visits to the centre and revenues generated by it.

One of the subsidiaries, the Daimond company, is also a parent company, and as such controls three other companies. All together, they form the Daimond Group that continued the trend of good performance both as regards its main activity as other activities that capitalise on synergy effects from Hit Group membership.

The Hit Netherland Antilles company performed its main activity until the end of September 2003 and did not operate in 2004.

Hit Group was successful in 2004, given that its total revenues were SIT 48 billion, its total costs and expenses SIT 41,5 billion, and its net profit SIT 5.2 billion. At the end of 2004, its total assets were SIT 66.2 billion, of which SIT 39.5 billion were covered with its own sources (capital and long-term provisions). At the end of 2004, the group had 2,233 employees.

Revenues and their breakdown

In 2004, the Hit Group's gross operating revenues were SIT 46.7 billion, up 14 percent compared to 2003. Of this, gross operating revenues generated in Slovenia were SIT 44.7 billion or 96 percent, whilst gross operating revenues generated abroad were SIT 2.0 billion or 4 percent.

In 2004, its net gaming revenues (i.e., gross gaming revenues after gaming tax) accounted for 78 percent of the group's gross operating revenues, whilst revenues from hotels and other tourist activities and other revenues accounted for 12 percent and 10 percent respectively.

The group's total revenues (operating revenues, financial revenues and extraordinary revenues) achieved SIT 48 billion in 2004, up 11 percent compared to 2003.

Financial revenues and extraordinary revenues were SIT 1.3 billion or 3 percent of the total revenues.

The group's total costs and expenses were SIT 41.5 billion, up 7 percent compared to 2003.

The group's net profit was SIT 5.2 billion or 11 percent of its total revenues.



Games of chance

The main activity of the Hit Group remain games of chance, complemented by ever more tourist services.

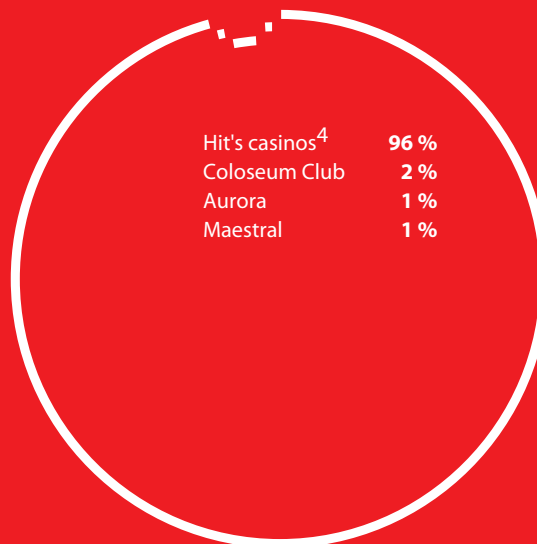
Gross gaming revenues (i.e., gross operating revenues from games of chance before gaming tax and entrance fees inclusive of VAT) were EUR 181.3 million (SIT 43.3 billion), of which gross gaming revenues made by the casinos owned and operated by the parent company Hit accounted for 96%. Compared to 2003, the group's gross gaming revenues were 10 percent higher.

Gaming tax and other duties

In 2004, various taxes, as calculated by all casinos belonging to the group, were gaming tax and output VAT on entrance fees SIT 6.9 billion, and concession and other gaming duties SIT 5.8 billion, altogether SIT 12.7 billion. Altogether, gaming duties represented 29 percent of the group's gross gaming revenues.

Hit and Casino Kobarid are companies established in Slovenia that have as their main activity the organisation of special games of chance, an activity that is VAT free under the VAT Act, for which reason they may deduct only a certain percentage of the input VAT. In 2004, they were entitled to

deduct 11 percent of the input VAT, whilst the net value of each incoming invoice was actually increased by the remaining 89 percent. For gaming companies, this non-deductible input VAT represents an additional tax burden.



