Registered Office:
102 St. James Court
Flats
Smiths FL04
Bermuda

iO ADRIA LIMITED (formerly Jupiter Adria Limited)

Annual report and consolidated financial statements

31 December 2011

iO ADRIA LIMITED

Annual report and consolidated financial statements 31 December 2011

Contents

	Page
Advisors and corporate information	3
Chairman’s review	4
Chief Executive’s report	5
Directors’ report	10
Statement of directors’ responsibilities in respect of the directors’ report and the financial statements	13
Independent auditors’ report	14
Consolidated balance sheet	16
Consolidated statement of changes in shareholders’ equity	17
Consolidated income statement	18
Consolidated statement of cash flow	19
Notes to the accounts	20

iO ADRIA LIMITED

Annual report and consolidated financial statements 31 December 2011

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
Mayflower Management Services
102 St. James Court
Flats
Smiths FL04
Bermuda

Registered office
Mayflower Management Services
102 St. James Court
Flats
Smiths FL04
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

Listing sponsor
First Bermuda Securities
Maxwell Roberts Building
1 Church Street
Hamilton HM 11, Bermuda

Property advisors and valuers
Colliers CRE
9 Marylebone Lane
London W1U 1HU

CHAIRMAN'S REVIEW

The past year has seen some significant changes and progress in the Group's development against the backdrop of continued deterioration in global economic conditions,

In July, the Group completed an interim fund raise of €10.2 million. This comprised a new debt facility of €5.0 million and an internal tender offer of new ordinary shares which raised €5.2 million. The tender offer resulted in the issue of 26,162,500 new Ordinary Shares at €0.20 per share. As a result of the interim fund raise, the Group has preserved its ability to continue as a going concern for the immediate future. In this regard and very recently, in June 2012, the Group completed a significant refinancing of its various loan facilities and the Directors are focused on the Group's ability to continue to comply with its various obligations under these facilities.

Also in 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 and unpaid management fees of €3,600,000 and, at the same time, agreed to terminate its Investment Management Agreement. Following the termination of its relationship with JFM, the Group has been renamed iO Adria Limited and I am pleased to report the appointment in September, 2011, of three new Executive Directors, