



In the festive December, Nova Gorica shines thanks to the Hit company. Hit also helps organise the city's New Year's Eve celebration by taking care of shows as well as of food and drink. Fireworks 2007/2008.



Each year, the pavilion in the Hit business centre hosts at least five important fine arts events. In the ten years since opening, it has become one of the three most prominent exhibition venues of Nova Gorica. Etko Tutta, exhibition author.



For years, the Hit company has been supporting numerous sports clubs, events and individual athletes. Sand volleyball: tournaments Proseries (in Kranjska Gora) and Borderland (in Nova Gorica, on the Slovenian-Italian border).



At the Hit company, we are convinced that sports and good company are a good way of growing up. For this reason, we are a long-standing sponsor of the Young Football Player Club that is currently raising some 400 children in the spirit of sports.



The Universe of Fun extends beyond national borders: in March, the Hit company sponsored Lussarissimo near Tarvisio, the longest parallel giant slalom in Italy.



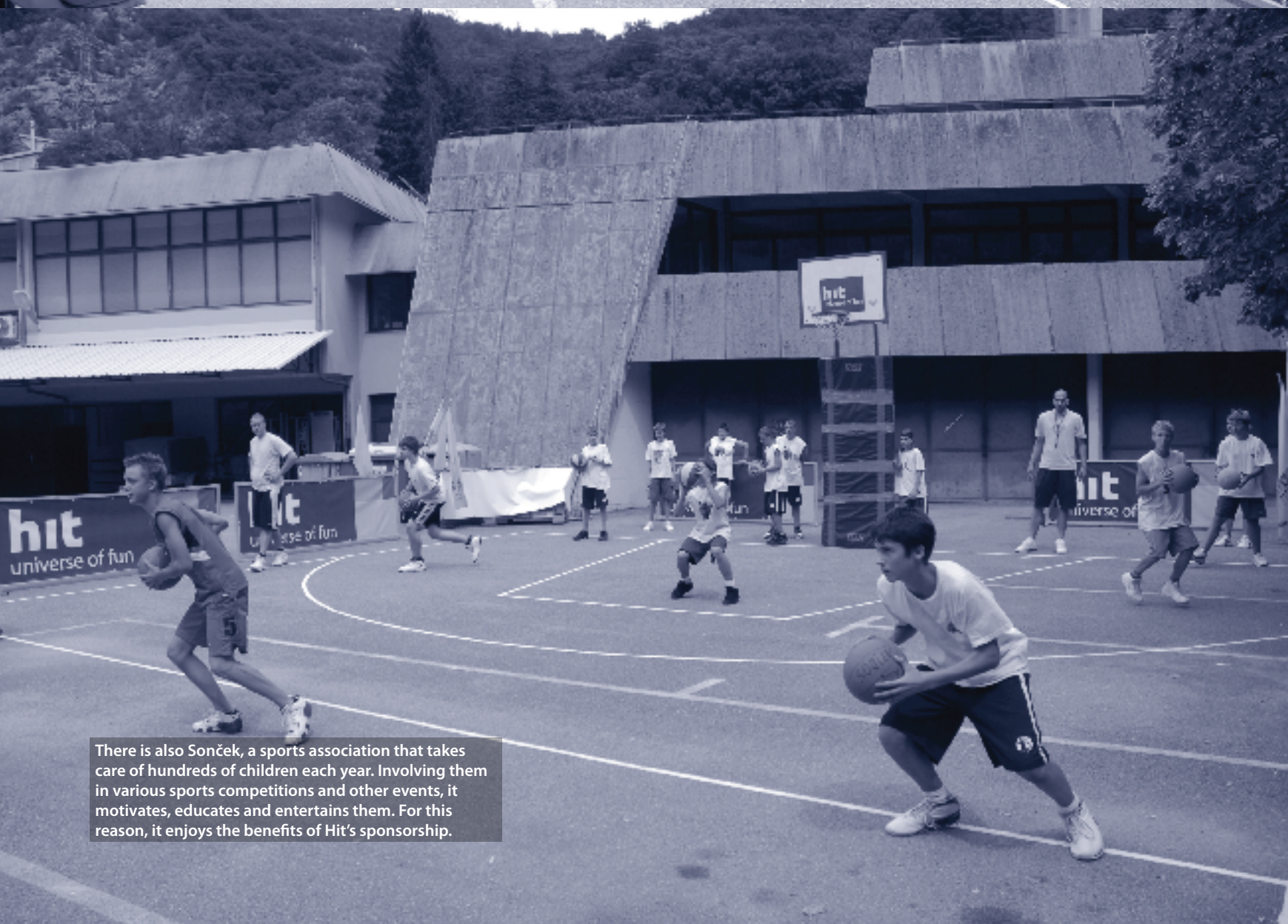
In March, more than 18,000 people came to Kranjska Gora to see the Ski Legends Challenge featuring Jure Košir and others, and enjoy the X-Plosion of Fun event.



The Hit company is involved in each and every community where it has its facilities. One proof of this is also its sponsorship of the Acroni Jesenice hockey team.



The Hit company was main sponsor of the heights jumping world championship in Kobarid.



There is also Sonček, a sports association that takes care of hundreds of children each year. Involving them in various sports competitions and other events, it motivates, educates and entertains them. For this reason, it enjoys the benefits of Hit's sponsorship.



The Hit company is a long-standing sponsor of the race Po Sloveniji, Slovenia's greatest cycling event.



Above Kobarid, 135 of the best pilots from around the globe competed in a paragliding world cup event.



As sponsor of young promising athletes, the Hit company always takes part at the event Sportsman of the Year.



The Hit company develops play that is done for entertainment, and supports play that broadens the horizons: it is a long-standing patron of the Slovenian National Theatre (SNG) Nova Gorica.

Contents

	From optimism to demanding adaptation to changed market conditions	15
A.01	Hit Group in 2007	17
A.02	HIT Group profile	18
A.03	Hit brands	18
A.04	Major events in 2007	19
A.05	Hit company profile	20
B.01	Business report for the Hit Group	21
B.02	Social responsibility policy	22
B.03	Games of chance	23
B.04	Hotels and other tourism services	25
B.05	Other activities	25
B.06	Revenues breakdown	26
B.07	Employees	26
B.08	Capital investment and development projects	27
B.09	Environmental protection	27
B.10	Balance sheet analysis and performance indicators	28
B.11	Performance indicators	29
B.12	Mission and strategic objectives	29
B.13	Business environment and competition	31
C.01	Independent auditor's report - consolidated financial statements	32
C.02	Independent auditor's report - individual financial statements	33
C.03	Consolidated income statement for the year ended 31 december 2007	34
C.04	Consolidated balance sheet as at 31 December 2007	35
D.01	Hit Group members	37
D.02	Hit business units	38



From optimism to demanding adaptation to changed market conditions

The year 2007 could be divided into two completely different parts as regards business conditions and performance of the Hit Group. The first part was marked mainly by optimism, ambitious business plans, excellent growth of the Slovenian economy, relatively stable conditions in key markets and the introduction of euro, but above all numerous development projects that were being completed or launched then.

We opened a new hotel wing within the Perla Gaming and Entertainment Centre in Nova Gorica, and immediately commenced renovation of the old hotel wing. Before summer, we completed renovation of the Park Gaming and Entertainment Centre, which now has a completely new, fresh and attractive look. In February, the parent Hit company acquired a share in the Casino Kristal Umag company, which enabled it later on to open its first gaming & entertainment centre in Croatia. The foundations were laid for business expansion of the whole group and for product expansion of the parent Hit company. In February, the parent Hit company also increased capital of Hit International in Belgrade to enable it to acquire land for a gaming & entertainment centre and initiate the necessary administrative procedures. In Slovenia, it established a company, Hit Šentilj, to accelerate construction of the Mond Gaming and Entertainment Centre. In Bovec, it purchased the Kanin Hotel and a significant share in the ATC Kanin company. The parent Hit company thus decisively launched into development of a new tourist destination. Summer began with intensive promotion of the completely renovated Park Gaming and Entertainment Centre in Nova Gorica, and the opening of the so-called Summer Beach in Nova Gorica, which in only two years became the main place of meeting for the citizens of Nova Gorica and its surroundings.

In later summer and early autumn, enactment of the amended Restriction of the Use of Tobacco Products Act shocked the Hit Group. We saw it coming and had intensively communicated to the competent Ministries the negative short-term economic effects of such an Act, as well as suggested adoption of transitional periods and implementing regulations governing smoking cabins. The Slovenian National Assembly nevertheless adopted this very restrictive Act practically overnight. As feared, revenues generated by the gaming & entertainment centres dropped by more than 20 percent, and the parent Hit company immediately adopted rationalisation measures. In October, the supervisory board approved a revision to the 2008 budget based on the new legal and market conditions. The latter mainly related to the slowdown in economic growth and increased pessimism in Italy, and the increasing aggressiveness of slots halls in Slovenia.

Despite the extraordinary changes in its business environment, the Hit Group nevertheless successfully followed the policy of business and product expansion. At year-end, the group employed almost 3,000 persons in Slovenia and abroad, and its total assets stood at EUR 415.3 million, which was 37 percent more than a year ago. In 2007, the group generated EUR 241.8 million of total revenues.

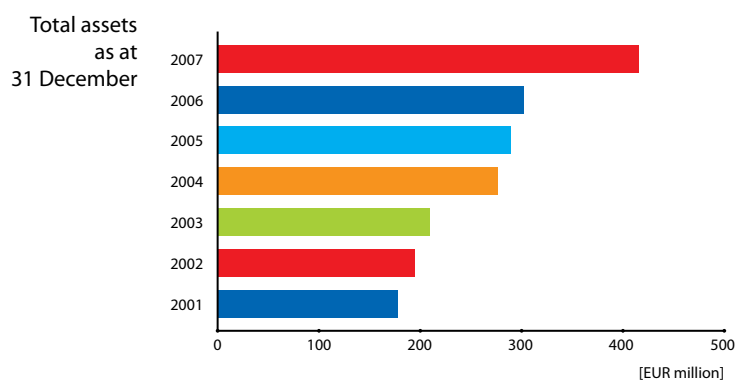
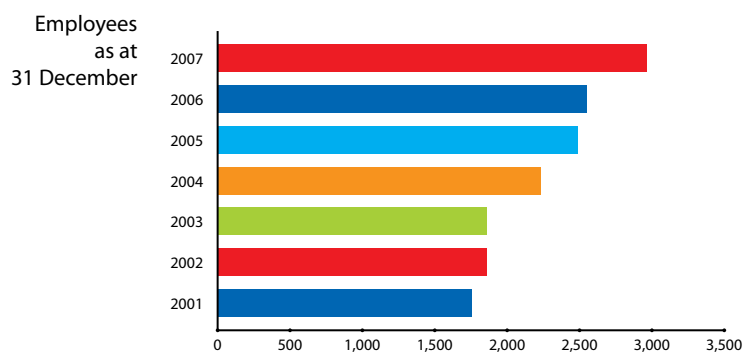
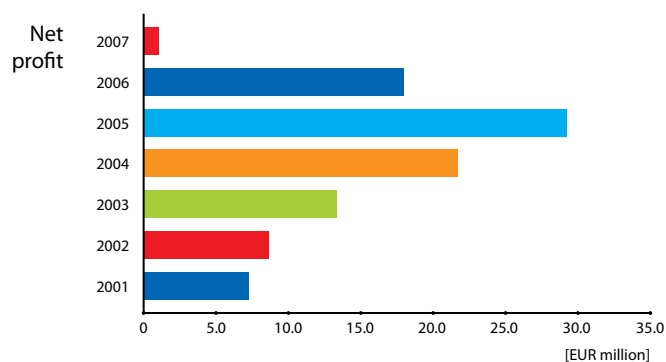
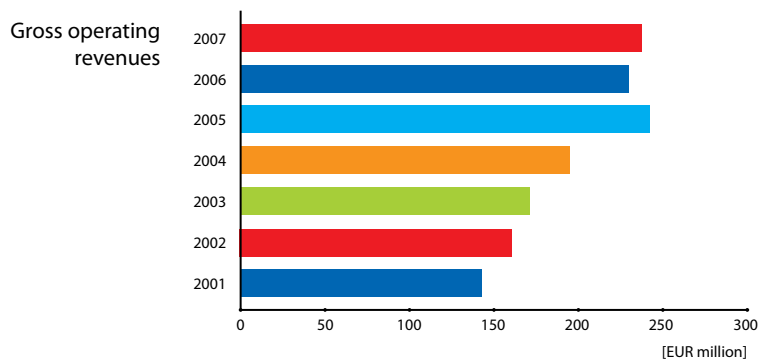
All in all, 2007 was an extremely stressful year, but the Hit Group nevertheless proved to be a stable and flexible business entity. Year-end already signalled that worst was over: in October, we opened our first gaming & entertainment centre in Croatia, and then in the festive December the gaming & entertainment centre Mond in Šentilj, our largest greenfield investment ever.

Our media appearances were mainly related to the development of a tourist city in the Goriška region, which remains our key strategic project and marks the beginning of a new development era. Together with preparations for this project, works based on the adopted Strategy 2008-2012 will also start: the group will round-off its product in the key destinations Nova Gorica, Kranjska Gora, Bovec and Šentilj, as well as take opportunities abroad. Such an offensive approach entails numerous investments, mainly in various tourism facilities, but also in a customer relationship management system. This will be one of our key projects in this and the next year.

Niko Trošt, MSc
President of the Management Board

A.01 Hit Group in 2007

- EUR 273.7 million in gross operating revenues including gaming tax
- EUR 237.7 in gross operating revenues
- EUR 1.0 million in net profit of the Hit Group
- EUR 1.7 million in net profit of the majority owner
- EUR 231 million in gross gaming revenues and casino entrance fees (i.e., gross gaming revenues including gaming tax)
- 2.0 million casino visitors
- 498.3 thousand overnight stays
- 2,969 employees as at 31 December 2007
- a 0.5-percent return on capital



A.02 HIT Group profile

As at 31 December 2007, the parent Hit company controlled the following companies:

- Hit Alpinea, Kranjska Gora, Slovenia
- Hit Montenegro, Pržno-Budva, Montenegro
- Casino Kobarid, Kobarid, Slovenia
- Hit Interactive, Curaçao, the Netherlands Antilles
- Hit International, Belgrade, Serbia
- ICIT, Šempeter pri Gorici, Slovenia
- Hit Coloseum, Sarajevo, Bosnia and Herzegovina
- Hit Bovec, Bovec, Slovenia
- Hit Šentilj, Šentilj, Slovenia
- Casino Kristal Umag, Umag, Croatia

A.03 Hit brands

CORPORATE BRAND: Hit Universe of Fun

hit
universe of fun

SERVICE BRANDS:

hit stars
casinos & entertainment

hit holidays
hotels & resorts

- Hit Stars for gaming & entertainment
- Hit Holidays for hotels and other tourist services

A.04 Major events in 2007

JANUARY	<ul style="list-style-type: none"> Jackpots of EUR 59,685 and EUR 63,592 are won in the Perla Gaming and Entertainment Centre, Nova Gorica, and a jackpot of EUR 89,340 is won in the Korona Gaming and Entertainment Centre in Kranjska Gora.
FEBRUARY	<ul style="list-style-type: none"> The parent Hit company acquires a share in the Croatian company Casino Kristal Umag.. A jackpot of EUR 170,361 is won in the Perla Gaming and Entertainment Centre.
MARCH	<ul style="list-style-type: none"> Jackpots of EUR 102,300 and EUR 143,720 are won in the Perla Gaming and Entertainment Centre. Almost 18,000 people attend the sports and entertainment event Ski Legends Hit Challenge in Kranjska Gora. A new company, Hit Šentilj, is established. The parent Hit company becomes the owner of the company Hotel Kanin.
APRIL	<ul style="list-style-type: none"> The parent Hit company signs an agreement with the Daimond company on acquisition of a share in the Hit Coliseum company. The Higher Court in Koper annuls the resolution adopted by the General Meeting of Shareholders of the parent Hit company on appointment of Niko Jurca as supervisory board member.
MAY	<ul style="list-style-type: none"> Promotional activities commence announcing the grand opening of the renovated Park Gaming and Entertainment Centre.
JUNE	<ul style="list-style-type: none"> Hit's "Summer Beach" is opened in the town centre and enlivens the Nova Gorica summer.
JULY	<ul style="list-style-type: none"> A jackpot of EUR 75,000 is won in the Perla Gaming and Entertainment Centre.
AUGUST	<ul style="list-style-type: none"> Anti-Smoking Act is enacted, prohibiting smoking in all public and enclosed areas.
SEPTEMBER	<ul style="list-style-type: none"> Supervisory board of the parent Hit company appoints Nevenka Črnko management board member. Jackpots of EUR 110,500 and EUR 110,437 are won in the Perla Gaming and Entertainment Centre. Grand opening of the renovated Park Gaming and Entertainment Centre.
OCTOBER	<ul style="list-style-type: none"> Hospitality employees successfully represent Hit at the Hospitality and Tourism Convention in Podčetrtek. Jackpots of EUR 343,440 and EUR 229,950 are won in the Perla and Park Gaming and Entertainment Centres respectively. Grand opening of the Kristal Gaming and Entertainment Centre in Umag, the first one in Croatia.
NOVEMBER	<ul style="list-style-type: none"> Jackpots of EUR 194,040 and EUR 241,192 are won in the Perla and Park Gaming and Entertainment Centres respectively..
DECEMBER	<ul style="list-style-type: none"> Hit's "Winter Beach" with a skating ring is opened in the centre of Nova Gorica for the second consecutive year. Grand opening of the brand new Mond Gaming and Entertainment Centre in Šentilj.
EVENTS AFTER 31 DECEMBER 2007	
JANUARY	<ul style="list-style-type: none"> Jackpots of EUR 130,000 and EUR 202,980 and EUR 228,100 are won in the Perla Gaming and Entertainment Centre.
FEBRUARY	<ul style="list-style-type: none"> The international sports and entertainment event Ski Legends Hit Challenge enlivens the Kranjska Gora winter. Jana Grbec, management board member, withdraws. A jackpot of EUR 107,600 is won in the Perla Gaming and Entertainment Centre.
MARCH	<ul style="list-style-type: none"> The sports and entertainment event X-Plosion of Fun enlivens the Vitranc ski world cup event and draws thousands to Kranjska Gora.

A.05 Hit company profile

Company name: HIT hoteli, igralnice, turizem d.d. Nova Gorica
 Abbreviated name: Hit, d. d., Nova Gorica
 Registered office: SI - 5000 Nova Gorica, Delpinova 7 a
 Company ID no.: 5232058
 Share capital: EUR 28,328,467.70
 Founders: Republic of Slovenia; entry: 2 September 1997; capital contributed: EUR 28,328,467.70

Representatives: Niko Trošt, MSc, Management Board President, appointment: 21 March 2006
 Jana Grbec, Management Board Member, appointment: 21 March 2006
 Marjan Zahar, Management Board Member, appointment: 13 June 2006
 Nevenka Črnko, Management Board Member, appointment: 1 October 2007
 Srdan Tovornik, procurator, appointment: 14 October 1993

Supervisory Board members: Viktor Baraga, Chairman, appointment: 21 February 2006
 Alojz Durn, Deputy Chairman, appointment: 26 January 2006
 Rajko Harej, Member, appointment: 21 February 2006
 Niko Jurca, Member, appointment: 21 February 2006, withdrawal: 16 March 2007
 Mirijan Stojko, Member, appointment: 22 February 2006
 Marko Slivnik, appointment: 22 June 2006
 Mirko Brulc, appointment: 16 March 2007

Share capital and ownership structure

Share capital of the Company (SIT 6,788,634) was determined based on the opening balance sheet as at 18 June 1994, as explained above. Due to the changeover to euro, share capital in an amount of EUR 28,328,467.70 was entered in the court register on 6 March 2007. It is divided into 6,788,634 shares, of which:

- 4,073,180 (60%) are ordinary registered shares of no par value that are not freely transferable, and
- 2,715,454 (40%) are participating preferred shares that are not voting and are freely transferable.

All shares are fully paid up.

Ordinary shares confer the following rights:

- the right to participate in the Company's management,
- the right to participate in the Company's profit,
- the right to participate in the Company's assets remaining after its liquidation or bankruptcy.

Ordinary shares are transferable subject to a prior consent of the Ministry of Finance in accordance with Article 56 of the Gaming Act (official consolidated text published in the Official Gazette of the RS, no. 134/03). Transfers take effect only upon entry into the share register of the Company kept by the Central Securities Clearing Corporation in accordance with regulations governing dematerialised securities.

Participating preferred shares do not confer the right to the Company's management. Their owners have the right to participate in the Company's profit (based on a resolution adopted by the general meeting of

shareholders) and assets remaining after its liquidation or bankruptcy, as well as the right to a dividend fixed at 1 percent of the Company's book value per share. Preferred shares are freely transferable.

Governance bodies

The bodies of the Company are its management and supervisory boards, and the general meeting of shareholders. The Company is run by its management board, which is composed of the president and three members, one of whom is employees' representative. Except the last one, all members and the president are appointed and recalled by the supervisory board.

The supervisory board is composed of six members: two of them are employees' representatives elected by the workers' council, one of them is appointed by the government, whilst the remaining three are elected by the general meeting of shareholders.

Viktor Baraga is the chairman of the supervisory board.

MAIN ACTIVITIES

- organisation of special games of chance
- hotels
- restaurants and inns
- snack bars, sweet shops, coffee houses, canteens, bars
- activities of travel agents and tour operators, tourist assistance nec
- organisation of exhibitions, fairs and congresses
- operation of sports arenas and stadiums
- other recreational activities nec

Ownership structure
of the Hit company:

Shareholder	31 December 2007		31 December 2006	
	no. of shares	stake in%	no. of shares	stake in%
Slovenska odškodninska družba, d. d.	1,357,727	20.00%	1,357,727	20.00%
Kapitalska družba, d. d.	1,357,727	20.00%	1,357,727	20.00%
Nova Gorica municipality	1,022,614	15.06%	1,022,614	15.06%
Šempeter-Vrtojba municipality	183,726	2.71%	183,726	2.71%
Kranjska Gora municipality	131,699	1.94%	131,699	1.94%
Rogaška Slatina municipality	11,541	0.17%	11,541	0.17%
Novo mesto municipality	8,146	0.12%	8,146	0.12%
Total ordinary shares	4,073,180	60.00%	4,073,180	60.00%
Various legal persons	2,715,454	40.00%	2,715,454	40.00%
Total preferred shares	2,715,454	40.00%	2,715,454	40.00%
Total shares	6,788,634	100.00%	6,788,634	100.00%

Ownership structure of the Hit company as at 31 December 2007 and 2006.

B.01 Business report for the Hit Group

As at 31 December 2007, the Hit Group comprised **the parent company and ten subsidiaries**, four more than a year ago. The most important events as regards the Hit Group structure were the following: transition of the successful Hit Coliseum company from an associate to a subsidiary, acquisition of a majority share in the company Casino Kristal Umag, and establishment of the Hit Šentilj company. Five subsidiaries are established in Slovenia and four are established in the area of the former Yugoslavia, while the tenth subsidiary, established in the Netherlands Antilles, was dormant almost the entire year.

The parent **Hit company** set itself very ambitious objectives for 2007, based on the assumption of more or less stable business conditions, as well as increased capacities from mid-year on, following completion of renovation of the Park Gaming and Entertainment Centre and of the Perla Hotel. Unfortunately, business conditions worsened significantly mid-year upon enactment of the anti-smoking legislation, and the company was forced to adjust its objectives downwards. However, despite the difficult business conditions due to the said legislation and partly also increased competition, the Company was successful in 2007.

Hit Alpinea was successful in 2007, as it achieved a positive business result, which is very important for the future development of both the company and the Kranjska Gora destination. Its operating revenues grew compared to a year ago due to a change in guest structure: seminar tourism guests prevailed, as well as organised groups in summer months. A very important source of revenues were also ski tickets sold by the company pursuant to a contract on a long-term relationship concluded with the company RTC Žičnice of Kranjska Gora, and biotherapy services that are increasingly popular.

Hit Montenegro was successful throughout 2007. Results of this resort and casino were in accordance with its objectives thanks to the following: product market stability, strategic and operational adaptations to market demand, adaptations of marketing communications both in the domestic and foreign markets, product effect maximisation, high standards of service compared to the (growing) competition, and organisational and HR maturity. Performance was negatively affected only by poor safety conditions in the casino, which were at their lowest in autumn, when the casino remained closed from 25 September to 5 October. Situation normalised afterwards but the casino felt the consequences till year-end.

Casino Kobarid had to face significantly changed business conditions in the second half of 2007, after two and a half years of successful operations and growth. Mid-year, a new slots hall opened in Brda and became an important competitor to the company, and in August, the act banning smoking in enclosed public and work areas entered into force. Both events affected very negatively the company's performance. It responded by installing new slot machines, by taking even greater care of service quality, and by launching additional promotion activities, but nevertheless failed to achieve the objectives set for 2007.

Hit Interactive abandoned its business of organising online games of chance following a decision adopted by the parent Hit company in March 2007, and made a transition into dormancy. Its director was discharged in November.

Hit International acquired land in 2007 to build a gaming & entertainment centre on it in accordance with the concession contract obtained. Construction will commence in 2008.

ICIT was mainly focused on completion of development of marketable products, adoption of the Apollo electronic roulette programme from the ZUUM company, development of its own production function to ensure product quality, and development of its own sales network.

Hit Coliseum was successful and exceeded the target revenues and profit. In 2007, it further consolidated its position of the best provider of an integrated entertainment product all under one roof. The company is known for maintaining high service standards, but also high security standards, which is particularly important in Sarajevo.

Hit Bovec was established in March 2007, when the parent Hit company acquired a 100-percent share in the Alp-komerc company after purchasing its hotel. The company successfully concluded the business year 2007. All physical and financial indicators saw high growth rates, both compared against the 2006 results and the 2007 plans.

Hit Šentilj was established in March 2007. It started generating operating revenues on 13 December 2007, when its gaming & entertainment centre Mond opened its doors. In 2007, the company was mainly focused on completion of intensive investment activities, on putting right operations and organisation, on recruitment and training, on obtaining licences required for gaming providers, etc.

Casino Kristal Umag was concerned with completion of investment activities, and afterwards preparations for operations, which involved also implementation of all processes and standards defined at group level for the undertakings operating under the Hit Stars brands. The gaming & entertainment centre was officially opened on 25 October 2007, so that it operated for only 68 days in 2007.

In 2007, the Hit Group generated EUR 241.8 million of revenues and had thereby EUR 238.7 million of expenses, thus earning a profit of EUR 1.0 million. As at 31 December 2007, its assets amounted to EUR 415.3 million, and were financed by its own sources (capital and long-term provisions) in the amount of EUR 232.3 million.

As at year-end, the Hit Group employed 2,969 persons.

Altogether, the Hit Group casinos and slots halls had 1,955 thousand **visits** or 12 percent more than in 2006. The reason for this significant increase is the inclusion of Hit Coliseum among subsidiaries, while other casinos and slots halls experienced a more moderate growth in the number of visits, between 1 and 4 percent.

Hotels pertaining to the Hit Group recorded more than 490 thousand **overnight stays** or almost 61 thousand more than in 2006. This is also explainable by the inclusion of Hit Bovec in the group, and the increased hotel capacities of Hit Alpinea and the parent Hit company.

As at year-end, visitors to casinos and slots halls had the choice of **3,931 slot machines** and **214 gaming tables**, while hotel guests had at their disposal 2,689 hotel beds or 1,392 rooms.

Functional and presentation currencies

The functional currency of Hit Coliseum is euro, while the currency in which the entity keeps its books and records and presents its financial statements is the Bosnian convertible mark (BAM). The Bosnian central bank fixed the BAM/EUR exchange rate at 1.955830. The functional currency of Kristal Umag is the Croatian kuna (HRK). In 2007, the average HRK/EUR exchange rate was 7.3413, while the year-end exchange rate was 7.3308. The functional currency of Hit International is Serbian dinar (RSD). In 2007, the average RSD/EUR exchange rate was 79.7676, while the year-end exchange rate was 82.8740. All other companies, including the parent Hit company, have euro as their functional and presentation currency.

B.02 Social responsibility policy

The Hit Group sees its attitude towards the environment in which it operates as one of the key business functions that are necessary for successful and sustainable development of its service activities. Due to their nature, the group is an important co-creator of local environment and living conditions wherever it operates.

Social responsibility policy of the Hit Group addresses three major areas:

1. Pursuance of socially responsible development of gaming & entertainment activities with the minimum possible negative effects: each business activity has not only positive economic and development effects, but also potential negative effects, such as adding physical and ecological burden on the environment, which, for example, is typical of industrial undertakings. Service undertakings do not have such physical negative effects, in particular if they, as the Hit Group, respect the principle of sustainable development that provides for suitable placing of various buildings in the environment. Due to their nature, gaming & entertainment activities can have certain social effects that the Hit Group minimises by the continuous upgrading of the system aimed at preventing excessive gaming by individuals. For years, the Hit Group has had in place a (self-) ban system that allows it to prohibit problematic gamblers that for various reasons do not control their behaviour from entering its facilities in order not to worsen their problems further. In 2007, the parent Hit company published a booklet entitled "Instructions for safe and fun gaming" and placed it at the disposal of visitors to the group's gaming & entertainment centres. Thanks to this booklet, guests can recognise the first signs of uncontrolled gaming that is no longer pure and relaxed fun, as well as contact (by phone or e-mail) any of the institutions listed that provide expert assistance. The described preventive system is changing daily, which requires continuous training of employees.

2. Pursuance of an active sponsorship and donorship policy in the regions containing the Hit Group's tourism facilities: the Hit Group is among the most active business entities in Slovenia as regards sponsorship and donorship. The parent Hit company alone assigns some 1 percent of its gross operating revenues to this end, selecting the projects to support based mainly on their location. This means that the majority of funds is assigned to projects in the regions containing the Hit Group's tourism facilities. The only exception are projects of national importance or projects enhancing visibility of Hit and its brands. The Hit Group follows an active sponsorship policy, which means that it would also try to assume a role in project design and organisation, and not merely participate for promotional purposes. By acting in this way, it also indirectly maximises promotional effects and visibility of the Hit Group's corporate and service brands. The majority of sponsorship funds goes to sports projects or organisations, in particular those involving younger population. Nice examples of sports projects or organisations sponsored are the following: the Young Football Player Club of Nova Gorica, which represents the foundations of successful development of this sport in Nova Gorica, the football club Hit Gorica, the female volleyball club Hit Gorica, the cycling club Hit Gorica, and then a basketball club, a table tennis club, a chess club, the hockey club Jesenice, and the list could go on. Worth mentioning is also the years-long support to the Solkan Kayak Centre, to the legendary jumps off the bridge in Kanal ob Soči, and to the Vitranc and Zlata lisica Alpine ski world cup events. In 2007, the group became the golden sponsor of the Ski Pool of the Ski Association of Slovenia. It is also the main personal sponsor of Andrej Jerman, the best Slovenian skier in the last years, and supports many other promising skiers, among them Ilka Štuhec and Matic Skube, junior world ski champions of 2007. The group also invests significant energy and monies in various cultural associations and activities. The Hit Group also gets involved in various donorship projects in the social and health areas. In 2007, it donated monies to people in and around Železniki hit by flooding.

3. Support to broader social projects that exceed the scope of sponsorship, and involvement in projects that temporarily or permanently affect living conditions in the regions containing the Hit Group's tourism facilities: within this area, the Hit Group actively supports development of educational institutions, mainly the Higher Education and Research Centre of Primorska, the European Faculty of Law in Nova Gorica, and the Faculty for Applied Social Studies in Nova Gorica. The main objective of such support is to retain as many as possible young people in the Goriška region, and prevent brain-drain to larger cities and centres. In addition to all this, the Hit Group actively co-creates the daily life in the towns where it is present with its operations, for example by helping them revitalise their old centres, and by providing numerous possibilities for entertainment and relaxation to the local people. With the events organised, it also enhances the attractiveness and development of tourist destinations.



B.03 Games of chance

Gross gaming revenues

Gross revenues from games of chance and casino entrance fees (i.e., gross gaming revenues including gaming tax and output VAT on casino entrance fees) amounted to EUR 231 million in 2007, up 1 percent from 2006. The increase is attributable to Maestral that grew gross gaming revenues by 6 percent compared to 2006, as well as Hit Colosseum, a former associate that became a subsidiary again in 2007, and the newly opened casinos of the companies Casino Kristal Umag and Hit Šentilj. The parent Hit company with its five casinos and two slots halls contributed EUR 204.1 million or 88.3 percent. Compared to 2006, its gross gaming revenues were 2 percent lower, which is mainly attributable to the implementation of the so-called Anti-Smoking Act in Slovenia in August 2007, weak economy in the Company's main market, and in part stronger

competition. The same factors had a negative effect also on gross gaming revenues of Aurora, which were, at EUR 8.5 million, 8 percent below the 2006 figure. Maestral and Colosseum Club generated EUR 10.3 million and EUR 6.3 million in gross gaming revenues respectively, thus contributing 4.5 percent and 2.7 percent to the Group's total gross gaming revenues. Kristal operated two months in 2007, in which it generated EUR 1.1 million in gross gaming revenues. Mond opened only in mid-December 2007, and generated EUR 0.5 million of gross gaming revenues by the year-end. Hit Interactive operated only until March 2007, when it ceased operations. By then, it generated EUR 0.1 million in its online casino, and is currently dormant.

	2007	Share	2006	Index 07/06
Hit casinos	204.1	88.3%	208.8	98
Aurora	8.5	3.7%	9.2	92
Maestral	10.3	4.5%	9.8	106
Online casino	0.1	0.1%	1.2	11
Colosseum Club	6.3	2.7%		
Kristal	1.1	0.5%		
Mond	0.5	0.2%		
Total	231.0	100.0%	229.1	101

Gross gaming revenues in 2007 and 2006 (million EUR).

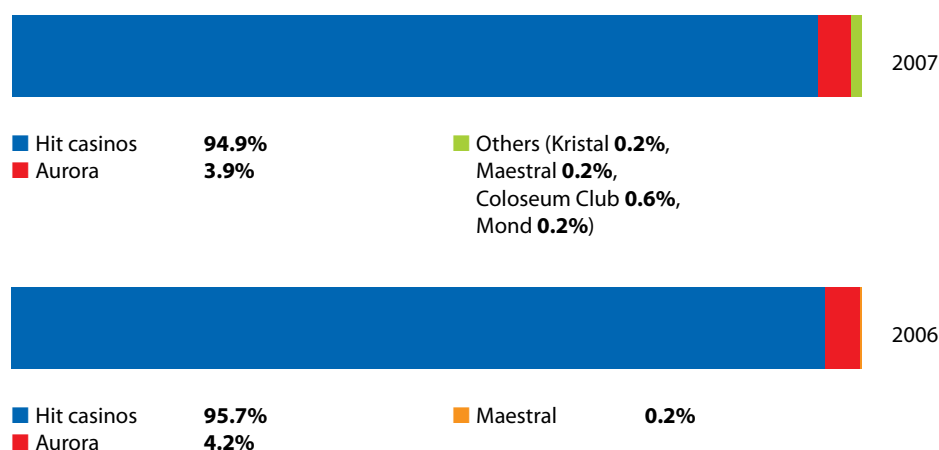
Gaming tax and other duties

In 2007, all Hit Group casinos accounted for EUR 36 million of **gaming tax and output VAT on casino entrance fees**, and EUR 30.9 of **concession duties**, which totals EUR 66.9 million or 28.9 percent of gross gaming revenues. Compared to 2006, this represents a decrease of slightly less than 2 percent. Taxes and duties accounted for by the casinos established in Slovenia represented 98.9 percent.

Companies established in Slovenia, i.e., Hit, Casino Kobarid and Hit Šentilj, engage not only in games of chance, an activity that is exempt from VAT under the VAT Act, but also in other activities (of which the most

important is hotels and restaurants). Consequently, they may deduct input VAT only in a percentage corresponding to the portion that VAT-liable activities contribute to total revenues. This means that the net value of each invoice is increased by the non-deductible input VAT. This non-deductible input VAT represents an additional tax burden for casinos and thus entire companies. In 2007, the percentage of deductible input VAT was 13 percent, 7 percent and 42 percent in Hit, Casino Kobarid and Hit Šentilj respectively.

Gaming taxes and other duties in 2007 and 2006

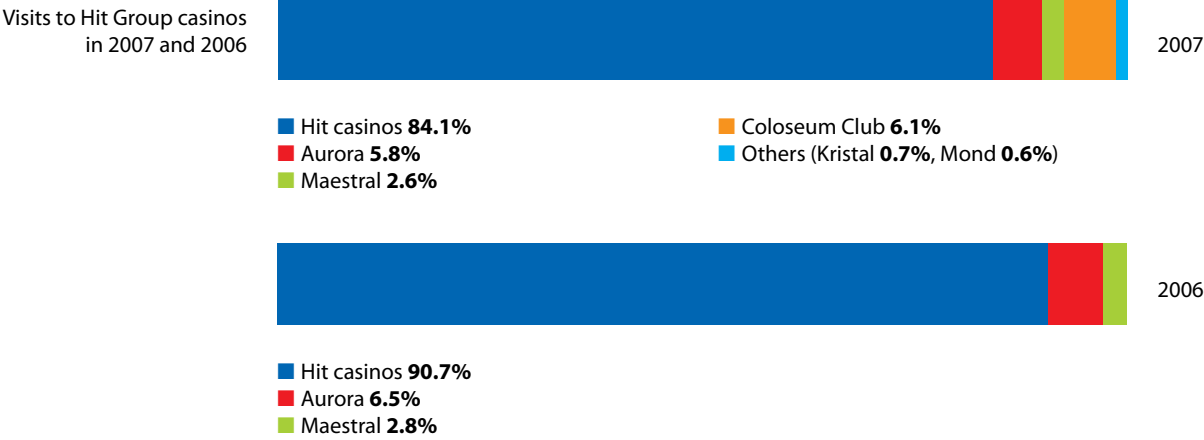


Gaming taxes and other duties accounted for in 2007 and 2006 by Hit Group casinos.

Visits In 2007, the Hit Group casinos recorded 1,955 thousand of visits, up 12 percent from 2006. This increase is mainly attributable to Hit Coloseum, a former associate that became a subsidiary again in 2007, and the parent Hit company, which had 4.0 percent more visits than in 2006. Altogether, its casinos had 1,645 thousand visits and accounted for 84.1 percent of all visits to the Hit Group casinos, which is 6.6 percentage points less than in 2006. Coloseum Club had 120 thousand visits and accounted for 6.1 percent of all visits to the Hit Group casinos, while Aurora and Maestral accounted for 5.8 percent and 2.6 percent respectively. The new casinos in Umag and Šentilj combined had 26 thousand visits and accounted for the remaining 1.3 percent of all visits to the Hit Group casinos.

	2007	Share	2006	Index 07/06
Hit casinos	1,645	84.1%	1,580	104
Aurora	114	5.8%	114	101
Maestral	50	2.6%	49	102
Coloseum Club	120	6.1%		
Kristal	14	0.7%		
Mond	12	0.6%		
Total	1,955	100.0%	1,743	112

Visits in 2007 and 2006 (thousands) to Hit Group casinos.



Visits in 2007 and 2006 to Hit Group casinos.

B.04 Hotels and other tourism services

Revenues from rooms and tourism services

Hotels and other tourism services are playing an increasingly important role within the Hit Group. In 2007, **gross operating revenues** from rooms sold and other tourism services provided were EUR 45.9 million, up 19 percent from 2006.

Hotel rooms availability and occupancy

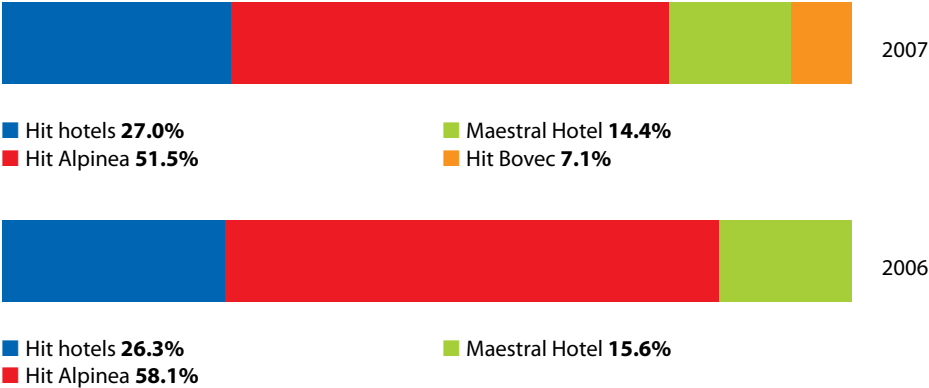
In 2007, there were almost 1,400 **rooms** within the Hit Group available to hotels guests. The number of **overnight stays** was 490 thousand, up 14 percent from 2006. The increase is mainly attributable to the Kanin Hotel in Bovec, which was included in the group in March 2007, when the parent Hit company purchased it from the Alpkomerc company, as well as to the increased capacities of the hotel within the Perla Gaming and Entertainment Centre. This hotel and the other four hotels belonging to the parent Hit company combined saw a 17-percent increase in the number of overnight stays. Of the total overnight stays recorded by the group, they accounted for 14 percent, while the majority was realised by the hotels belonging to the Hit Alpinea company. The Montenegrin Maestral Hotel accounted for another 14 percent, and the Kanin Hotel in Bovec for the remaining 7 percent. Foreigners prevailed and constituted some 69 to 91 percent of all hotel guests.

In 2007, the Hit Alpinea hotels and the Maestral Hotel saw the highest, an 58-percent **occupancy**. The five Hit hotels and the Kanin Hotel saw a lower, 47- and 39-percent occupancy respectively.

	Overnight stays			Bed occupancy	
	Number	Share	Index 07/06	2007	2006
Hit hotels	134,712	27.0%	117	47%	53%
Hit Alpinea hotels	256,428	51.5%	101	58%	64%
Maestral Hotel	71,598	14.4%	105	58%	56%
Kanin Hotel	35,552	7.1%	-	39%	-

Performance indicators for Hit Group hotels in 2007 and 2006.

Overnight stays in Hit Group hotels in 2007 and 2006



Overnight stays in Hit Group hotels in 2007 and 2006.

B.05 Other activities

Other activities pursued within the Hit Group generated **gross operating revenues** of EUR 3.5 million in 2007, down 20 percent compared to 2006.

B.06 Revenues breakdown

The Hit Group's **gross operating revenues** in 2007 were EUR 237.7 million, up slightly less than 4 percent from 2006. Of these revenues, EUR 214.2 million or 90.1 percent were generated by the companies established in Slovenia.

The largest share of the Hit Group's gross operating revenues (79.2 percent) was contributed by games of chance (gaming tax not considered). Hotels and other tourism activities contributed 19.3 percent, and other activities the remaining 1.5 percent. The portion contributed by hotels and other tourism services increased by 2.4 percentage points.

The Hit Group's **total revenues** (operating, financial and other) were EUR 241.8 million in 2007, up 4.0 percent from 2006.

Financial revenues were EUR 3.3 million of 1.4 percent of the total revenues, while other revenues were EUR 0.8 million or 0.3 percent of the total revenues.

The Hit Group's **total expenses** were EUR 238.7 million in 2007, up 14.2 percent from 2006.

Consolidated net profit of the Hit Group was thus EUR 1.0 million or 0.4 percent of total revenues.

B.07 Employees

As at year-end, the Hit Group had 2,969 **employees** or 421 (16.5 percent) more than a year ago. The increase is attributable to new hires by the parent Hit company and its new subsidiaries. The majority of all employees of the Hit Group (65.1 percent) was employed with the parent Hit company, down 7 percentage points from 2006.

The Hit Group follows a recruitment and HR development policy that is in accordance with its uniform quality standards. This means that Hit as the parent company is responsible for the transfer of knowledge, experience and quality standards to its subsidiaries through employee training. This also ensures efficiency and recognisability of its own brands.

Hit Group employees
as at
31 December 2007



■ Hit, d. d. **65.1%**

■ Hit Alpinea, d. d. **10.4%**

■ Hit Montenegro, d. o. o. **8.9%**

■ Hit Coliseum, d. o. o. **3.1%**

■ Casino Kobarid, d. d. **2.2%**

■ Hit Bovec, d. o. o. **1.2%**

■ Hit Šentilj, d. d. **5.5%**

■ Casino Kristal Umag, d. o. o. **2.0%**

■ ICIT, d. o. o. **1.6%**

B.08 Capital investment and development projects

The year 2007 was very intensive for the Hit Group as regards projects of all types.

As many as 57 different projects and one-off tasks were in course. Of the major projects, three were completed during the year: the expansion of the Park Gaming and Entertainment Centre, and the renovation of the old hotel wing and expansion of gaming capacities in the Perla Gaming and Entertainment Centre. The parent Hit company was also involved in many activities within projects financed by its subsidiaries Hit Štetilj, Casino Kristal Umag and Hit International.

In addition, it also invested in renovation and modernisation of the existing and acquisition of new equipment. New slot machines and other casino equipment accounted for the largest share of such new acquisitions. The number of slot machines and gaming tables installed during the year in the Hit casinos was 481 and 21 respectively.

In Štetilj, construction of the new gaming & entertainment centre Mond, which represents the largest greenfield investment of Hit till now, was completed. The project was divided into two very demanding sub-projects: construction of the gaming & entertainment centre, and organisation of work within it. The casino currently offers 20 gaming tables and 400 slot machines, and comprises other public as well as service areas. The centre's F&B facilities comprise a buffet-type restaurant, an à la carte restaurant with 60 seats, two aperitif bars on the gaming floor, and a coffee shop with 20 seats. While enjoying the food, guests can also enjoy a cabaret or another show. The centre also has a garage with 200 parking spaces, and an additional 500 parking spaces outdoors.

Construction of the gaming & entertainment centre Kristal represented the largest Hit's project abroad. Fully equipped it welcomed the first guests in October 2007. Guests now have the choice of 245 slot machines and 13 gaming tables, as well as two bars, a restaurant and a coffee shop. The centre also houses all the necessary service areas.

In addition to Kristal in Croatia, the Company now has another project in course in Belgrade, Serbia, that will help it internationalise. Based on a preliminary study in 2007, a project for the construction of a gaming & entertainment centre was prepared, land acquired and additional market research conducted.

Further, Hit acquired a share in the ATC Kanin company and the Kanin Hotel, and the Company thus decisively launched into development of a new tourist destination. This is a large project that will last several years. In 2007, activities within this project were the following: renovation of the Prestreljenik Restaurant on top of the Kanin mountain, and preparation of project documentation based on which construction permit was obtained for a wellness facility in the Kanin Hotel. This capital investment should be financed by means of a EU grant that the company applied for.

Capital investments of the Hit Montenegro company in 2007 were mainly directed towards completing its previous capital investments in the hotel and in the casino. The latter increased the number of slot machines from 107 to 124, and the number of gaming tables by 5 during the year.

The most important capital investment of the Casino Kobarid company was acquisition of 60 slot machines and upgrading of the existing ones, as well as acquisition of new and upgrading of the existing gaming tables.

Hit Alpinea invested the majority of funds into renovation and revamping of the restaurant and certain other F&B facilities in order to increase revenues from other amenities besides room and board, as well as to appeal more to seminar tourism guests.