5. Shares of gross gaming revenues, by group's facilities

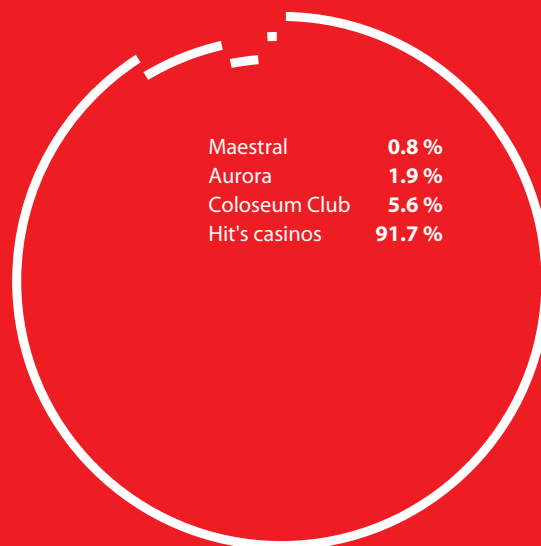
Gaming is still the basic activity of the Hit Group, although being more and more complemented with tourism.

⁴ Hit's casinos are: Perla gaming and entertainment centre (Nova Gorica), Park gaming and entertainment centre (Nova Gorica), Hit Hotel Casino Kranjska Gora gaming and entertainment centre, Aurora gaming and entertainment centre (Kobarid), Rogaška Slatina casino, Otočec casino, Casino Dama slots hall (Gornja Radgona).



Number of visits (in thousands)

	2003	2004	Index
Hit's casinos	1,470	1,489	101
Coloseum Club	61	90	148
Aurora		32	-
Maestral		13	-
Total	1,531	1,624	106



6. Visits in 2004, by Hit Group's casinos

Number of visitors

Hit Group's gaming and entertainment centres, casinos and slots hall had more than 1.6 million of visitors in 2004, 6 percent more than in 2003. Hit's casinos alone had 1,489 thousand visits, up 1 percent compared to 2003, and representing 92 percent of the total group's visits. This share fell by 4 percentage points compared to 2003 due to a 48 percent increase in the number of visits to the Coloseum Club gaming and entertainment centre, as well as due to the start of operations in June 2004 of the casino within the Maestral tourist and entertainment resort in Montenegro, the start of operations in July 2004 of the Aurora gaming and entertainment centre in Kobarid, and the start of operations in the same month of the Casino Dama slots hall in Gornja Radgona.

The HitCasinosOnline online casino had 4 thousand registered players in 2004.



Hotels and other tourist activities

In 2004, the Hit Group generated SIT 5,4 billion of gross operating revenues by its hotels and other tourist activities, 35 percent more than in 2003.

Altogether, the group's hotels had more than 880 rooms.⁵ They accommodate a total of 110 thousand guests, of which those who stayed at the Hit's hotels accounted for 58 percent⁶, those who stayed at the hotels of the HTP Gorenjka company for 36 percent, and those who stayed at the Maestral Hotel of the Hit Montenegro company for 6 percent. Foreigners prevailed amongst hotel guests and accounted for from 68 percent to 90 percent of all hotel guests. Compared to the previous year, the number of hotel guests increased by 33 percent.

The number of overnight stays was 295 thousand or 38 percent more than in 2003. More than half of overnight stays were at hotels of the HTP Gorenjka company, 37 percent were at the five hotels of the Hit

company, and 13 percent were at the Maestral Hotel of the Hit Montenegro company. The increase in the number of hotel guests and overnight stays in 2004 is mainly attributable to the start of operations of the Maestral tourist and entertainment resort, the completion of renovation of the Grand Hotel Prisank, and the take-over and start of operations of the Špik Hotel.

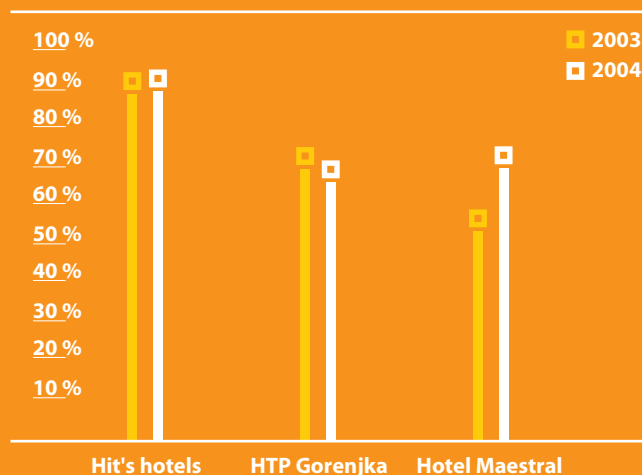
After the take-over of the Kompas hoteli company in November 2004, the number of available hotel rooms within the Hit Group increased to more than 1,100. The said company alone had 104,016 overnight stays in 2004 in its Kompas and Alpina Hotels and Kompas Annexe.

Other activities

Other activities of the Hit Group, amongst which the main activities of the Daimond company prevailed, generated SIT 4.8 billion of gross operating revenues. Compared to the previous year, this represents a 6 percent increase.

5 Capacities of the Kompas hoteli company are not included in this figure.

6 Hit's hotels are: Perla Hotel, Park Hotel, Sabotin Hotel, Lipa Hotel and Hit Hotel Casino Kranjska Gora.

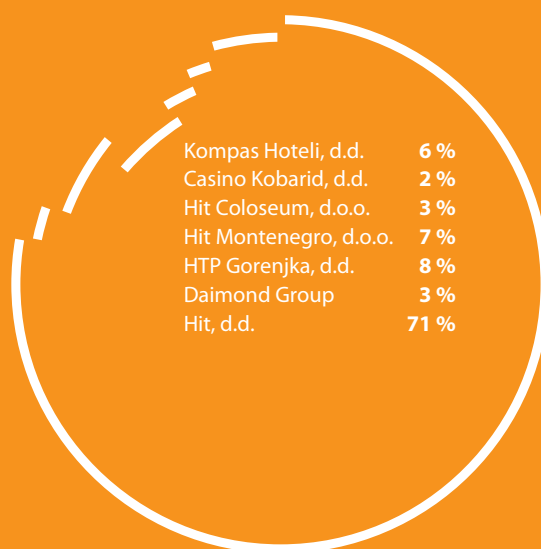


7. Share of foreign guests staying at hotels within the Hit Group

Employees

At year-end, the Hit Group employed 2,234 persons, of these the parent company Hit alone 71 percent. Compared to the end of 2003, the number of employees increased by 378 or 20 percent. This is the consequence of various factors: the start of operations of the renovated tourist and entertainment resort Maestral in Montenegro, the opening of the new gaming and entertainment centre Aurora in Kobarid, the new Grand Hotel Prisank in Kranjska Gora, the take-over of the Špik Hotel in Gozd - Martuljek and the Kompas hoteli company in Kranjska Gora, the opening of the Casino Dama slots hall in Gornja Radgona, as well as the recruitment of experts by the parent company Hit.

Since the beginning of 1999, the Hit company has been ensuring that all employees receive periodical medical examinations. It also helped design the so-called second pension pillar, to which the majority of its employees has subscribed. It has thus become one of the few Slovenian companies that pay the highest premiums for its employees.



8. Number of employees of the Hit Group as at 31 December 2004, by group companies

Investments and development projects

Investment funds allocated to intangible and tangible fixed assets amounted to over SIT 11 billion in 2004. More than half of these monies were spent for assets purchased within major investment projects that were completed in 2004.

