Registered Office:
11 Brooklyn Lane
Hamilton HM09
Bermuda

iO ADRIA LIMITED

Registered in Bermuda No. 37474

Annual report and consolidated financial statements

31 December 2012

iO ADRIA LIMITED

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Annual report and consolidated financial statements 31 December 2012

Advisors and corporate information

Directors
The Rt. Hon. The Lord Lamont of Lerwick (Chairman)
Goranko Fizulic
Bernard Lambert
Garth Lorimer Turner
J. Andrew Smith
Bruce Weatherill
William Crewdson
Ivana Soljan
Alex Penkul

Company secretary
Tracy Packwood

Registered office
11 Brooklyn Lane
Hamilton HM09
Bermuda

Principal legal advisors
CMS Cameron McKenna LLP
Mitre House, 160 Aldersgate Street
London EC1A 4DD

Conyers Dill & Pearman
Clarendon House, 2 Church Street
Hamilton HM CX, Bermuda

CMS Zagreb d.o.o.
Jurisiceva 24, 10 000
Zagreb, Croatia

Auditors
KPMG LLP
15 Canada Square
London E14 5GL

CHAIRMAN'S REVIEW

I am pleased to present to shareholders the Group's annual report and consolidated financial statements for 2012. In the past year, there has been significant improvement in the Group's operating performance, driven by good trading results and an encouraging gathering momentum in residential sales at Dubrovnik Sun Gardens Dubrovnik ("DSG").

During 2011, iO took direct responsibility for the day to day management of DSG with the conversion of the Radisson Blu hotel to a franchise agreement with Rezidor. As a consequence of this, the Group has been able to reposition the resort, thereby yielding a material uplift in revenues, especially rooms revenues. This, coupled with diligent monitoring and control over costs and the implementation of various operations efficiencies, has delivered an excellent growth in gross operating profits.

At the same time, it is very reassuring for me to report that, notwithstanding the numerous factors which continue globally to dampen prospects for economic recovery, the pace of residential sales at DSG has quickened markedly. As at 31 December 2012, contracts for a total of 22 sales had been signed since the launch of the sales programme, representing aggregate sales proceeds of €7.0 million. This positive trend has continued into the current year and at the time of writing a further 18 contracts have been signed. This brings to 40 the total numbers of sales contracts signed, equivalent to sales proceeds of €12.2 million, with a further seven sales in the final stages of signing. This has enabled the Group to announce the completion of the second phase of sales, allowing for the timely launch of phase three as we enter the peak season of summer trading.

2012 also witnessed the acquisition by the Group of its second hotel property, Hotel Sipan. This is a boutique island retreat situated in the picturesque bay of Sipanska Luka, within a one hour transfer time from Dubrovnik Old Town and which strategically is ideally located close to the Group's substantial development site on the island of Sipan. iO has invested a modest amount to bring this property, which had been closed since the end of the 2011 summer season, into a state satisfactory for opening in May 2013. Both of the Group's properties, at DSG and on Sipan, have delivered satisfactory trading results in the current year to date.

At 31 December 2012, the Group held cash balances of €1.1 million and had committed and undrawn working capital loan facilities of €5.0 million. Total assets amounted to €274.6 million and, after deducting total liabilities of €175.7 million, total equity was €99.0 million. This equates to €0.54 cents per share, a small reduction to the €0.55 cents per share reported at the end of 2011. The loss for the year was €0.4 million, which represents a significant improvement to the loss of €15.4 million reported in 2011.

Following its most recent fund raise in the summer of 2011 and together with improved operating results, the Group has maintained its level of corporate overhead such that it can continue as a going concern for the immediate future. However, providing a means to securing the long term viability of the Group is a priority for the upcoming 12 months. In this regard, further information will be circulated to shareholders when there is significant progress to report. In the meantime, the Directors continue to ensure that the Group maintains a stable platform to preserve the interests of its stakeholders.

Norman Lamont

Chairman

CHIEF EXECUTIVE'S REPORT

I am pleased to report that the Company's financial performance in 2012 evidences a strong step change over prior years. The results of the core areas of our focus, resort operations and residential sales are benefitting from the growing maturity of Dubrovnik Sun Gardens ("DSG") and the repositioning work of the management team. The Company's financial loss shrank from €15.4 million in 2011 to €0.4 million in 2012 and operating cash flows were strongly positive for the first time.

The environment in which the Company operates remains characterised by the lack of appetite among the lending banks in Croatia for construction projects in general and leisure projects in particular. The situation in Croatia in this regard is hardly unique. Sourcing debt finance continues to be very challenging for developers in most countries and we do not anticipate a material positive shift in the foreseeable future.

The key features of the financial year were headed by the growing momentum in residential sales at DSG at prices which reflect the rarity and desirability of the product.

Croatian EU Accession

Croatia joined the EU on 1 July, 2013, as the 28th member state, ten years after it first made application to join. The country is now in its fifth year of recession. Notwithstanding the political and economic uncertainties within the EU presently, expectations remain within Croatia that membership will deliver palpable and rapid benefits.

We anticipate a mixed picture; there is undoubtedly scope for the utilisation of roughly a ten-fold increase in structural and cohesion funds over the next decade relative to pre-accession funding levels, enough to comprise a substantial proportion of the country's ailing GDP. There is also a strong probability that foreign direct investment ("FDI") will increase as confidence in the business environment and the country's commitment to on-going legal and fiscal harmonisation grows. We continue to believe that a high proportion of inward investment will be directed at high end tourism, one of the few economic areas where the country can demonstrate a sustainable competitive advantage and the potential for high export growth. On the negative side, the potential loss of central European free trade ("CEPFA") which currently constitutes over 20% of Croatia's manufactured exports may lead to short-term loss and disillusionment. The need to continue and to accelerate reforms of the public sector, the judicial system, the fiscal burden, to improve labour flexibility and productivity and to legislate for greater investor protection is evident. With the goad of Brussels-imposed accession conditionality now withdrawn, there is concern that the political will to prosecute and shore up these reforms will diminish.

The centre-left coalition government's room for manoeuvre in fiscal and spending terms is already tightly constrained and will become more so as the country is initiated into the Excessive Deficit Procedure. The country's current account ran a small surplus in 2012 as a result of shrinking imports fed by lower private consumption. Public debt is nudging 60% of GDP. Overall, we see relatively few risks deriving from the continuing economic strictures and a number of benefits; a focus on clearing obstructive bureaucracy and other impediments to facilitate FDI in tourism being one example.

Croatian Tourism in 2012

Tourism to Croatian tourism grew by 5.5% in nominal terms in 2012 and by 1% (from 12% - 13%) relative to GDP. The WTTC estimates of tourism's broader contribution, which includes the supply chain and induced income effects, puts tourism's contribution at 28% of GDP. The picture with respect to employment in tourism is similar; the sector accounts for roughly 13% of total employment directly and an estimated 25% indirectly. Measurable intra-sector trends remain fairly constant. Tourism remains heavily concentrated on the coast and is highly seasonal and while the vast majority of the country's lodging stock is of a three-star standard or below, growth remains concentrated at the high end. In our opinion, economic imperatives will continue to favour investment in new-build or conversions to high-end schemes in Croatia for the foreseeable future.

Financial Results

The Company made a loss of €0.4 million (2011: €15.9m loss) on turnover of €21.9 million, increased by 38% from 2011, the result of a combination of increased operational turnover and of residential sales. The improvement in bottom line performance relative to prior years represents delivery for the first time of operational profit and cash flows that are sustainable but not yet mature. The income statement includes contribution of €4.5 million from a tax credit reflecting expectation that tax losses made in prior years will be utilised before their expiry as a result of improved operating performance and residential sales.

At the end of the financial year, 22 contracts for sale had been signed with individual buyers of residences at DSG, including two signed in 2011. In accordance with IFRS, eight of these sales will be recognised in the financial results for 2013, insofar as certain conditions relating to completion remained outstanding at 31 December 2012.

No material adjustments were made during the year to the valuations of the Company's land or property portfolio. The Group corporate overhead remained at the budgeted level.

The beneficial impact of the restructuring of the Erste Group Bank loans that was negotiated at the end of 2011 but only concluded and implemented in August, 2012, is only partially reflected in the 2012 results. Annual interest costs on the Company's combined loans from Erste Group Bank have fallen significantly as a result of the restructuring.

Operations

DSG

Following a year of adjustment in 2011 after the handover from Rezidor, 2012 delivered the benefits of the contractual changes that were implemented with our distribution partners and in particular with tour operators. These materially reduced contracted business in the high season and a substantial increase in contracted room rates to reposition the hotel at a level appropriate to its standard. The combination of a 13% increase in occupancy and a 12% rate increase for the full year was a 27% increase in RevPAR overall.

DSG (www.dubrovniksungardens.com) continued to attract more than its fair share of increased arrivals to Dubrovnik and saw a further dramatic increase in its source markets. The resort hosted guests from 143 countries in 2012.

The resort, the spa and the residences have continued to win international awards. I am particularly pleased to be able to report that DSG was awarded Best Franchise Hotel by Rezidor, from a list of some 50 properties managed under licence, in only the second year of iO Adria's management.

Spring traffic was encouraging with respect to the objective of continuing seasonal extension. By contrast, the year ended weakly with a pronounced falling off of MICE[(1)] business relative to 2011, a trend that continued into 2013. DSG benefitted along with other coastal resorts in Croatia from significant high season bookings from Russia and Ukraine, often at short notice and at commensurately good rates. One of the short-term disadvantages of Croatian EU accession in July, 2013, will be the re-imposition of visa requirements for Russia and Ukraine into Croatia which is expected to have a material detrimental impact on the 2013 high season.

The performance of DSG is expected to reach a stabilised level in 2014 but has the potential for further growth within the scope of the existing rooms and amenities with the benefit of capital expenditure to improve the resort's conference and banqueting facilities, aspects f which are restricting DSG's ability to win important MICE business in the low and shoulder seasons.

[(1)] Meetings, incentives, exhibitions, conventions

Hotel Sipan

In November, the Company acquired the Sipan Hotel (www.hotel-sipan.com) in a transaction substantially financed by the vendor bank, the debt terms subsidised by HBOR, the Croatian Bank for Reconstruction and Development. The hotel is a 75-key boutique hotel occupying a prime location in the village of Sipanska Luka at the northern end of Sipan. The hotel represents the key driver of economic activity within Sipanska Luka and on the island as a whole. Though categorised as a 3-star property, the hotel occupies a five-star location and has a strong existing following with strong potential to grow with the benefit of judicious capital expenditure and well-targeted marketing.

The hotel is strategically relevant to iO Adria because of the Company's other development sites across the island, notably Cepljesi, the only significant zoned tourism development site on the island.

The hotel re-opened at the beginning of May, 2013.

Residential Sales

Following the extended delays in 2010 and 2011 in commencing the residential sales programme at DSG owing primarily to the problems of obtaining freehold registration, sales gathered momentum in 2012. In one respect, the delay in launching the sales programme has benefitted sales; the residences have a three-year track record of growing rental yields and of maintenance that prospective owners can take into account in making their decision. After a slow start with just two contracts signed in 2011, 20 purchase contracts were signed in 2012 and momentum has continued to build through the first half of 2013, a total of 18 contracts having been signed to date, with a strong pipeline of further interested buyers. There is a strong possibility that the level of sales in 2013 will be sufficient to meet the bank covenant, which requires 40 sales generating sales proceeds of €12.5 million.

The first release of 25 residences were completed at prices ranging from €170,000 to €550,000 and representing an average price per m2 of €4,050, higher than the target launch level of €4,000 per m2. A price uplift was implemented across the second release resulting in an average achieved price per m2 of €4,058 for all units to date and a range of prices from €160,000 to €800,000. The average gross yield to owners (before homeowners' fees) on the first and second release increased to 6.0% in 2012 from 4.7% in 2011.

The number of owners' nationalities currently stands at 15 and in socio-economic terms they continue to present an homogenous profile and one consistent with our original projection and objective.

Development Projects

There was little activity within the Company's non-operating portfolio during the year. Work has continued on a selective basis and as required to maintain and improve the bases of permitting at the Company's projects. Aside from a small trade of land at Preko that ceded the Company's site at Jaz Bay for the addition of some land at Preko Gardens, the Company's development land portfolio experienced no material change during the period.

Our primary focus currently is on preparing for development of the second phase of DSG, which will add a hotel and penthouses at the southern end of the site. Markocija and Preko remain the projects able to be built at short notice as and when the funding environment improves.

No material changes have been made to the valuation of the Company's development land during the period. They continue to be held at the lower of cost or written down value. We have also continued with our policy (in place since 2009) of not contracting independent valuers of the land owing to the continuing absence of meaningful benchmarks or comparable transactions.

Financing

The Company has continued to operate around the framework of the three-year plan set out at the time of the last capital raise in July, 2011. The Company has sufficient available funds to finance its predictable cash flow until 2015. Discussions are in train regarding a further debt restructuring concomitant with a further issue of capital.

Priorities and Prospects

It remains the management's objective that the Company will achieve profitability in 2013 and thereafter. The prior objectives of achieving strong growth in operational performance and in residential sales were met in 2012 and it is important that this progress is consolidated and sustained. Our secondary objective of achieving an opportunistic broadening of the Company's operations base was also met in 2012 with the acquisition of the Sipan Hotel. Though such opportunities to acquire underperforming yielding assets are rare in Croatia, the Company remains interested in and committed to pursuing them as and when they arise.

The corporate priorities for 2013 and 2014 are to engineer a stable capital base for the Company, one from which liquidity in the Company's shares can be encouraged and promulgated.

William Crewdson

Chief Executive

DIRECTORS' REPORT

The directors present their report together with the audited financial statements for the year ended 31 December 2012. The financial statements were approved and authorised for issue by the board on 28 June 2013.

Objective

The Company's objective is to deliver superior returns on investment to its shareholders by becoming one of the pre-eminent providers of high end leisure services, primarily in Croatia and neighbouring countries, by acquiring, developing and operating businesses that may benefit from the expected rapid and sustained growth in travel and tourism in Croatia and the surrounding region.

Principal activities and business review

A review of the activities and progress made by the Company and the strategy for future growth and development is set out in the Chairman's review and Chief Executive's report on pages 4 to 8.

Directors

The directors who held office during the year ended 31 December 2012 and to the date of this report were:

Name	Position
The Rt. Hon. The Lord Lamont of Lerwick	Non-executive chairman
Garth Lorimer Turner	Non-executive director
Goranko Fizulic	Non-executive director
Bernard Lambert	Non-executive director
J. Andrew Smith	Non-executive director
Bruce Weatherill	Non-executive director
William Crewdson	Executive director
Ivana Soljan	Executive director
Alex Penkul	Executive director

Directors' fees and remuneration is disclosed in note 17. The directors are re-elected annually, and their appointments may be terminated by not less than three months' notice, or by the members of the Company in accordance with the Company's bye-laws. The directors are entitled to claim reasonable out of pocket expenses and to participate in the share option plan. The biographies of the directors at the date of this report are set out below:

The Rt. Hon. The Lord Lamont of Lerwick (Chairman)
Norman Lamont served as member of parliament for Kingston upon Thames in the U.K. from 1972 to 1993 and, during successive Conservative governments, held a number of senior ministerial posts, serving as Minister of Industry, of Energy, Chief Secretary to the Treasury and, latterly, as Chancellor of the Exchequer from 1990 to 1993, during which time he was Chairman of the G7 group of Finance Ministers (1991) and Chairman of EU Finance Ministers (1992).

During his career, he has held a wide range of directorships. He was a director of NM Rothschild and Sons and of Rothschild Asset Management, having begun his business career in asset management with the bank in 1968. In the 1990s he was an advisor to the Romanian Government on privatisation and is currently President of the British Romanian Chamber of Commerce. He has chaired and sat on the board of a number of Jupiter managed funds since 1993 and was Chairman of the East European Food Fund from 1995 to 2005.

Goranko Fizulic
Goranko Fizulic is a Croatian national, a successful entrepreneur and Chief Executive Officer of Magma d.d., one of Croatia's largest non-food retailing companies which he founded with his wife in 1989. Mr Fizulic served as a deputy in the Croatian parliament throughout the 1990s, a founder and senior member of the Croatian Social Liberal Party. He served as Minister of the Economy in the coalition government headed by Ivica Racan from 2000 to 2002.

Bernard Lambert
Bernard Lambert has a deep understanding and experience of the hotel and leisure sector. Until recently he was the CEO of Société des Bains de Mer which owns and operates a number of prestigious luxury hotel and resort properties in Monte Carlo that offer gambling at four casinos, including the famous Monte-Carlo Casino. Mr. Lambert previously had a distinguished 27 year career with Le Meridien Group. From 1997-2001 he was President and Managing Director of Le Meridien Group, responsible for every aspect of finance, strategy and development, sales and marketing for a portfolio that grew to 130 hotels under his leadership. He now serves as an advisor for several groups and individuals. In 2000, Mr. Lambert was recognised as "Corporate Hotelier of the World".

Garth Lorimer Turner
Garth Lorimer Turner is a solicitor qualified in England & Wales and Hong Kong and a qualified Bermuda barrister and attorney. Mr. Lorimer Turner has extensive experience in cross-border international transactions having specialised in the area of corporate law in Hong Kong and London.

J. Andrew Smith
J. Andrew Smith has over 35 years of senior executive and marketing experience in the beverage alcohol industry. Immediately prior to his retirement at the end of May 2006, he was President of Brown-Forman Spirits for Europe, Africa and Eurasia, managing nearly 300 people and such brands as Jack Daniel's Tennessee Whiskey, Southern Comfort and Finlandia Vodka. His previous positions at Brown-Forman included International Beverage Marketing Director, responsible for all countries outside the USA and Marketing Director for Europe, Middle East and Africa. Mr Smith was also General Manager of J. & F. Martell Inc. in New York, the North American marketing affiliate of Martell, the fine French cognac producer.

Bruce Weatherill
Bruce Weatherill is a Chartered Accountant with international experience gained from over 35 years of working with Financial Services Companies, including 20 years as a partner in PwC. He was an Investment Management partner and Global Leader of the PwC Private Banking Practice for over 10 years and provided a wide range of audit and consulting advice to Financial Services Institutions both in the UK and globally. From July 2008, upon leaving PwC Mr Weatherill has formed his own consultancy to provide executive consulting services to Wealth and Investment Managers around the world and is a Non-Executive Director of FIL UK Holdings Limited and ComPeer Limited. He is Chairman of ClearView Financial Media Limited and JDX Consulting Limited.

William Crewdson (Chief Executive)
William Crewdson was responsible for the concept and launch of iO Adria. As Director of private equity at Jupiter Asset Management from 1995 until the Company's separation from Jupiter in 2011, he built a track record of successful investment in strategic industries in the countries of Central Europe, including Croatia. He has garnered considerable experience negotiating acquisitions and disposals in a variety of industries, of creating management teams combining local and foreign component members, of complex public-to-private transactions, of structuring debt with a wide range of local and foreign banks, and of directing corporate strategy.

Ivana Soljan (Chief Operating Officer)
Prior to joining iO Adria in 2008, Ivana Soljan held various senior management positions in Croatia including that of chief producer of the first commercial television station in Croatia (Z3), Head of Marketing, Strategic Planning and Development of one of Croatia’s then largest magazine publishing house (EPH) before latterly acting as a board member of T-HT (Croatian telecom company owned by Deutsche Telecom) and as President of the Board of T-com (fixed and online unit) where she was responsible for more than 4,000 people and more than 60% of the revenue of the group.

Alex Penkul (Chief Financial Officer)
Alex Penkul is a Chartered Accountant with over 19 years of experience in various finance roles in the hospitality industry. Prior to joining iO Adria in 2007, Mr Penkul was with Kerzner International as Finance Director of One&Only Resorts, the operator of luxury, award winning properties located in the Maldives, Mauritius, Dubai, Bahamas, South Africa and Mexico. Prior to that, Mr Penkul was Treasury and Planning Director with Queens Moat Houses plc, which owned and operated over 80 hotels in the UK, Germany and The Netherlands.

Corporate governance

The board has a high regard for and recognises the value of good corporate governance. The board is of the opinion that it has taken the appropriate measures to comply with standards of good corporate governance, having regard for the current stage of development of the Company and its business.

Remuneration Committee

The board has constituted a Remuneration Committee comprised of Mr J. Andrew Smith as chairman, Mr Garth Lorimer Turner and Mr Bernard Lambert. The Remuneration Committee has responsibility for determining and agreeing with the board of directors the framework and policy for the remuneration of the Chairman, other directors and key management involved in the business and affairs of the Group.

Audit Committee

The board has constituted an Audit Committee comprised of Mr Bruce Weatherill as chairman, Mr Goranko Fizulic, Mr Garth Lorimer Turner and Mr Jonathan Carey. The Audit Committee has responsibility for reviewing the operation and effectiveness of the Company’s procedures for financial reporting, internal control and risk management and external audit.

Nominations Committee

The board has constituted a Nominations Committee comprised of all non executive board members of the main board. It is responsible for the appointment and composition of the Board.

Dividends

No dividends are proposed for the period.

Going concern

Having made appropriate enquiries the directors consider that the Company and its subsidiaries have sufficient resources to continue its business for the foreseeable future and accordingly the accounts have been prepared on a going concern basis. Further details are disclosed in note 2.

Annual General Meeting ("AGM")

Notice of the AGM and a form of proxy will be circulated to shareholders in due course.

Auditors

A resolution to reappoint KPMG LLP as auditors will be proposed at the next AGM.

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Bermudan law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the EU.

The financial statements are required by law to give a true and fair view of the state of the consolidated affairs of the company and of the consolidated profit or loss of the company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable IFRS's as adopted by the EU have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

DISCLOSURE OF INFORMATION TO AUDITORS

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's Auditors are unaware; and each Director has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's Auditors are aware of that information.

Independent Auditors' Report to the members of Io Adria Limited

We have audited the accompanying consolidated financial statements of iO Adria Limited and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2012, and the consolidated income statement, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

This report is made solely to the members, as a body, in accordance with Section 90 of Part VI of Bermuda Companies Act 1981. Our audit work has been undertaken so that we might state to the members those matters we have been engaged to state to them in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the members, as a body, for our audit work, for this report, or for the opinions we have formed.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated 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 consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2012, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Emphasis of matter – Going concern

In forming our opinion on the consolidated financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 2 to the consolidated financial statements concerning the Group`s ability to continue as a going concern. On 29 June 2012 the Group refinanced its existing loan facilities with Erste Bank. Under the revised terms of the Dubrovacki Vrtovi Sunca d.o.o ("DVS") facilities, there is a new residential sales test which requires that a minimum of 40 residences are sold per annum, realising net sales proceeds per annum of at least €12.5 million, in each year ending 31 December 2012 through 31 December 2015. At the date of signing, there exists a material uncertainty as to whether the Group will be able to achieve this required level of apartment sales. In the event that it fails to do so, the amounts owed under the DVS facility will be repayable on demand and the Group will not have sufficient funds to be able to meet this repayment. This condition, along with the other matters explained in note 2 to the consolidated financial statements, indicates the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern. The consolidated financial statements do not include the adjustments that would result if the Group were unable to continue as a going concern.

KPMG LLP

Chartered Accountants

15 Canada Square

London E14 5GL

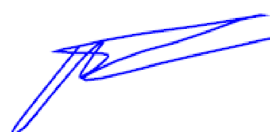
2 July 2013

Consolidated balance sheet

	Note	31 December 2012 €'000	31 December 2011 €'000
Assets			
Property, plant and equipment	3	213,157	214,317
Deferred tax asset	19	4,471	-
Goodwill	4	185	185
Total non-current assets		**217,813**	**214,502**
Inventories		229	281
Work in progress	5	4,878	4,878
Trade and other receivables	6	6,138	3,898
Property available for sale	7	44,517	47,877
Cash and cash equivalents	8	1,064	4,386
Total current assets		**56,826**	**61,320**
Total assets		**274,639**	**275,822**
Equity attributable to owners of the parent			
Ordinary shares	9, 10	1,835	1,835
Share premium		178,712	178,712
Translation reserve		(119)	664
Retained losses		(81,469)	(81,120)
Total equity		**98,959**	**100,091**
Liabilities			
Loans and borrowings	11	159,526	152,811
Finance lease liabilities	12	6	29
Deferred tax liabilities	13	6,080	6,334
Total non-current liabilities		**165,612**	**159,174**
Trade and other payables	14	8,232	16,410
Provisions	15	-	100
Loans and borrowings	11	1,800	-
Finance lease liabilities	12	36	47
Total current liabilities		**10,068**	**16,557**
Total liabilities		**175,680**	**175,731**
Total equity and liabilities		**274,639**	**275,822**

The notes on pages 19 to 40 form an integral part of these consolidated financial statements.

Approved by the board of directors on 28 June 2013 and signed on its behalf by:



Goranko Fizulic

Director

Garth Lorimer Turner

Director

Consolidated statement of changes in shareholders' equity

		Attributable to owners of the parent				
	Note	**Share capital €'000**	**Share premium €'000**	**Accumulated losses €'000**	**Translation reserve €'000**	**Total equity €'000**
At 1 January 2011		1,501	172,373	(65,194)	(562)	**108,118**
Loss for the year		-	-	(15,926)	-	**(15,926)**
Shares issued	10	334	6,339	-	-	**6,673**
Translation difference		-	-	-	1,226	**1,226**
At 31 December 2011		**1,835**	**178,712**	**(81,120)**	**664**	**100,091**
Loss for the year		-	-	(372)	-	**(372)**
Share based payments	9, 10	-	-	23	-	**23**
Translation difference		-	-	-	(783)	**(783)**
At 31 December 2012		**1,835**	**178,712**	**(81,469)**	**(119)**	**98,959**

The notes on pages 19 to 40 form an integral part of these consolidated financial statements.

Consolidated income statement

	Note	Year ended 31 December 2012 €'000	Year ended 31 December 2011 €'000
Revenue	28	**21,931**	**15,878**
Cost of sales and related operating expenses		(19,981)	(21,939)
Administrative expenses		(1,450)	(1,955)
Management fees	23	(389)	864
Professional fees		(175)	(471)
Share based payments	10	(23)	-
Directors' remuneration and fees	17	(822)	(363)
Total expenses		**(22,840)**	**(23,864)**
Impairment provision – property, plant and equipment	3	(261)	(1,979)
Operating loss		**(1,170)**	**(9,965)**
Finance expense	18	(3,856)	(5,924)
Finance income	18	68	27
Net finance expense		**(3,788)**	**(5,897)**
(Loss) / gain recognised on the business combination	22	-	(44)
Loss before tax		**(4,958)**	**(15,906)**
Income tax credit/(expense)	19	4,586	(20)
Loss for the year		**(372)**	**(15,926)**
Allocated to:			
Owners of the parent		(372)	(15,926)
Loss for the year		**(372)**	**(15,926)**
Earnings per share from continuing operations attributable to the equity holders of the company			
Basic loss per share (€)	21	-	(0.10)
Diluted loss per share (€)	21	-	(0.10)

Consolidated statement of comprehensive loss

	Year ended 31 December 2012 €'000	Year ended 31 December 2011 €'000
Loss for the year	(372)	(15,926)
Translation difference	(783)	1,226
Total comprehensive loss for the year	**(1,155)**	**(14,700)**
Allocated to:		
Owners of the parent	(1,155)	(14,700)
Loss for the year	**(1,155)**	**(14,700)**

All results relate to continuing operations.

The notes on pages 19 to 40 form an integral part of these consolidated financial statements.

Consolidated statement of cash flows

	Note	Year ended 31 December 2012 €'000	Year ended 31 December 2011 €'000
Loss for the year		**(372)**	**(15,926)**
Adjustments for:			
Interest expense	18	3,852	5,786
Interest income	18	(3)	(11)
Depreciation and amortisation	3	4,169	4,327
Share based payments	10	23	-
Loss / (gain) recognised on the business combination	22	-	44
Impairment provision – property, plant and equipment	3	261	1,979
Operating cash flow before changes in working capital		**7,930**	**(3,801)**
Change in inventories		34	(52)
Change in trade and other receivables		(4,794)	(700)
Change in trade and other payables and provisions		(2,902)	4,190
Cash flow from operations		**268**	**(363)**
Interest paid		(1,635)	(4,478)
Interest received		3	11
Net cash used in operating activities		**(1,364)**	**(4,830)**
Cash flow from investing activities			
Purchase of property, plant and equipment	3	(4,567)	(1,133)
Disposal of property, plant and equipment	3	1,600	531
Acquisition of subsidiaries, net of cash acquired	22	-	153
Net cash used in investing activities		**(2,967)**	**(449)**
Cash flow from financing activities			
Proceeds from issue of ordinary shares	9, 10	-	5,233
Proceeds from borrowings	11	3,799	2,020
Repayment of borrowings	11	(2,766)	(408)
Net cash from financing activities		**1,033**	**6,845**
Net decrease in cash and cash equivalents		**(3,298)**	**1,566**
Opening cash and cash equivalents		4,386	2,896
Effect of exchange rate fluctuations on cash held		(24)	(76)
Closing cash and cash equivalents		**1,064**	**4,386**

The notes on pages 19 to 40 form an integral part of these consolidated financial statements.

1. General information

The principal activity of iO Adria Limited (the "Company") is to invest in, develop and operate leisure and tourism related opportunities in Croatia.

2. Accounting policies

Statement of compliance

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted in the EU. The financial statements were approved by the board of directors on 28 June 2013.

Basis of preparation

The consolidated financial statements have been presented in euros, which is the Company's functional and presentation currency and all values are rounded to the nearest thousand unless otherwise indicated. The consolidated financial statements have been prepared under the historical cost convention. The accounting policies are set out below and have been consistently applied.

Going concern

At 31 December 2012, the Group had total equity of €99.0 million and net current assets of €48.6 million. Included within net current assets are property available for sale of €44.5 million, the proceeds from which are to be applied to the repayment of debt relating to Dubrovacki Vrtovi Sunca d.o.o ("DVS") facilities of €127.2 million relating to the Group's resort at Dubrovnik Sun Gardens ("DSG"). Also included within net current assets are cash balances of €1.1 million, of which €0.3 million is restricted to use in the operations of DSG and therefore are not freely available for use elsewhere within the Group. The Company also has available a further €5 million of committed and, as at 31 December 2012, undrawn working capital loan facilities. The Directors have prepared cash flow projections for the Group for the period to 31 December 2014 which show that, in the absence of further funding or sale of property, it would have sufficient cash to meet its liabilities for that period, after which time further funding will be required. However, as explained below, a certain level of property sales is required in order for the Group's bank funding to remain available.

The Group meets its day-to-day working capital requirements through a mixture of operating cash flow, bank facilities and equity. As explained in more detail in note 11, the Group has loans and borrowings at 31 December 2012 of €161.3 million, of which €127.2 million relates to DSG. With regards to the DSG loan facility in place at 31 December 2012, there is a Loan to Value test ("LTV") and a Debt Service Coverage Ratio test ("DSCR") effective from the year ending 31 December 2013, the first test dates being 30 June 2014. The maximum permitted LTV is 75% and the minimum DSCR is 1.15. Furthermore, there is a residential sales test which requires a minimum of 40 residential unit sales, realising net sales proceeds of at least €12.5 million, in each year 2012 through 2015. The Board is aware of the various covenants that the Company is subject to and monitors the Company's strategies and operations seeking to ensure compliance with the terms of those covenants. In the event that the Board was to determine that the Company was unlikely to comply with any particular covenant, the Board would seek to ensure that action appropriate to the underlying causes for potential non-compliance was instituted and that appropriate steps are taken with Erste Bank seeking to mitigate or avoid the negative consequences that could flow from an actual breach of covenant.

On 10 December, 2012 a waiver was granted by the Group's lenders with regards to the residential unit sales test for the year ended 31 December 2012. With regards to the test for the year ending 31 December 2013, at the date of this report, during 2013 contracts have been exchanged for 18 residence sales, for aggregate sales proceeds of €5.2 million. In the event that the Group fails to meet this requirement, the amounts owed under the DSG loan facility will be repayable on demand and the Group will not have sufficient funds to be able to meet this repayment. These factors together give rise to a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern and it may therefore be unable to realise its assets and discharge its liabilities in the normal course of business. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

2. Accounting policies (continued)

Use of estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

In particular, there are significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements as disclosed in the following notes:

Note 2 – basis of consolidation

Note 3 – property, plant and equipment

Note 15 – measurement of provisions

Note 19 – utilisation of tax losses

Note 22 – business combinations

Note 23 – related party transactions

Notes 25 and 26 – risk factors

Basis of consolidation

Subsidiaries are those entities, including special purpose entities, controlled by the Company. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions are eliminated on consolidation.

On 11 October 2011 one subsidiary of the Group, Nauta Lamjana d.d. ("NL") was placed into administration, under the supervision of a court appointed trustee. The Directors are of the opinion that the Company, which forms part of the majority creditor group of NL, is in sufficient control of this process in order to support the Company continuing to recognise NL as a subsidiary. The administration process is on-going at the date of this report.

Associates and jointly controlled entities

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting power of another entity. Jointly controlled entities are those entities over whose activities the Group has joint control based on contractual agreement and requiring unanimous consent for strategic financial and operating decisions. Associates and jointly controlled entities are accounted for using the equity method and are initially recognised at cost. The consolidated financial statements include the Group's share of the income and expenses and equity movements of joint controlled entities.

2. Accounting policies (continued)

Acquisitions

Acquisitions of companies that have no significant assets or liabilities other than land and property are considered to be asset acquisitions. Acquisitions of subsidiaries where management intends to operate the existing business as a going concern are treated as business combinations. Asset purchase acquisitions are accounted for on consolidation as if the Group had acquired the underlying assets directly. Accordingly, no goodwill arises on such acquisition as any difference between the fair value of assets acquired and the acquisition consideration is allocated as appropriate to the property, plant and equipment which have been acquired. Goodwill arises on the acquisition of subsidiaries, associates and joint ventures where management intends to operate the existing business as a going concern. Goodwill represents the excess of the cost of the acquisition over the Group's interest in the net fair value of identifiable assets, liabilities and contingent liabilities acquired on the date of acquisition. Goodwill is measured at cost less accumulated impairment losses and is the subject of an annual impairment review.

Foreign currencies

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. Foreign currency differences arising on retranslation are recognised in the income statement. The assets and liabilities of foreign operations are translated to euros at exchange rates at the reporting date. The income and expenses of foreign operations are translated to euros at average monthly exchange rates. Foreign exchange adjustments on the translation of foreign operations are recorded in equity as a translation reserve. When a foreign operation is disposed of, in part or in full, the relevant amount in the foreign currency translation reserve is transferred to the income statement.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with maturities of less than three months.

Trade and other receivables

Trade and other receivables are measured at amortised cost using the effective interest method, less impairment losses.

Loans receivable

Loans are measured at amortised cost using the effective interest method less impairment losses.

Trade and other payables

Trade and other payables are measured at amortised cost using the effective interest method.

Property, plant and equipment

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent expenditures are capitalised as these costs relate to the development of land. Repairs and maintenance costs are expensed as incurred. Land acquired for development is classified initially as property, plant and equipment pending completion of planning and obtaining the necessary building consents. The land will be subsequently reallocated as appropriate in accordance with its intended use. Depreciation is recognised in the income statement on a straight line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their estimated useful lives. Land and property under development are not depreciated.

The estimated useful life for the current period is as follows:

- Buildings: up to 80 years
- Plant and equipment: up to 12 years

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

2. Accounting policies (continued)

Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the first-in first-out principle. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and estimated selling expenses necessary to make the sale.

Work in progress

Work in progress represents costs incurred in connection with planning and consulting services performed by the Group. It is measured at cost less expected losses.

Property available for sale

Property available for sale comprises 207 apartments situated at the Dubrovnik Sun Gardens resort and are measured at the lower of cost and net realisable value.

Cost of equity transactions

Costs directly related to the issue of new Ordinary Shares are recognised in equity as a reduction of share premium.

Revenue recognition

Hotel and restaurant revenue is recognised when rooms are occupied and related services are provided (excluding VAT and similar taxes). Other revenue is recognised in the accounting period in which the services are rendered. Revenue from property available for sale is recognised when the significant risks and returns of ownership have been transferred to the buyer, which is normally on the unconditional exchange of contracts. Where conditional contracts are exchanged, revenue is recognised when conditions are satisfied.

Cost of goods sold is comprised of supplies directly used in the provision of these revenue generating activities and is recognised in the accounting period in which the expense is incurred.

Finance leases

Leases of assets where the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, finance leases are measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments, and are depreciated over the shorter of the useful life of the asset in accordance with the accounting policy applicable to that class of asset and the lease term.

Minimum lease payments made under finance leases are allocated between the liability and interest expense so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in current and non-current liabilities. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Share based payments

The Company has established a Share Option Plan (the “Plan”) permitting the directors to grant Eligible Participants options to acquire Ordinary Shares. The fair value of the services received in exchange for the grant of options under the Plan is recognised as an expense in profit and loss, with a corresponding increase in equity, over the vesting period with reference to the fair value of the options granted.

Loss per share

The basic loss per share is calculated by dividing the loss attributable to the shareholders of the Company by the weighted average number of Ordinary Shares in issue during the period. The diluted loss per share is equivalent to the basic loss per share as the effect of dilutive potential Ordinary Shares would decrease the net loss per share and so the potential Ordinary Shares are not treated as dilutive.

2. Accounting policies (continued)

Impairment of financial assets

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. Impairment reviews are carried out on an annual basis.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

Employee benefits

Obligations for contributions to defined contribution pension plans are recognised as an expense in profit or loss when they are due.

Tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Deferred tax is recognised using the balance sheet method, providing for the differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets and liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable income, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised to the extent it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related benefit will be realised.

Segment reporting

Segment information is presented in respect of the Group's geographical segments. The Group's primary format for segment reporting is based on geographical segments.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly common expenses of the Group.

Adoption of new and revised IFRS Standards

(i) Standards and interpretations recently issued and adopted

The accounting policies adopted are consistent with those of the previous financial year, except that the Company has adopted the following new and amended standards and interpretations issued by the International Accounting Standards Board (IASB) or the IFRS Interpretations Committee (previously IFRIC) as of 1 January 2012:

IFRS 7, Financial Instruments: Disclosures – Enhanced De-recognition Disclosure Requirements - The amendment promotes transparency as it requires additional disclosure about financial assets that have been transferred but not derecognized to enable the user of the Company's financial statements to understand the relationship between those assets that have not been derecognized and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognized assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognized assets. The amendment became effective for annual periods beginning on or after 1 July 2011. The amendment affects disclosure only and has no impact on the Company's financial position or performance.

(ii) Standards and interpretations recently issued but not yet adopted

A number of new standards, amendments to standards and interpretations have been issued but are not yet effective up to the date of issuance of the Company's financial statements, and have not been applied in preparing these consolidated financial statements.

Those which may be relevant to the Company are set out below. The Company does not plan to adopt these standards early.

IAS 1, Financial Statement Presentation – Presentation of Items of Other Comprehensive Income ("OCI") - The amendment to IAS 1 changes the grouping of items presented in OCI. Items that could be reclassified (or 'recycled') to profit or loss at a future time (for example, upon de-recognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has therefore no impact on the Company's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012. The Company will apply the amendment to IAS 1 retrospectively from 1 January 2013.

IAS 12, Income taxes (amendment) – Deferred taxes: Recovery of Underlying Assets - The amendment clarified the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale of the property. As a result of the amendment, SIC-21, Income Taxes-Recovery of Revalued Non-depreciable Assets, has been superseded and withdrawn. The amendment to IAS 12 becomes effective for annual periods beginning on or after 1 January 2013.

The Company will apply the amendment to IAS 12 retrospectively from 1 January 2013.

IAS 27 (as revised in 2011) - As a consequence of the new IFRS 10 and IFRS 12, what remains in IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The Company will apply IAS 27(revised 2011) prospectively from 1 January 2014.

IAS 28 (as revised in 2011) - As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. The standard defines significant influence as the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies. The Company will apply IAS 28 (revised 2011) prospectively from 1 January 2014.

Adoption of new and revised IFRS Standards (continued)

IFRS 9, Financial Instruments: Classification and Measurement - IFRS 9 as issued reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2015. IFRS 9 has two measurement categories: amortized cost and fair value through profit or loss. All equity instruments are measured at fair value. A debt instrument is stated at amortized cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest. Otherwise it should be measured at fair value through profit or loss. The adoption of the first phase of IFRS 9 will have no impact on classification and measurements of the Company's financial assets and financial liabilities. The Company will apply IFRS 9 retrospectively from 1 January 2015.

IFRS 10, Consolidated Financial Statements - IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 Consolidation — Special Purpose Entities. IFRS 10 establishes a single control model that applies to all entities including 'special purpose entities'. The changes introduced by IFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore are required to be consolidated by a parent, compared with the requirements that were in IAS 27. The Company will apply IFRS 10 retrospectively from 1 January 2014.

IFRS 11, Joint Arrangements - IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities — Non-monetary Contributions by Ventures. This standard provides for a more consistent reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form. There are two types of joint arrangements: joint operations and joint ventures. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. The Company will apply IFRS 11 retrospectively from 1 January 2014.

IFRS 12, Disclosure of Involvement with Other Entities - IFRS 12 includes all of the disclosure requirements that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint ventures, joint arrangements, associates and structured entities. A number of new disclosures are also required. The Company will apply IFRS 12 retrospectively from 1 January 2014.

IFRS 13, Fair Value Measurement - IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. The requirements of IFRS 13, which are largely aligned between IFRSs and US Generally Accepted Accounting Principles (US GAAP), do not change when an entity is required to use fair value, but rather provide guidance of how to measure fair value under IFRS when fair value is required or permitted. The Company will apply IFRS 13 prospectively from 1 January 2013.

The Company has considered the above new standards, interpretations and amendments to published standards and concluded that they are not expected to have a significant impact on the Company's consolidated financial statements, apart from additional disclosures.

3. Property, plant and equipment

At 31 December 2012	**Land €'000**	**Buildings €'000**	**Plant & equipment €'000**	**Property under development €'000**	**Total €'000**
Cost					
At 1 January 2012	126,438	55,478	27,059	18,657	**227,632**
Additions at cost	215	4,043	460	251	**4,969**
Disposals	(1,658)	-	-	-	**(1,658)**
Exchange differences	(18)	-	(10)	(13)	**(41)**
At 31 December 2012	**124,977**	**59,521**	**27,509**	**18,895**	**230,902**
Accumulated depreciation and impairment					
At 1 January 2012	7,879	705	4,731	-	**13,315**
Charge for the period	-	711	3,458	-	**4,169**
Disposals	-	-	-	-	-
Impairment	261	-	-	-	**261**
Exchange differences	-	-	-	-	-
At 31 December 2012	**8,140**	**1,416**	**8,189**	**-**	**17,745**
Net book value at 31 December 2012	**116,837**	**58,105**	**19,320**	**18,895**	**213,157**
Assets held under finance leases have the following net book value:					
Cost			103	-	**103**
Accumulated depreciation			(90)	-	**(90)**
Net book value at 31 December 2012			**13**	**-**	**13**

At 31 December 2011	**Land €'000**	**Buildings €'000**	**Plant & equipment €'000**	**Property under development €'000**	**Total €'000**
Cost					
At 1 January 2011	124,998	55,478	27,214	18,684	**226,374**
Additions at cost	1,610	-	375	298	**2,283**
Disposals	-	-	(273)	-	**(273)**
Exchange differences	(170)	-	(257)	(325)	**(752)**
At 31 December 2011	**126,438**	**55,478**	**27,059**	**18,657**	**227,632**
Accumulated depreciation and impairment					
At 1 January 2011	5,900	-	1,426	-	**7,326**
Charge for the period	-	705	3,622	-	**4,327**
Disposals	-	-	(107)	-	**(107)**
Impairment	1,979	-	-	-	**1,979**
Exchange differences	-	-	(210)	-	**(210)**
At 31 December 2011	**7,879**	**705**	**4,731**	**-**	**13,315**
Net book value at 31 December 2011	**118,559**	**54,773**	**22,328**	**18,657**	**214,317**
Assets held under finance leases have the following net book value:					
Cost			178	-	**178**
Accumulated depreciation			(110)	-	**(110)**
Net book value at 31 December 2011			**68**	**-**	**68**

Certain land owned by the Group is secured against loans and borrowings, as disclosed in more detail in note 11. Property under development relates to assets in the course of construction.

3. Property, plant and equipment (continued)

During 2011, the Group undertook an impairment review of various residential development land located in Istria, northern Croatia, which are currently being marketed for sale. Having considered the opinion of real estate agents operating in the region, the Group has concluded that the carrying value of certain development land is subject to possible impairment and has, accordingly, recognised an impairment provision of €0.4 million against the carrying value of this land. A similar review has been undertaken in 2012, as a result of which no further adjustments to these values have been made.

During 2011, the Group undertook an impairment review regarding land held for development at Preko, on the island of Ugljan which is located close to the city of Zadar in Northern Dalmatia. With reference to an independent assessment of prevailing land values, the Group has concluded that the carrying value of certain development land is subject to possible impairment and has, accordingly, recognised an impairment provision of €1.6 million against the carrying value of this land. During 2012, following a further review of its Preko development land, the Group has recognised further impairment provisions of €0.3m.

During 2012, the Group has undertaken impairment reviews of its other development project sites in Croatia and concluded that no further provisions are required at this time.

4. Goodwill

	31 December 2012 €'000	31 December 2011 €'000
At cost	185	185

Goodwill arose on the acquisition of Hosting International d.o.o.

5. Work in progress

Work in progress of €4,878,000 is being recognised by the Group in connection with certain planning and consulting services for the Pasman Rivijera development project. The related land is owned by the Pasman Municipality and is partially the subject of a title dispute by a third party, which may prevent the disputed portion of the land from being developed, although during 2012 the master plan for the project has been amended, such that these issues have been substantially resolved.

The Group is of the opinion that any future litigation proceedings with regards to land title disputes will be concluded in favour of the Municipality. However, in the event that there is an adverse outcome, the Municipality will re-parcel the land to ensure that development can proceed on the undisputed portion. In this scenario, the Directors anticipate that sufficient revenues will be generated from the undisputed portion of land to recover the work-in-progress.

6. Trade and other receivables

	31 December 2012 €'000	31 December 2011 €'000
Amounts falling due within one year:		
Trade receivables	4,263	1,491
Other receivables	375	491
Receivable from related parties (note 23)	603	560
VAT	508	645
Prepayments and accrued income	389	711
	6,138	**3,898**

The carrying values of trade and other receivables are not materially different to their fair values.

7. Property available for sale

Cost	**€'000**
At 1 January 2012	47,877
Disposals	(3,360)
At 31 December 2012	**44,517**

Cost	**€'000**
At 1 January 2011	48,200
Disposals	(323)
At 31 December 2011	**47,877**

Property available for sale comprises 207 residential units which form part of Dubrovnik Sun Gardens, which are currently being marketed for sale in phases. During 2012, contracts for 20 sales were signed for aggregate proceeds of €6,608,000. Of these, 12 sales have been recognised in 2012, for aggregate sales proceeds of €4,538,000. The other eight sales signed in 2012 are in the final stages of completion and will be recognised in 2013. During 2011 two sales were recognised, for aggregate sales proceeds of €408,000.

8. Cash and cash equivalents

Cash and cash equivalents held by the Group at 31 December 2012 comprise cash held at bank and in transit.

Out of the total Group cash balances held at 31 December 2012 of €1.1 million, cash held by Suncani Vrtovi d.o.o., Vrtovi Sunca Orasac d.o.o. and Dubrovacki Vrtovi Sunca d.o.o., which in aggregate amounts to €0.3 million, is not freely available for use by other Group companies.

The carrying values of cash and cash equivalents are not materially different to their fair values.

9. Called up share capital

The Company was incorporated with an authorised share capital of US$12,000 divided into 12,000 shares par value US$1.00 each (the "US dollar shares"). By a resolution of the members of the Company passed on 9 May 2006 it was resolved to change the currency of denomination of the Company's share capital from US dollars to euros and the authorised share capital of the Company was increased to €2,500,000 by the creation of 250 million Ordinary Shares par value €0.01 each and the cancellation of the US dollar shares. The holders of Ordinary Shares are entitled to receive notice of, and to attend and vote at, general meetings of the Company. Each Ordinary Share carries one vote. Although the Ordinary Shares carry rights to dividends it is not currently expected that any dividends will be declared. The Group also has issued share options (note 10).

Authorised equity share capital	
250 million Ordinary Shares of €0.01 each	**€2,500,000**
Allotted and called up equity share capital	
183,414,787 fully paid Ordinary Shares of €0.01 each	€1,834,147
Issued shares at 31 December 2011 and 31 December 2012	**183,414,787**

10. Share based payments

On 3rd May 2012, the board approved a revision to the Group's Share Option Plan ("Options") whereby the then existing Options would be withdrawn and cancelled. On 22 October 2012, new Options over 7,900,000 ordinary shares were granted to various members of the board and management. The Options may only be exercised following the third anniversary of the grant date. The fair value of the services received in return for the share options granted is based on the fair value of the options granted measured using the Black-Scholes formula. The terms of the Options are summarised below.

	22 October 2012
Fair value of options at grant date	€0.05
Ordinary Share price at grant date	€0.20
Exercise price	€0.20
Expected volatility	18.8%
Option life	10 years
Risk-free interest rate	0.725%

The expected volatility was computed using the volatility of the FTSE All Share Index. An expense of €23,000 has been recognised for share options issued during the year (2011: €nil).

On 29 July, 2011 the Group issued 7,200,000 Ordinary Shares to Jupiter Fund Management plc ("JFM"). By way of consideration, JFM waived its entitlement to accrued but unpaid Management Fees of €3,600,000. These Ordinary Shares were issued to JFM at €0.50 cents per share, at a deemed fair value of €0.20 cents a share (note 23).

11. Loans and borrowings

	31 December 2012 €'000	31 December 2011 €'000
Non-current	159,526	152,811
Current	1,800	-
	161,326	**152,811**

Further information regarding the Group's loans and borrowings are disclosed in the table below.

11. Loans and borrowings (continued)

Borrower	Facility €'000	Interest	Repayment	31 December 2012 €'000	31 December 2011 €'000
iO Adria Limited *Acquisition loan*	31,400	3 month EURIBOR + 150 bps	Bullet repayment December 2015	23,595	22,719
DVS Senior loan II - senior	60,000	3 month EURIBOR + 100 bps	Quarterly Balloon payment December 2020	58,800	-
DVS Senior loan II - junior	70,000	Nil	Bullet repayment December 2015/20	68,388	-
Marina Preko d.o.o *Loan*	7,600	3 month EURIBOR + 150 bps	Bullet repayment December 2015	7,587	-
Casalinus d.o.o *Acquisition loan*	2,925	3% fixed	Semi-annual December 2014 to December 2028	2,925	-
Casalinus d.o.o *Capital investment loan*	375	3 month EURIBOR + 695 bps	Semi-annual December 2014 to December 2023	31	-
Casalinus d.o.o *Working capital loan*	200	6 month ZIBOR + 500 bps	Bullet repayment September 2013	-	-
DVS *Senior loan tranche A*	53,000	3 month EURIBOR + 200 bps	} }	-	53,000
DVS *Senior loan tranche B*	50,000	3 month EURIBOR + 200 bps	} }	-	49,592
DVS *Senior loan tranche C*	5,000	3 month EURIBOR + 200 bps	} These loans were } refinanced during	-	5,000
DVS *Working capital and investment loan tranche D*	5,000	3 month EURIBOR + 250 bps	} 2012, on terms as } set out above }	-	5,000
DVS *Working capital and investment loan tranche E*	10,000	3 month EURIBOR + 250 bps	} } }	-	10,000
VSO *Loan*	7,500	3 month EURIBOR + 150 bps	} }	-	7,500
Total				**161,326**	**152,811**

During 2012, the Group completed a refinancing of its loan facilities. The acquisition loan facility available to iO Adria Limited was increased to €31.4 million, from €26.6 million. Interest on amounts drawn under the facility was reduced to EURIBOR plus 150 bps and the bullet repayment date has been extended by 12 months to December 2015. Mortgage security was granted over the Group's operations and development sites at Preko in Northern Dalmatia and the facility is subject to a €1.0 million repayment fee at maturity or if the facility is prepaid in full.

The DVS senior and working capital loan facilities, which related to Dubrovnik Sun Gardens, included a deferred interest standstill facility and which in aggregate total €133.0 million, have been consolidated and split into two new facilities: €60.0 million senior facility, bearing interest at EURIBOR plus 100 bps, amortising from September 2012 to end 2020; and €70 million junior facility, interest free, €60 million to be repaid from net sales proceeds from property for sale by December 2015, €10 million final bullet payment due December 2020. There is a Loan to Value test ("LTV") and a Debt Service Coverage Ratio test ("DSCR") effective from the year ending 31 December 2013. The maximum permitted LTV is 75% and the minimum DSCR is 1.15. There is also a performance covenant whereby property for sale is required to meet a minimum of 40 units sold per annum and realise minimum net sales proceeds of €12.5 million per annum in each year 2012 through 2015. The covenant for 2012 has been waived by the bank.

11. Loans and borrowings (continued)

The VSO loan has been transferred to Marina Preko d.o.o. This loan is secured against as yet undeveloped land owned by VSO and the Groups development sites at Preko, and a second ranking charge over the Group's projects at Motovun, Novigrad, Nauta Lamjana and Sipan. The bullet repayment date was extended by 12 months to December 2015, with interest remaining at 3 month EURIBOR plus 150 bps.

On 29 September 2012, the Group completed the acquisition of Hotel Sipan. This acquisition was funded primarily by a new acquisition loan drawn down by the Group's wholly owned subsidiary Casalinus d.o.o. There are two additional loan facilities available for capital expenditure and working capital requirements relating to Hotel Sipan. These three facilities have a DSCR test with the minimum DSCR at 1.2 and an Interest Cover test with minimum interest cover at 2.4x, tested annually from 31 December 2013, with the first test dates at 30 June 2014.

The carrying value of loans and borrowings is not significantly different to their fair value.

12. Finance lease liabilities

	Principal € '000	Interest € '000	Minimum lease payments € '000
Less than one year	36	4	40
Between one and five years	6	-	6
At 31 December 2012	**42**	**4**	**46**
Less than one year	47	5	52
Between one and five years	29	1	30
At 31 December 2011	**76**	**6**	**82**

Finance lease obligations comprise leases for motor vehicles

13. Deferred tax liabilities

	31 December 2012 €'000	31 December 2011 €'000
Deferred tax liabilities	6,080	6,334
	6,080	**6,334**

Deferred tax liabilities comprise amounts provided following a revaluation of land and property at Dubrovnik Sun Gardens.

14. Trade and other payables

	31 December 2012 €'000	31 December 2011 €'000
Trade payables	1,452	3,621
Amounts due to related parties (note 23)	637	362
Other payables and accruals	6,143	12,427
	8,232	**16,410**

The carrying values of trade and other payables are not materially different to their fair values.

15. Provisions

	31 December 2012 €'000	31 December 2011 €'000
Opening balance	100	130
Reclassified during the period	-	(30)
Released during period	(100)	-
Carrying amount	**-**	**100**

Provisions held at 31 December 2011 were in respect of a claim being made by suppliers to the Group which were under dispute. These provisions have been released during 2012.

16. Staff numbers and costs

Staff	Year ended 31 December 2012	Year ended 31 December 2011
Average numbers (including part time employees)	346	477
	€'000	**€'000**
Payroll costs:		
Wages and salaries	3,932	5,641
Social security	1,607	2,478
Pensions	952	775
Total payroll costs	**6,491**	**8,894**

Pension costs represent contributions paid on behalf of the Group to defined contribution pension schemes which are not operated or managed by the Group. All costs related to such pension schemes have been fully paid or accrued. The Group has no further liabilities with respect to these pension schemes for the period under review.

17. Directors' remuneration and interests

Directors' remuneration is set out below.

	Year ended 31 December 2012 €'000	Year ended 31 December 2011 €'000
The Rt. Hon. The Lord Lamont of Lerwick	50	50
Goranko Fizulic	25	25
Reef Hogg	-	15
Bernard Lambert	25	25
Garth Lorimer Turner	25	25
J. Andrew Smith	25	25
Bruce Weatherill	25	25
William Crewdson [1]	217	66
Ivana Soljan [1]	240	50
Alex Penkul [1]	190	57
Total	**822**	**363**

[1] For 2011, from date of appointment (7 September 2011)

Directors' interests in the share capital of the Company at 31 December 2012 are set out below:

Name	Number of Ordinary Shares in which the director has an interest	Number of options over Ordinary Shares in which the director has an interest [1]	Exercise price
The Rt. Hon. The Lord Lamont of Lerwick	147,467	250,000	€0.20
Goranko Fizulic	-	200,000	€0.20
Bernard Lambert	-	200,000	€0.20
Garth Lorimer Turner	230,000	200,000	€0.20
J. Andrew Smith	48,000	225,000	€0.20
Bruce Weatherill	200,000	225,000	€0.20
William Crewdson	11,000,000	-	-
Ivana Soljan	-	1,100,000	€0.20
Alex Penkul	-	1,100,000	€0.20

[1] Granted 22 October 2012

The options (note 10) may only be exercised following the third anniversary and before the tenth anniversary of the date granted. No options were exercised during the year ended 31 December 2012 (2011: nil).

18. Finance expense and income

	Year ended 31 December 2012 €'000	Year ended 31 December 2011 €'000
Finance expense		
Interest expense	3,852	5,786
Foreign exchange losses	4	138
	3,856	**5,924**
Finance income		
Interest income	3	11
Foreign exchange gains	65	16
	68	**27**

Finance expense comprises interest due on third party loans, foreign exchange losses and bank charges. Finance income comprises interest on short term cash deposits and foreign exchange gains.

19. Taxation and deferred tax

	31 December 2012 €'000	31 December 2011 €'000
Loss before tax	(4,958)	(15,906)
Current tax		
Tax expenses and benefits calculated at domestic rates applicable to the respective countries	(719)	(3,476)
Expenses not deductible for tax purposes	274	480
Tax losses not recognised	453	3,016
Income tax expense	**8**	**20**
Deferred tax		
Release of prior year provision	123	-
Recognition of previously unrecognised tax losses	4,471	-
Deferred tax credit	**4,594**	**-**
Net tax credit / (income tax expense)	**4,586**	**(20)**
Effective tax rate	**nil%**	**nil%**

The principal charge to current tax arises in respect of the Group's UK subsidiary which is subject to a tax rate of 20%. Domestic tax rates in Croatia and Switzerland are 20% and 8.5% respectively. There are no applicable taxes in Bermuda. The aggregated tax losses of the Group's subsidiaries are summarised below.

Tax losses arising in the year	Expiry date:	2012 total €'000	2011 total €'000
2007	31 December 2012 – 14	-	893
2008	31 December 2013 – 15	2,342	2,342
2009	31 December 2014 – 16	2,553	2,553
2010	31 December 2015 – 17	3,650	3,650
2011	31 December 2016 - 18	3,016	3,016
2012	31 December 2017 - 19	449	-
Total		**12,010**	**12,454**
Deferred tax asset			
Opening balance		12,454	9,975
Tax losses for the current period		449	3,016
Tax losses expired		(893)	(537)
Closing balance		**12,010**	**12,454**
Tax losses recognised		4,471	-
Tax losses not recognised		7,539	12,454
Total tax losses		**12,010**	**12,454**

During 2012, tax losses of €4,471,000 have been recognised for carried forward tax losses to the extent that the realization of the related tax benefit through future taxable profits is probable. Depending on the circumstances, there are a variety of taxes that may arise in each jurisdiction in which the Group operates. The disclosure below details the principal taxes relevant to the Group; however, it is not a comprehensive summary of the tax system in each country.

19. Taxation and deferred tax (continued)

a) Bermuda

At the date of this report, there is no Bermuda income tax, corporation tax, profits tax, withholding tax, capital gains tax, capital transfer tax, estate duty or inheritance tax payable by the Company or its shareholders other than shareholders ordinarily resident in Bermuda. The Company is not subject to stamp duty on the issuance or transfer of its Ordinary Shares. The Company is liable to pay in Bermuda a registration fee based upon its assessable share capital at a rate currently not exceeding US$31,000 (2011: US$ 31,000) per annum.

The Company has received from the Minister of Finance of Bermuda under the Exempted Undertaking Tax Protection Act 1966 an assurance that, in the event of there being enacted in Bermuda any legislation imposing tax computed on profits or income, or computed on any capital assets, gain or appreciation or any tax in the nature of estate duty or inheritance tax, such tax shall not until 28 March 2035 be applicable to the Company except in so far as such tax applies to persons ordinarily resident in Bermuda and holding such Ordinary Shares of the Company.

b) Croatia and Switzerland

Tax losses may only be utilised by the company in which they arise and may be carried forward for between five and seven years subsequent to the year in which the loss was incurred, depending on the tax jurisdiction of the company. A deferred tax asset of €4,471,000 has been recognised at 31 December 2012 (2011: €nil), due to the probability that future taxable income will be available to utilise and benefit from the tax losses. The future availability of these tax losses is subject to review by the local tax authorities.

20. Net loss

	Year ended 31 December 2012 €'000	**Year ended 31 December 2011 €'000**
The following items have been included in arriving at the loss for the period:		
Staff costs (note 16)	6,491	8,894
Depreciation (note 3) and amortization	4,169	4,327
Repairs and maintenance on property, plant and equipment	422	359
Auditors' remuneration charged in the income statement comprises:		
Audit of the Company	55	78
Audit of subsidiaries	44	72
	99	**150**

21. Loss per share

Basic and diluted loss per share [1]	**Year ended 31 December 2012**	**Year ended 31 December 2011**
Loss attributable to ordinary shareholders (€'000)	(372)	(15,926)
Weighted average number of Ordinary Shares	183,414,787	164,219,924
Basic loss per share (€)	-	(0.10)

[1] Diluted loss per share is equivalent to basic loss per share as the effect of diluting potential Ordinary Shares would decrease the net loss per share and so the potential Ordinary Shares cannot be treated as dilutive in accordance with IAS 33 Earnings per Share.

22. Business combinations

On 29 July 2011 the Group acquired 100% of the ordinary share capital of iO Adria Management Limited, a management services company registered in Bermuda. Consideration paid was €nil. The provisional fair values of assets and liabilities acquired are summarised below.

	€'000
Consideration transferred	nil
Loss recognised on the business combination as shown in the consolidated income statement	(44)
	(44)
Recognised amounts of identifiable assets acquired and liabilities assumed	
Cash and cash equivalents	153
Trade and other receivables	-
Trade and other payables	(197)
Total identifiable net liabilities	**(44)**

23. Related party transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions or if both parties are under the control of a common entity or entities.

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation.

iO Adria AG

iO Adria AG is a limited liability company incorporated in Lucerne, Switzerland, which is a partner of EG iO Jadran and which makes acquisitions on behalf of EG iO Jadran. Service fees of €112,000 (2011: €91,000) were accrued for accounting services provided by iO Adria AG to the Group.

Loans to related parties

At 31 December 2012 amounts totalling €603,000 (2011: €560,000) from iO Adria AG were due to the Group. These amounts are unsecured, interest free and have no fixed repayment date.

24. Post balance sheet events

There are no post balance sheet events to report.

25. Financial risk

The Group's activities expose it to a number of financial risks: market risk (which includes currency risk, and interest rate risk), credit risk and liquidity risk. The Group's overall risk management program seeks to minimise potential adverse effects of financial risk on the Group's performance.

(a) Market risk

(i) Currency risk
The Group is exposed to foreign currency risk as certain of its current financial assets and liabilities are dominated in Croatian Kunas ("HRK"), Sterling ("GBP") and Swiss Francs ("CHF") but accounted for in Euros. These are summarised below.

At 31 December 2012

	HRK	**CHF**	**GBP**
Current:			
Trade and other receivables	5,274	-	67
Cash	628	-	29
Trade and other payables and provisions	(13,658)	(9)	(51)
Finance lease liabilities	(42)	-	-
Net exposure	**(7,798)**	**(9)**	**45**

At 31 December 2011

	HRK	**CHF**	**GBP**
Current:			
Trade and other receivables	3,000	-	12
Cash	509	-	173
Trade and other payables and provisions	(15,025)	(9)	(66)
Finance lease liabilities	(76)	-	-
Net exposure	**(11,592)**	**(9)**	**119**

The Group's current financial assets and liabilities do not have significant exposure to foreign currency risk. As a result, a sensitivity analysis has not been presented.

(ii) Interest rate risk

The Group's only significant interest bearing asset is cash, the majority of which is placed on short term money market deposit and the returns generated by these cash deposits fluctuate depending on market rates of interest.

The Group has not put in place any hedging arrangements in connection with its various loan facilities.

(b) Credit risk

The majority of the Group's credit exposure relates to surplus cash held on short-term deposits.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	31 December 2012 €'000	**31 December 2011 €'000**
Trade and other receivables (note 6)	6,138	3,898
Cash and cash equivalents (note 8)	1,064	4,386
	7,202	**8,284**

Trade and other receivables fall due within one year and are stated net of impairments. There are no significant provisions for doubtful debts as those debts are considered to be recoverable. The majority of trade and other receivables are due from Croatian entities.

25. Financial risk (continued)

(c) Liquidity risk

The Group currently maintains sufficient cash headroom to mitigate liquidity risk. The Group monitors forecast liquidity based on expected cash flows. At 31 December 2012, the Group's trade and other receivables, trade and other payables, and finance lease liabilities have due dates which are less than one year, except for finance lease liabilities which fall due between one and five years (note 12). The Group's loan and borrowings have repayment dates which are on-going, as disclosed more fully in note 11.

At 31 December 2012, cash and cash equivalents of €266,000 (2011: €394,000) were subject to certain restrictions and therefore not freely available for use by the Group.

Capital raised from the three private placements to date has been used to acquire the Group's property portfolio and to pay management fees and other costs incurred by the Group. Capital raised from the interim fund raise completed in July 2011 has been used to fund the working capital requirements of the Group. The Group intends that the majority of future costs associated with the development of its property portfolio will be funded by debt.

26. Other risk factors

The Group's performance partly depends on political stability and the regulatory environment in Croatia. If the political and/or regulatory climate alters or stability deteriorates, this could have a material impact on the value of the Group's assets that are situated in Croatia. Changes in the institution and enforcement of regulations relating to taxation, land use and zoning restrictions, planning regulations, environmental protection and safety and other matters represent risks that may adversely affect the Group's assets and results of operations.

27. Capital management

The Group's capital includes share capital, share premium, reserves and accumulated losses. The Group's policy is to maintain its ability to continue as a going concern, so it can provide returns to shareholders and benefits for other stakeholders. To date, the Group's acquisition of property investments has been funded from equity. Any significant future development of the Group's existing property investments, or future acquisitions by the Group, will require further equity or alternative sources of finance. If appropriate, the group may seek to fund future development and acquisitions by bank debt, or seek co-investors or joint venture partners.

28. Segment information

The Group owns and operates one resort property, Dubrovnik Sun Gardens. The Group is currently at the early stages of developing a number of other sites into high end hospitality, leisure and related businesses located in Croatia, which is the Group's primary business segment. The Group is also currently engaged in marine services, including the temporary provision of marine repair facilities to third parties. The table below shows the revenue, results, assets, liabilities and other information for the Group's geographic segments. The Group has concluded that the reportable segments now required following the adoption of IFRS 8 are consistent with those reported previously under IAS 14.

For the year ended 31 December 2012

Geographic segments	**Croatia €'000**	**Other* €'000**	**Total €'000**
Revenue from external customers	21,931	-	**21,931**
Depreciation and amortization	4,169	-	**4,169**
Impairment provision	(261)	-	**(261)**
Operating profit / (loss)	612	(1,782)	**(1,170)**
Assets	273,065	1,574	**274,639**
- other non current assets	213,342	-	**213,342**
- current assets (excluding cash)	59,095	1,138	**60,233**
- cash	628	436	**1,064**
Liabilities	151,090	24,590	**175,680**
- non-current loans and finance leases	137,737	23,595	**161,332**
- current loans and finance leases	36	-	**36**
- current liabilities	7,237	995	**8,232**
- provisions	6,080	-	**6,080**

* Bermuda, Switzerland and United Kingdom. Other assets consist mainly of cash raised in private placements to be utilised for future investments.

For the year ended 31 December 2011

Geographic segments	**Croatia €'000**	**Other* €'000**	**Total €'000**
Revenue from external customers	15,878	-	**15,878**
Depreciation and amortization	4,327	-	**4,327**
Impairment provision	(1,979)	-	**(1,979)**
Operating loss	(9,493)	(472)	**(9,965)**
Assets	270,924	4,898	**275,822**
- other non current assets	214,502	-	**214,502**
- current assets (excluding cash)	55,913	1,021	**56,934**
- cash	509	3,877	**4,386**
Liabilities	151,932	23,799	**175,731**
- non-current loans and finance leases	130,121	22,719	**152,840**
- current loans and finance leases	47	-	**47**
- current liabilities	15,330	1,080	**16,410**
- provisions	6,434	-	**6,434**

* Bermuda, Switzerland and United Kingdom. Other assets consist mainly of cash raised in private placements to be utilised for future investments.

29. Principal subsidiaries and associates

Subsidiaries	2012 Interest in ordinary share capital	2012 Indirect interest in ordinary share capital	2011 Interest in ordinary share capital	2011 Indirect interest in ordinary share capital	Country of incorporation/ formation
EG iO Jadran [1]	99.9%	-	99.9%	-	Switzerland
iO Jadran AG	100%	-	100%	-	Switzerland
Sinseg AG	85%	-	85%	-	Switzerland
Stancija Markocija d.o.o.	100%	-	100%	-	Croatia
iO Adria d.o.o.	100%	-	100%	-	Croatia
Nauta Lamjana d.d.	100%	-	100%	-	Croatia
Stancija Dolzani d.o.o	100%	-	100%	-	Croatia
Cepljesi d.o.o.	100%	-	100%	-	Croatia
Vila Tartuf d.o.o.	100%	-	100%	-	Croatia
Vile Livade d.o.o.	100%	-	100%	-	Croatia
Ledina d.o.o.	100%	-	100%	-	Croatia
Vila Žužiči d.o.o.	100%	-	100%	-	Croatia
Vila Motovun d.o.o.	100%	-	100%	-	Croatia
Vila Zumesk d.o.o.	100%	-	100%	-	Croatia
Casalinus d.o.o.	100%	-	100%	-	Croatia
Stancija Dajla d.o.o.	100%	-	100%	-	Croatia
Hosting International d.o.o.[2]	-	85%	-	85%	Croatia
Pašman Rivijera d.o.o.[3]	-	68%	-	68%	Croatia
Marina Preko d.o.o.	100%	-	100%	-	Croatia
Preko d.o.o.	100%	-	100%	-	Croatia
Tertius d.o.o.	100%	-	100%	-	Croatia
iO Adria London Limited	100%	-	100%	-	UK
Zmorac Nekretnine d.o.o.	100%	-	100%	-	Croatia
Nova Dubrovnik d.o.o.[3]	85%	-	85%	-	Croatia
Harpun d.o.o.	100%	-	100%	-	Croatia
Vrtovi Sunca Orasac d.o.o.	100%	-	100%	-	Croatia
Suncani Vrtovi d.o.o.	100%	-	100%	-	Croatia
Dubrovacki Vrtovi Sunca d.o.o.	-	100%	-	100%	Croatia
iO Adria Management Limited	100%	-	100%	-	Bermuda
Associates					
Occo London Limited [7]	17.15%	-	17.15%	-	UK

[1.] EG iO Jadran is a partnership constituted by and between the Company, iO Adria AG and iO Jadran AG

[2.] Sinseg AG owns 100% of Hosting International d.o.o. which in turn owns 80% of Pašman Rivijera d.o.o.

[3.] In liquidation