Hit Colosseum acquired 14 slot machines and a certain number of apartments.

Capital investments of ICIT were mainly in long-term assets, both tangible and intangible (EUR 612 thousand), of which the majority was spent on development projects.

In addition to the above-mentioned capital investment projects, there were several other projects in course within the Hit Group, such as development, organisational, IT, etc., as well as one-time tasks. Development projects and tasks were focused on: service improvement, effective process management, development of existing and new activities, IT, marketing and work organisation.

In 2007, the parent company alone invested EUR 36.7 million in long-term assets, while its subsidiaries combined invested EUR 53.3 million.

B.09 Environmental protection

Companies pertaining to the Hit Group endeavour to satisfy as effectively as possible environmental regulations, and to work within the group's social responsibility policy. In this, they follow the example of the parent Hit company.

Environmental care and efficient energy use form an integral part of the parent Hit company's organisational culture. In addition to what is required by legislation, it has the following in place: a separate waste collection system, and a system for automatic measurement and regulation of pH in waste water from the company's laundry and dry cleaning plants.

In the past years, Hit introduced natural gas for space heating wherever possible, as well as replaced old, environmentally unfriendly and energy inefficient devices using oil for heating with modern devices using natural gas for heating. In the area of Nova Gorica, oil is no longer used for heating.

The company continuously modernises and automates its energy systems to rationalise energy and water consumption. In this, it relies on a computer application for energy (natural gas, heating oil, butane-propane and electricity) and water consumption monitoring.

A study was prepared on a photovoltaic plant that could be built on top of the Hit business centre. If installed, it would both partly shade the business centre's atrium, thus reducing cooling energy costs, and at the same time generate electricity from a renewable source.

The company further applies LCCA when planning facility renovation and construction. An example of this is the renovation of the Park Gaming and Entertainment Centre: design engineers had to consider a feasibility study on rational energy consumption that had been co-financed by the Ministry of the Environment and Spatial Planning

B.10 Balance sheet analysis and performance indicators

Capital and liabilities As at 31 December 2007, Hit Group's **capital** stood at EUR 225.8 million, up 21 percent from a year ago. Capital represented 54.4 percent of total capital and liabilities, which is 7.1 percentage points less than a year ago. **Long-term provisions, accrued costs and deferred revenues, and liabilities** represented 24.1 percent of total capital and liabilities, which is 7.2 percentage points (96 percent) more than a year ago. **Short-term liabilities, and accrued costs and deferred revenues** represented the remaining 21.5 percent of total capital and liabilities, up 36 percent compared to a year ago.

	31 Dec 2007	Share	31 Dec 2006	Index 07/06
Capital	225,785	54.4%	186,233	121
Long-term provisions, accrued costs and deferred revenues, and liabilities	100,081	24.1%	51,088	196
Short-term liabilities, and accrued costs and deferred revenues	89,461	21.5%	65,583	136
TOTAL	415,328	100.0%	302,904	137

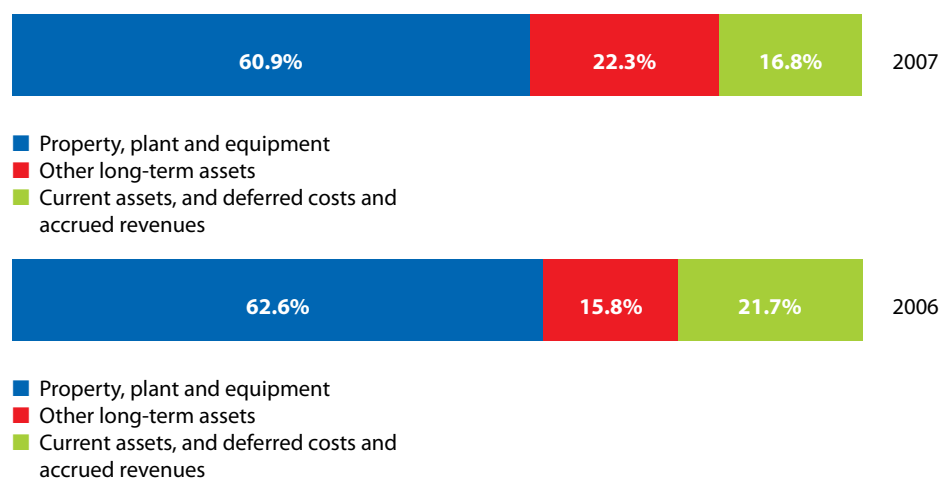
Hit Group's capital and liabilities items as at 31 December 2007 and 2006 (EUR thousand).

Assets As at 31 December 2007, Hit Group's **assets** stood at EUR 415.3 million, up 37 percent from a year ago. Of this amount, long-term assets represented 83.2 percent and current assets represented 16.8 percent. The long-term assets' share of the Hit Group's total assets increased by 4.9 percentage points.

	31 Dec 2007	Share	31 Dec 2006	Index 07/06
Property, plant and equipment	252,993	60.9%	189,503	134
Other long-term assets	92,428	22.3%	47,711	194
Current assets, and deferred costs and accrued revenues	69,907	16.8%	65,689	106
TOTAL	415,328	100.0%	302,904	137

Hit Group's assets items as at 31 December 2007 and 2006 (EUR thousand).

Hit Group assets
as at
31 December 2007
and 2006



Hit Group's assets items as at 31 December 2007 and 2006.

B.11 Performance indicators*

Profitability and efficiency ratios	2007	2006	Index 07/06
Return on capital	0.5%	10.3%	5
Assets turnover	0.67	0.79	86
Total efficiency	1.00	1.08	93

Profitability and efficiency ratios for the Hit Group in 2007 and 2006

Return on capital, measured as the ratio of net profit to average capital (excluding the 2007 profit) was 0.5 percent in 2007.

Assets turnover, measured as the ratio of total revenues to the average assets, was 0.67 in 2007 (2006: 0.79).

Total efficiency, measured as the ratio of total revenues to total expenses, was 1.00 in 2007 (2006: 1.08).

B.12 Mission and strategic objectives

The mission of the Hit company comes from the mission of the tourism and gaming & entertainment industry, as defined by the wider community. As a responsible business entity, the group follows the principle that through its operations, each of its companies shall contribute as much as possible towards social and economic development of the environment where it operates, as well as create value for its shareholders and develop its employees while satisfying as much as possible the needs of its guests. Based on this broader "social" principle, the group defined in detail its "business" mission that is now expressed with the following slogan: **"Creating a universe of experiences, games and entertainment."** This mission consists of creating an integrated tourism product providing general well-being with an emphasis on the joys that games and entertainment can offer. When providing their services, the Hit Group companies pay discreet attention to their guests and are at the same time responsible to the environment where they operate.

The group has instilled the following values into all of its activities: hospitality; openness, sincerity and honesty; co-operation and team work; tolerance and respect; efficiency and responsibility; creativity, innovation and entrepreneurship; personal growth and continuous learning. The fact that its employees are steeped in such values represents a guarantee for the Hit Group's long-term and sustainable development.

The main strategic orientation of the parent Hit company was and remains an export-oriented tourism and gaming & entertainment product. In this segment, it is well-known both in Slovenia and beyond its borders. However, as times and guest needs change, so does Hit constantly upgrade its product. In addition, it encourages development of parallel tourism products in the environment to promote long-term and sustainable development. The Company has also been successful in using its tourism and gaming know-how through its foreign investments, thus gaining experience as well as reputation as an international corporation.

Recently, business conditions have changed considerably. Both domestic and foreign competition is getting stronger, and virtual gaming is irreversibly changing the gaming market. In order to be less vulnerable, the Company is

expanding its product and diversifying its investments across Slovenia and Europe. In view of market conditions, its key strategic project is accelerated development of a tourism and gaming & entertainment destination in the Goriška region, which should attract not only daily, but also multi-day visitors. Development of Gorica and Nova Gorica into a multi-day destination will be the Company's main objective in the years to come. The dynamics of investments, however, will depend mainly on the amendments to the gaming and applicable fiscal legislation. If such amendments are adopted and thus support given to an export-oriented tourism and gaming & entertainment product, the investments are going to be much larger and faster. As the Company succeeded in having the development of the "Goriška region tourist complex" included among the national development priorities, it is now that more important to have the said amendments to the gaming and fiscal legislation adopted.

In order to be prepared for the various challenges that the future might bring, the Hit Group will continue investing in its employees in a very systematic way. It has already allocated significant monies to the various study programmes in the Goriška region, which will give the next generations the knowledge necessary for the development of a competitive and socially valuable environment. To this end, the group is also supporting various research institutes that are going to direct their research in particular into all gaming-related areas. Such support is of key importance, given that gaming itself needs scientific support in order to develop in a balanced and socially acceptable way in the long run. Together with such external institutes, the Hit Group has been establishing an integrated system of a socially responsible gaming.

In 2008, the Hit company adopted its **Strategy 2008-2012**, in which it defined the key development projects and policies for this mid-term period. At the same time, the Company also prepared a **Declaration on the development of gaming in Slovenia**, in which it presents its views of the problems faced by the Slovenian gaming industry, and the key amendments to the existing legislation that shall be adopted as soon as possible. If they are not, both the Company and the entire industry will soon be in an extremely difficult position, given the existing market conditions.

* Profitability indicators were calculated using the Hit Group's total net profit (net profit of the majority owner and net profit of minority owners).

Declaration on development of gaming in Slovenia

Social consensus as an essential condition

Background *In the last 15 years, gaming industry has developed into an important part of Slovenian tourism. It employs a large number of people and generates a significant portion of revenue of local and state budgets. On the other side, regulations governing this industry have been lagging behind what would be needed to govern and direct this industry in a modern way, for which reason Slovenia is in urgent need for expert in-depth discussion, a modernised strategy for the gaming industry's development, and legislation that would integrate gaming in the tourist strategy of Slovenia both contents- and institutional-wise, taking account also of the gaming industry's development trends in the European Union. The existing legal and fiscal frameworks in Slovenia are based on the assumptions from the mid 1990s, which causes development deviations and unnecessary conflicts between the gaming industry, politics and civil society.*

Current situation *There are six gaming companies in Slovenia that organise games of chance on gaming tables and slot machines. In addition to them the state has enabled establishment of as many as forty slots halls that, on the contrary, organise only games of chance on electronic devices. Another important difference between slots halls and casinos lies in their ownership structure: the first are exclusively privately-owned, while the majority owners of the latter are state funds (SOD, KAD) and local communities. A negative characteristic of the latter is that they have constantly achieved bad business results, which points to unsuitability of the existing legislative framework from systemic, ownership and fiscal point of view. The only exception among these companies is the largest one, the Hit company, that has taken advantage of the adopted amendments to the Gaming Act and invested to develop into a modern tourism and entertainment corporation. Granting of new concessions in areas with an excessive supply of gaming facilities, thinking only of state budget revenues when expanding the gaming industry, being thereby inconsistent with the tourist strategy of Slovenia, having different views of the socially responsible and sustainable development of the gaming industry, not using tax revenues eligibly and efficiently for development of local communities, and having an outdated legislation have all led to the industry structure not ensuring efficient direction of gaming revenues into social welfare while minimising negative effects. Given the pace at which gaming industry has been developing in its neighbouring countries and around the globe, Slovenia should have adopted amendments to the gaming legislation some time ago already..*

Changes needed *Gaming industry must become part of an integrated tourist product of Slovenia, with the gaming companies operating based on the national tourism and gaming industry's development strategies, as well as in compliance with the possibly amended regulations governing this industry. These should define the criteria for granting gaming concessions in the Republic of Slovenia and at the same time provide efficient instruments for implementing development criteria that have up to now been missing. Among such development criteria, commitment to responsible gaming is of particular importance. The government should analyse the existing gaming facilities in relevant delineated tourist areas, as well as the absorption ability of the area to be entered by the prospective concessionaire and the suitability of the latter's marketing strategy in terms of orientation towards gaming and business stay-over tourists. Such a prospective concessionaire should also be able to meet the social responsibility criteria, which include having employees trained and a system in place to identify and prevent problem players from entering the casino. Such concept of the gaming industry's development makes upgrading of the existing tourist product possible, as it provides for more quality and less negative gaming effects. As it is now, the smaller gaming facilities known as slots hall generate significant negative gaming effects. Gaming companies should have equal operating conditions and strengthen their flexibility and investment potential, the latter including the possibility of equity increase and gradual withdrawal of state funds as majority owners. Experience shows that state and local communities benefit from companies that create jobs and provide high value-added services, as well as pay taxes and concession duties, but also that state ownership causes above all management rigidity and politisation, thus endangering competitiveness, jobs and benefits flowing to local communities and owners in general. The state must ensure that operations of gaming companies are in order and regulations and national strategies complied with through an effective legal system instead of through state ownership.*

Overall objective *It is necessary to reach a social consensus between the gaming industry, politics and civil society, based on which the government of the Republic of Slovenia should prepare a comprehensive strategy of gaming industry's development in Slovenia within one year, thus providing the basic development guidelines that should draw on the changes needed presented herein. Together with the strategy, the government should propose to the National Assembly also an amended Gaming Act, which should define new criteria for granting concessions for organising special games of chance in Slovenia. Further, the Ministry of Finance, which is responsible for legal and technical supervision, together with the Ministry of Economy, which is the trustee of the national tourist strategy, should limit the number of slots halls. Also, considering international experience, areas should be defined in which to concentrate gaming, however always as part of an integrated tourist product. Finally, a national system for the prevention of negative effects should be established; the designated use of concession duties paid into local budgets should be clearly defined; and above all new fiscal framework should be designed promoting development of hotel, wellness and other non-gaming facilities through degressive taxation.*

B.13 Business environment and competition

The Strategy of the Development of Gaming in Slovenia of 1997 and the Development Plan and Policies of Slovenian Tourism 2007-2011 provide the strategic framework for the Slovenian gaming & entertainment industry. More specific issues concerning gaming & entertainment are regulated by the Gaming Act and the Gaming Tax Act. The existing legislative framework promotes development of an unstructured tourism product intended mainly for the nearby daily guests. However, research results, obtained also in Slovenia, show that an export-oriented gaming tourism creates much larger positive effects than domestic market-oriented gaming. The Hit Group now hopes that decision-makers will act accordingly. Another act with a significant effect on business conditions and therefore performance of the companies within the Hit Group is the so-called Anti-Smoking Act.

Slovenia now has the opportunity to develop an attractive, recognisable and export-oriented gaming & entertainment product, which is already one of the pillars of the Slovenian tourism and economic development. Under current market conditions, development of such a product is conditional on construction of large gaming & entertainment complexes, which, however, shall still receive adequate support from regulators. The Hit Group is confident that this will eventually happen, but will, until then, continue following its policy of development of an export-oriented and socially-responsible tourism and gaming & entertainment product. Hit and the Slovenian Chamber of Commerce proposed that the Government of the Republic of Slovenia prepared a new Strategy of the Development of Gaming in Slovenia, given that the old one is no longer actual and provides no right guidelines on and support to development of tourist and entertainment destinations.

In 2007, economic growth was above expectations in Slovenia: driven mainly by investments and exports, it reached 6.1 percent, the highest ever figure since independence. On the other hand, inflation too was above expectations, and reached 3.6 percent. Similarly as in other Euro area countries, it is mainly explainable by higher food and oil prices. Analysts explain the difference between the higher Slovenian inflation and the Euro area average inflation with Slovenia catching up with the more developed Member Countries, which resulted also in the Slovenian economic growth being more than twice as high as the Euro area average growth.

In Montenegro, macroeconomic developments were relatively favourable in 2007, except for inflation pressures. Montenegrin GDP growth has been getting more robust in the recent years and reached 7 percent in 2007 (mainly on the account of increased private and investment consumption), while inflation reached 4.3 percent. Compared to 2006, Montenegro had 21 percent more tourists and 23 percent more overnight stays.

The economic and political environment in Bosnia and Herzegovina remained very unstable and unforeseeable also in 2007. There, GDP growth was 5.5 percent, and the average annual inflation was 2 percent. Legislation governing games of chance also remained very restrictive. Lottery there is state-owned and has the monopoly on organisation of classic games of chance (lottery, bingo) and progressive slot machine games.

Croatia belongs to the countries that are increasingly more opened towards the outside world. By joining the European and wider integration processes, harmonising its legislation with the Community legislation, successfully completing privatisation and reforms, as well as drawing on stable political and economic environment in the region, it has become an attractive country for foreign investments. On the one side, these are welcome, but on the other side (similarly as in other transition countries), there are also certain burdens of the past and vulnerability. Economic growth has been consistently high in the recent years. In 2007, it was at 6.1 percent, mainly driven by strong private and investment consumption. Inflation was low at 2.9 percent.

Mid-year, business conditions in Slovenia changed significantly, in particular for gaming and F&B operations. On 5 August 2007, the Act Amending the Restriction of the Use of Tobacco Products Act entered into force, banning smoking in enclosed public and work areas. Not only was the most restrictive version of the Act adopted, there was also no transitional period provided for. The Act only allows smoking in special rooms and smoking cabins. These, however, can mitigate only to a small extent the negative effects that the said Act is having on gaming revenues. Moreover, rules on the conditions and requirements for smoking cabins were adopted only in September, when the group companies were finally able to react. At this point, it has to be said that the ability or inability to smoke, as the case may be, affects very much mood of guests and consequently revenues generated by gaming and F&B, the main activities pursued by the Hit Group. Similarly as casinos elsewhere in the world where smoking was prohibited, the Hit Group casinos established in Slovenia could not prevent the fall in revenues.

In addition to the smoking ban, revenues of the casinos on the western border of Slovenia were also affected by the political and economic situation in Italy, which is their main market. Economic strength of Italy weakened compared to other European countries, and one political crisis followed the other. Particularly in the last months of 2007, people were more and more dissatisfied due to rising prices of consumer goods and falling standard of living. Economic conditions are particularly unfavourable in the area where the majority of Hit's guests is established. Low economic growth and ever higher inflation are increasing uncertainty among people, who rather spend to satisfy their basic living needs than on entertainment.

In the domestic market, the parent Hit company, together with its subsidiary Casino Kobarid, maintained the leading position, but had to face an increasingly fierce and new competition from the part of slots halls. These are privately owned and smaller, which gives them greater flexibility. They are also quick to adopt novelties introduced by the leader, and adapt to market conditions. Above all, their advantage arises from their exploitation of a market that has been developed by the Hit company.

The casino in Venice, which is Hit's main competitor, generated gross gaming revenues in 2007 that were at the same level as in 2006. They continued with their aggressive marketing activities and advertising, as well as with product expansion. During the year, they installed some 200 slot machines and linked the majority of slot machines to the EZ-PAY system.

The Hit Alpinea subsidiary kept its role of the leading provider of hotel accommodation and other supplementary services in Kranjska Gora. In the next years, it will try to consolidate this position through further investments in the company and in the Kranjska Gora destination.

The Maestral resort and casino remained renowned as the best in Montenegro, despite many new hotels that were opened in its vicinity. It still stands out in terms of quality from them.

Hit Coliseum is in terms of size, quality and concept of its gaming product and other services far the best, and new competition in the market is still not threatening its performance.

In the area of Umag, there are more and more games of chance being offered, but the company Casino Kristal Umag has the advantage of being part of the Hit Group. The brand "Hit Universe of Fun" under which it operates is renowned in the market and at the same time feared by competition. In addition, the company's product is so different that it stands out from competition.

C.01 Independent auditor's report - consolidated financial statements



INDEPENDENT AUDITOR'S REPORT (translation from Slovenian)

To the shareholders of the company:

Hit d.d.
Delpinova 7a, Nova Gorica

We audited the accompanying financial statements of Hit d.d., which comprise balance sheet as at 31 December 2007, income statement, statement of changes in equity and cash flow statement for the year then ended, as well as a summary of significant accounting policies and other explanatory notes. We also audited the business report.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements prepared in accordance with Slovenian Accounting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatements, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

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 comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatements.

An audit involves procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of the risks of misstatements in the financial statements, whether due to fraud or error. In making those risks assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Hit d.d. as at 31 December 2007, as well as of the results of its operations and cash flows for the year then ended in accordance with Slovenian Accounting Standards.

The business report is consistent with the audited financial statements.

Ljubljana, 21 April 2008

BDO EOS Revizija d.o.o.
Dunajska cesta 106
Ljubljana

Mag. Nadja Knez
Certified Auditor
Director
(signature and seal)

C.02 Independent auditor's report - individual financial statements



INDEPENDENT AUDITOR'S REPORT (translation from Slovenian)

To the shareholders of the group:

Hit d.d.
Delpinova 7a, Nova Gorica

We audited the accompanying consolidated financial statements of Hit d.d., which comprise consolidated balance sheet as at 31 December 2007, consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, as well as a summary of significant accounting policies and other explanatory notes. We also audited the business report.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements prepared in accordance with Slovenian Accounting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatements, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

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 comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatements.

An audit involves procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of the risks of misstatements in the financial statements, whether due to fraud or error. In making those risks assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of Hit d.d. as at 31 December 2007, as well as of the results of its operations and cash flows for the year then ended in accordance with Slovenian Accounting Standards.

The business report is consistent with the audited financial statements.

Ljubljana, 16 May 2008

BDO EOS Revizija d.o.o.
Dunajska cesta 106
Ljubljana

Mag. Nadja Knez
Certified Auditor
Director
(signature and seal)

C.03 Consolidated income statement for the year ended 31 december 2007

(All values in EUR)	2007	2006
Net sales revenues	233,742,371	226,830,492
Change in inventories of products and work in progress	343,161	300,163
Capitalised own products and services	1,600,951	1,509,873
Revaluation and other operating revenues	2,009,782	695,744
Gross operating revenues	237,696,265	229,336,271
Operating expenses	(231,111,532)	(204,860,495)
Cost of goods, materials and services	(84,660,144)	(66,915,344)
Cost of goods sold and materials used	(22,636,234)	(18,162,193)
Cost of services	(62,023,910)	(48,753,151)
Labour costs	(86,221,542)	(82,612,719)
Wages and salaries	(61,133,579)	(58,679,553)
Social insurance costs	(13,222,554)	(14,641,567)
Pension insurance costs	(8,335,494)	(10,026,043)
Other social insurance costs	(4,887,060)	(4,615,523)
Other labour costs	(11,865,409)	(9,291,600)
Write-downs in value	(25,214,811)	(19,876,298)
Depreciation and amortisation expense, and revaluation operating expenses associated with property, plant and equipment, and intangible assets	(25,162,124)	(19,732,457)
Revaluation operating expenses associated with operating current assets	(52,687)	(143,841)
Other operating expenses	(35,015,035)	(35,456,134)
Operating profit	6,584,733	24,475,776
Financial revenues	3,340,898	2,885,457
Financial revenues from shares and interests	2,434,612	2,145,055
Financial revenues from shares and interests in associates	310,440	1,040,077
Financial revenues from other investments	2,124,172	1,104,978
Financial revenues from loans and operating receivables	906,286	740,402
Financial revenues from loans to and operating receivables due from associates	7,488	6,059
Financial revenues from loans to and operating receivables due from others	898,798	734,343
Financial expenses	(6,240,475)	(3,327,575)
Financial expenses from impairment and write-offs of investments	(345,979)	(638,575)
Revaluation financial expenses associated with investments in associates	(19,332)	(638,575)
Other revaluation financial expenses	(326,647)	
Financial expenses for operating and financial liabilities	(5,894,496)	(2,689,000)
Financial expenses for other operating and financial liabilities	(5,894,496)	(2,689,000)
Other revenues	3,685,156	24,033,659
Other expenses	804,666	282,649
Pre-tax profit or loss for the period	(1,338,564)	(826,598)
Income tax	3,151,258	23,489,710
Deferred taxes	(2,148,428)	(5,688,065)
Net profit of minority shareholders	15,411	107,661
Net profit or loss for the period	675,070	(258,855)
NET PROFIT OR LOSS FOR THE PERIOD	1,693,311	17,650,451

C.04 Consolidated balance sheet as at 31 December 2007

(All values in EUR)	31 Dec 2007	31 Dec 2006
Assets	415,328,115	302,903,843
Long-term assets	345,421,383	237,214,367
Intangible assets, and long-term deferred costs and accrued revenues	14,150,139	8,201,807
Long-term deferred development costs	1,808,217	1,558,534
Long-term property rights	7,984,510	4,123,377
Consolidated goodwill	4,341,050	
Other long-term deferred costs and accrued revenues	16,362	2,519,897
Property, plant and equipment	252,993,137	189,503,447
Land and buildings	189,092,335	145,438,479
- Land	20,873,468	14,634,698
- Buildings	168,218,867	130,803,781
Other plant and equipment	56,294,166	34,377,450
Property, plant and equipment under acquisition	7,606,636	9,687,519
- Advances for property, plant and equipment	330,019	1,258,346
- Property, plant and equipment under construction	7,276,617	8,429,173
Investment property	14,133,969	14,782,123
Long-term investments	60,892,687	21,467,910
Long-term investments, excluding loans	59,842,643	20,343,052
Shares and interests in associates	14,180,969	9,707,136
Other shares and interests	43,594,425	8,283,696
Other long-term investments	2,067,249	2,352,220
Long-term loans	1,050,044	1,124,858
Long-term loans to others	1,050,044	1,124,858
Long-term operating liabilities	1,705,292	1,725,964
Long-term operating liabilities to others	1,705,292	1,725,964
Deferred tax assets	1,546,159	1,533,116
Current assets	56,483,083	53,129,290
Assets disposal groups held for sale		
Inventories	4,214,848	2,738,412
Materials	3,005,646	2,365,719
Work in progress	643,325	95,489
Products and merchandise	553,830	248,281
Advances	12,047	28,923
Short-term investments	9,795,273	9,923,740
Short-term investments, excluding loans	8,260,234	8,620,927
Other short-term investments	8,260,234	8,620,927
Short-term loans	1,535,039	1,302,813
Short-term loans to associates	600,000	147,659
Short-term loans to others	935,039	1,155,154
Short-term operating receivables	15,276,302	14,920,418
Short-term trade receivables	4,213,514	1,916,178
Short-term operating receivables due from associates	13,945	6,617,852
Short-term operating receivables due from others	11,048,843	6,386,388
Cash	27,196,660	25,546,720
Deferred costs and accrued revenues	13,423,649	12,560,186

(Continued on next page.)

Consolidated balance sheet as at 31 December 2007

(Continued.)

(All values in EUR)	31 Dec 2007	31 Dec 2006
Capital and liabilities	415,328,115	302,903,843
Parent-only shareholders' capital	204,731,815	165,455,316
Called-up capital	28,328,468	28,328,468
Share capital	28,328,468	28,328,468
Capital surplus	29,618,361	29,618,361
Revenue reserves	92,440,497	86,440,498
Legal reserves	5,303,159	5,303,159
Other revenue reserves	87,137,338	81,137,339
Net profit or loss from previous periods	12,087,197	10,301,832
Unappropriated net profit for the year	1,657,031	9,987,957
Revaluation surplus	40,641,340	685,366
Capital translation adjustment	(41,079)	92,835
Capital of minority shareholders	21,053,574	20,777,295
Other items of capital of minority shareholders	21,053,574	20,777,295
Provisions	6,468,952	7,474,829
Provisions, and long-term accrued costs and deferred revenues	6,468,952	7,474,829
Provisions for termination benefits and similar liabilities	5,757,529	6,699,658
Other provisions	60,000	206,710
Long-term accrued costs and deferred revenues	651,423	568,461
Consolidated negative goodwill		
Long-term liabilities	93,612,453	43,612,924
Long-term financial liabilities	93,477,221	43,534,055
Long-term financial liabilities to banks	93,334,979	29,122,292
Long-term financial liabilities to others	142,242	14,411,763
Long-term operating liabilities	69,265	
Long-term operating liabilities to others	69,265	
Deferred tax liabilities	65,967	78,868
Short-term liabilities	86,589,887	63,315,240
Short-term financial liabilities	50,255,593	30,500,230
Short-term financial liabilities to banks	48,026,039	29,441,408
Other short-term financial liabilities	2,229,554	1,058,822
Short-term operating liabilities	36,334,294	32,815,010
Short-term operating liabilities from advances	983,056	2,571
Short-term operating liabilities to associates	29,194	6,873
Short-term trade payables	18,747,917	13,832,945
Other short-term operating liabilities	16,574,127	18,972,621
Accrued costs and deferred revenues	2,871,434	2,268,240
Off-balance sheet items	18,232,630	17,647,801

D.01 Hit Group members

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