The biggest amongst them was the construction of the Maestral tourist and entertainment resort in Montenegro, which opened its doors in June. One month later, the construction of the Aurora gaming and entertainment centre in Kobarid was also completed. In November, the Casino Dama slots hall opened its doors in Gornja Radgona. By year-end, we prepared everything necessary to start the renovation of the Park gaming and entertainment centre in Nova Gorica. Throughout the year, we also worked on the project of construction of another gaming and entertainment centre, this time in Šentilj.

The implementation plan relating to the development of an innovation centre for gaming technologies was also approved in 2004 to enable formation of the ICIT (International Center of Innovative Technologies) company in 2005, which will actually represent the Hit's technological pillar. In 2005, we will thus construct an office building to house development and manufacturing of various technological products.



Balance sheet analysis and performance indicators⁷

Capital and liabilities

At the end of 2004, the Hit Group's capital stood at SIT 36.8 billion, up 23 percent from the end of 2003. Capital represented 55.5 percent of total capital and liabilities, down 4.6 percentage points from the end of 2003. Long-term liabilities and provisions represented 16 percent of total capital and liabilities, up 46 percent from the end of 2003, whilst short-term liabilities and accrued costs (expenses) and deferred revenues increased by 49 percent.

Assets

At the end of 2004, the Hit Group's assets were SIT 66.2 billion, up 33 percent from the end of 2003. Of these, fixed assets represented 72 percent and current assets 28 percent. The structure of assets thus remained unchanged.

7 Assets and liabilities of the Hit Group as at 31 December 2004 include also those of the Kompas hoteli company, which was taken over by Hit in November of the same year.

Hit Group's capital and liabilities items in 2003 and 2004 (thousand SIT)

	31 Dec 2003	31 Dec 2004	Share in %	Index 04/03
Capital	29,993,111	36,751,291	55.5	123
Long-term liabilities and provisions	7,448,470	10,856,525	16.4	146
Short-term liabilities and accrued costs (expenses) and deferred revenues	12,485,698	18,571,073	28.1	149
Total	49,927.279	66,178.889	100.0	133



Hit Group's performance indicators

In 2004, return on capital, measured as the ratio of net profit to average capital (excluding the profit for the period), was 17 percent, up 4.7 percentage points compared to 2003.

Revenues profitability, measured as the ratio of net profit to total revenues (operating revenues plus financial revenues plus extraordinary revenues), was 10.9 percent, up 3.5 percentage points compared to 2003.

Total efficiency, measured as the ratio of total revenues to total costs and expenses, was 1.12, and improved compared to 2003 when it was 1.08.

Hit Group's assets items as at 31 December of 2003 and 2004 (thousand SIT)

	31 Dec 2003	31 Dec 2004	Share in %	Index 04/03
Tangible fixed assets	29,399,003	38,576,738	58.3	131
Intangible fixed assets and long-term investments	6,658,674	9,177,731	13.9	138
Current assets and deferred costs (expenses) and accrued revenues	13,869,602	18,424,420	27.8	133
Total	49,927,279	66,178,889	100,0	133

Return and efficiency ratios

	2003	2004	Index 04/03
Return on capital	12.3 %	17.0 %	138
Revenues profitability	7.4 %	10.9 %	147
Total efficiency	1.08	1.12	104

Taxes and duties paid by the parent company Hit in 2004

	2003 in billion SIT	2004 in billion SIT	INDEX
Gaming tax	5.9	6.7	113
Concession duties	5.7	5.7	100
Total gaming tax and concession duties	11.6	12.4	107
Total taxes and duties (gaming tax, concession duties, tax on profit, non-deductible input VAT, other taxes, contributions, fees, etc.)	22	24	109

Due to the nature of its activities, the Hit Group is inseparably linked with the environments in which it operates. The success of its performance thus depends largely on the successful development of such environments. Merely by conducting its operations, the Hit Group contributes in no small measure to the development of places and regions where it performs its activities. Namely, it guarantees long-term good jobs, whilst – given the tax arrangements applying to its main activity, i.e., the organisation of games of chance – its good performance means more concession duties and gaming tax, which are an important revenue of the local and central government.

However, the Hit Group also supports numerous community activities through sponsorships and donations, whereby the main stress is on sports and culture. Monies allocated by the parent company alone to sponsorships and donations represent some 0.6 percent of its total revenues.

The sponsorships policy is to invest as much money as possible in younger generations, primarily in the geographical regions in which Hit operates. However, the company would nevertheless support any activity or project of a broader, national importance.

Relations with social environment

Hit is the leading sponsor of the three times Slovenian champion, the Hit Gorica football club, whereby a large portion of sponsorship money is allocated to the football school of the Young Football Player Club of Nova Gorica with more than 400 members. Hit contributes importantly to the development of the majority of sports clubs and activities in Nova Gorica. For years, it has supported the female Hit Gorica volleyball club, the Hit cycling club of Nova Gorica, the tennis club, the chess club, the athletics club, the Soške elektrarne kayak club, and the table tennis club. In addition to these sponsorships, the company would also support any small project that improves the quality of life. The company is also quick to respond with a donation to any emergency, as was the earthquake in the Soča valley, when Hit helped reconstruct the library and health care centre in Bovec.

For years now, Hit has been the main sponsor of world cup events in alpine skiing, the Vitranc Cup in Kranjska Gora. Its sponsorship of Slovenian ice hockey is also long-standing: in 2004, Hit thus sponsored the Hit Casino Kranjska Gora club and the national champions of Jesenice.

In 2004, Hit also acted as the main sponsor of the national event "athlete of the year", organised by the Association of Slovenian Sports Journalists, and also became the official partner of the Slovenian Olympians Club.

As regards sponsorships in the sphere of culture, we must mention above all the Pavilion in the Hit's business centre that has been hosting exhibitions for the sixth year in a row. It has established itself very soon as a renowned Slovenian gallery and became one of the three venues for artists in the Goriška region.





Financial statements

They are coming home.

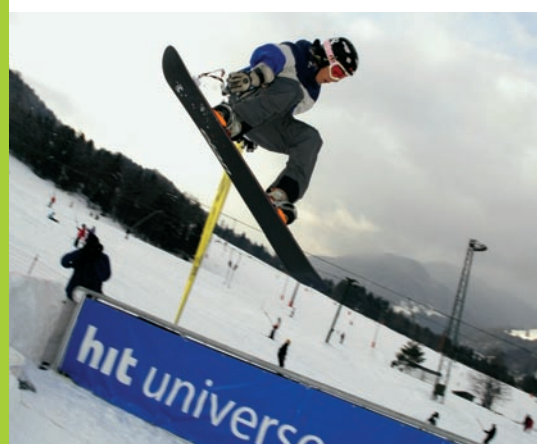
They promise everyone that they will see each other next year.

As they have for many years.

When they first came, it was her first holiday.

Yesterday she celebrated her twentieth birthday.

When they come back next year, the family will have
yet another member...





X-plosion of Fun (Vitranc Cup) 2004

A universe of fun in the heart of the Julian Alps.

An X-plosion which shakes the hills and breathes new life into Kranjska Gora (Kranjska Gora, Slovenia).

Consolidated income statement for the financial year ended 31 December 2004

(thousand SIT)	2004	2003
Net sales revenues	45,923,265	40,675,024
Capitalised own products and services	157,980	
Operating expenses from revaluation and other operating expenses	619,680	469,065
Gross operating revenues	46,700,925	41,144,089
Operating expenses	(40,585,563)	(37,076,792)
Costs of goods, materials and services	(14,590,994)	(12,283,363)
Costs of goods sold and materials used	(5,815,690)	(5,035,267)
Costs of services	(8,775,304)	(7,248,096)
Labours costs	(15,853,415)	(14,718,781)
Costs of wages and salaries	(10,859,275)	(10,056,099)
Social insurance costs	(2,255,569)	(3,024,705)
- Pension insurance costs	(1,395,293)	(1,587,185)
- Other social insurance costs	(860,276)	(1,437,520)
Labour costs arising from revaluation	(341,794)	(328,535)
Other labour costs	(2,396,777)	(1,309,442)
Amortisation expenses	(3,558,966)	(3,827,396)
Amortisation expenses and operating expenses from revaluation associated with intangible and tangible fixed assets	(3,466,317)	(3,611,227)
Operating expenses from revaluation of operating current assets	(92,649)	(216,169)
Other operating expenses	(6,582,188)	(6,247,252)
Operating profit or loss	6,115,362	4,067,297
Financial revenues	1,162,463	1,205,985
Financial revenues from equity interests	144,140	133,939
Financial revenues from equity interests in associates	2,954	
Other financial revenues from equity interests	141,186	133,939
Financial revenues from long-term and short-term receivables	1,018,323	1,072,046
Interest revenues and revenues from receivables due from associates	1,044	5,781
Other interest revenues and revenues from receivables	1,017,279	1,066,265
Financial expenses	(866,727)	(1,742,277)
Financial expenses from long-term and short-term investments write-offs	(105,375)	(32,811)
Financial expenses from revaluation of investments in associates	(32,267)	(2,460)
Other financial expenses from revaluation	(73,108)	(30,351)
Interest expenses and financial expenses for other liabilities	(761,352)	(1,709,466)
Other interest expenses and financial expenses for other liabilities	(761,352)	(1,709,466)
Net profit or loss from ordinary activities	6,411,098	3,531,004
Extraordinary revenues	98,252	705,009
Extraordinary expenses	(47,928)	(29,628)
Extraordinary expenses less capital revaluation adjustment	(47,928)	(29,628)
Profit or loss from extraordinary activities	50,324	675,381
Income tax	(1,219,985)	(1,007,315)
NET PROFIT OR LOSS FOR THE PERIOD	5,241,437	3,199,069
Thereof: net profit on minority shareholders	235,359	630,207
Therefor: net profit of majority shareholders	5,006,078	2,568,862

Consolidated balance sheet for the financial year ended 31 December 2004

(v 000 SIT)	31.12.2004	31.12.2003
Assets	66.178.889	49.927.279
Fixed assets	47.754.469	36.057.677
Intangible fixed assets	4.996.127	2.410.787
Deferred operating costs	4.244.859	32.843
Concessions, patents, licences, trademarks and other rights	439.894	1.978.155
Advances for intangible fixed assets	358.035	
Consolidated goodwill	14.107	21.158
Other intangible fixed assets	239.324	20.596
Intangible fixed assets being acquired	57.943	
Tangible fixed assets	38.576.738	29.399.003
Land and buildings	30.616.277	24.567.518
- Land	4.269.299	2.817.204
- Buildings	26.346.978	21.750.313
Manufacturing plant and equipment	182.105	160.516
Other plant and equipment	6.622.127	3.335.976
Tangible fixed assets being acquired	1.156.229	1.334.993
- Advances for tangible fixed assets	20.268	35.858
- Tangible fixed assets in course of construction or manufacturing	1.135.961	1.299.135
Long-term investments	4.181.604	4.247.887
Equity interests in the group	0	0
Equity interests in associates	719.716	627.320
Long-term receivables from investments in associates	0	0
Other long-term equity interests	3.084.391	3.440.396
Investment property		8.723
Other long-term receivables from investments	377.497	171.448
Own shares	0	0
Current assets	15.810.680	12.614.384
Inventories	1.479.825	1.049.857
Material	366.396	259.580
Merchandise	1.105.994	777.012
Advances to third entities	7.435	13.264
Operating receivables	4.911.821	4.191.851
Long-term operating receivables	1.097.959	1.092.828
Other long-term operating receivables		1.092.828
Short-term operating receivables	3.813.862	3.099.023
Short-term trade receivables	1.477.613	1.261.336
Short-term receivables due from associates	10.996	17.722
Short-term receivables due from other entities	2.325.253	1.819.965
Short-term investments	5.340.254	3.851.951
Shares purchased for resale	155.650	604.427
Short-term investments in other entities	5.184.604	3.247.524
Bank balance, cheques and cash in hand	4.078.780	3.520.725
Deferred costs (expenses) and accrued revenues	2.613.740	1.255.218

Consolidated balance sheet for the financial year ended 31 December 2004

(thousand SIT)	31 Dec 2004	31 Dec 2003
Capital and liabilities	66,178,889	49,927,279
Majority interest	28,534,955	23,756,460
Called-up capital	6,788,634	6,788,634
Share capital	6,788,634	6,788,634
Revenue reserves	11,004,270	7,633,983
Legal reserves	1,270,849	1,270,849
Other reserves	9,733,421	6,363,134
Net profit or loss from previous periods	1,844,714	1,820,584
Unappropriated net profit for the period	2,620,839	1,272,213
Capital revaluation adjustment	6,276,118	6,237,477
General capital revaluation adjustment	6,221,471	6,221,471
Specific capital revaluation adjustment	54,647	16,006
Translation capital adjustment	380	3,569
Minority interest	8,216,336	6,236,651
Net profit or loss for the period	235,359	630,208
Other minority interest	7,980,977	5,606,443
Provisions	2,700,285	1,563,232
Long-term provisions	2,700,285	1,563,232
Long-term provisions for grants for fixed assets		9,826
Other long-term provisions	256,511	34,765
Consolidated negative goodwill	2,443,774	1,518,641
Financial and operating liabilities	24,808,873	17,652,201
Long-term financial liabilities	8,106,027	5,557,047
Long-term financial liabilities to banks	6,512,386	3,737,073
Long-term financial liabilities to other entities	1,593,641	1,819,974
Long-term operating liabilities	50,213	328,191
Long-term operating liabilities to other entities	50,213	328,191
Short-term financial and operating liabilities	16,652,633	11,766,963
Short-term financial and operating liabilities to associates		6,187
Short-term financial liabilities to banks	8,045,374	3,741,088
Short-term operating liabilities from advances	93,132	17,372
Short-term trade payables	2,942,311	2,307,582
Short-term financial and operating liabilities to other entities	5,571,816	5,694,734
Accrued costs (expenses) and deferred revenues	1,918,440	718,735

Consolidated cash flow statement for the financial year ended 31 December 2004

(SIT thousand)	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES		
Inflows from operating activities	45,174,583	39,805,633
Operating revenues	45,970,904	40,612,730
Extraordinary revenues associated with operations	98,252	35,976
Opening less closing operating receivables	(812,619)	(774,753)
Opening less closing deferred costs (expenses) and accrued revenues	(81,954)	(68,320)
Outflows from operating activities	(38,236,791)	(34,930,195)
Operating expenses excluding amortisation and long-term provisions	(37,191,478)	(32,886,305)
Extraordinary expenses associated with operations	(47,928)	(29,629)
Income tax and other taxes not included in operating expenses	(1,219,985)	(1,007,315)
Closing less opening inventories	(429,968)	(158,175)
Opening less closing operating liabilities	613,092	(266,515)
Opening less closing accrued costs (expenses) and deferred revenues	39,476	(582,256)
Net cash from operating activities	6,937,792	4,875,438
CASH FLOW FROM INVESTING ACTIVITIES		
Inflows from investing activities	66,407	2,655,759
Financial revenues associated with investing activities	144,140	133,939
Offset decrease in long-term investments	(77,733)	2,521,820
Offset decrease in short-term investments	0	0
Outflows from investing activities	(16,497,569)	(7,359,558)
Financial expenses associated with investing activities	0	(2,460)
Offset increase in intangible fixed assets (excluding revaluation)	(2,585,340)	(811,557)
Offset increase in tangible fixed assets	(12,423,926)	(3,704,747)
Offset increase in long-term investments (excluding revaluation)	0	0
Offset increase in short-term investments (excluding revaluation)	(1,488,303)	(2,840,794)
Net cash from investing activities	(16,431,162)	(4,703,799)
CASH FLOWS FROM FINANCING ACTIVITIES		
Inflows from financing activities	11,079,000	4,696,706
Financial revenues associated with financing activities	1,018,323	1,072,046
Increase in long-term provisions	1,353,695	
Offset increase in minority interest	1,744,326	2,068,645
Offset increase in long-term financial liabilities (excluding revaluation)	2,548,980	0
Offset increase in short-term financial liabilities (excluding revaluation)	4,413,676	1,556,015
Outflows from financing activities	(1,024,386)	(3,751,216)
Financial expenses associated with financing activities (excluding revaluation)	(761,352)	(1,709,466)
Extraordinary expenses associated with financing activities	0	0
Decrease in majority interest (excluding net loss for the period)	(263,034)	(425,238)
Offset decrease in long-term provisions	0	0
Offset decrease in long-term financial liabilities (excluding revaluation)		(1,616,512)
Offset decrease in short-term financial liabilities	0	0
Net cash from financing activities	10,054,614	945,490
CLOSING BALANCE OF CASH AND CASH EQUIVALENTS	4,078,780	3,520,725
Net increase/decrease in cash and cash equivalents	561,244	1,117,129
Exchange rate differences from translation	(3,189)	2,793
Opening balance of cash and cash equivalents	3,520,725	2,400,803

(Translation from the original in Slovenian)

To the owners of: HIT d.d. Group, Delpinova 7a, ŠEMPETER

We have audited the accompanying consolidated balance sheet of the HIT d.d. company as of 31 December 2004, and the related income statement, cash flow statement and statement of changes in equity for the year then ended, as well as the supplements thereto. We have also audited the business report prepared by the management board. These financial statements are the responsibility of the company's management board, whilst our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. An audit also includes an assessment of the accounting policies used and significant estimates made by the management, as well as an evaluation of the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements with the supplements thereto referred to in the first paragraph present fairly, in all material respects, the financial position of the HIT d.d. company as of 31 December 2004, as well as the results of its operations, its cash flows and changes in equity for the year then ended in accordance with Slovenian Accounting Standards.

The business report is consistent with the audited financial statements.

Without expressing a qualified opinion, we shall draw attention to note 12.1.33 to the financial statements. The Hit d.d. company recognised in deferred costs (expenses) and accrued revenues SIT 1,220,726 thousand of taxes and contributions in accordance with the minutes of the Special Tax Office of the Tax Administration of the RS of 31 December 2004, relating to the audit of business records for the years 2001 and 2002. The company objected to the minutes on 28 February 2005. If the objection is not granted and the possible dispute not solved in the company's favour, a significant risk exists as regards the charging and payment of taxes and contributions in 2003 and 2004 as well.

We shall also draw attention to notes 12.1.19 and 12.1.37 to the financial statements. As of 31 December 2004, the company presented under its short-term operating liabilities SIT 876,273 thousand of liabilities, originally recognised in the years 1991, 1992 and 1993. The legal basis for the recognition of such liabilities is doubtful. The Supreme Court of the Republic of Slovenia decided the dispute between the HIT d.d. company and the Agency of the Republic of Slovenia for the Audit of Ownership Transformation of Companies in favour of the latter as regards the liabilities from 1993. The company received the judgement on 5 May 2005.

As of 31 December 2004, the company presents SIT 266,380 thousand of operating liabilities, originally recognised in 1994, and SIT 326,014 thousand of operating liabilities, originally recognised in the same year in accordance with a decision issued by the Agency of the RS for Payments, Nova Gorica Office, in the process of the company's ownership transformation. As regards this matter, which is the subject of dispute, the company awaits a decision of the court.

Ljubljana, 8 June 2005

The Director:
mag. Knez Nadja
certified auditor
(signature and seal)

Auditor's report

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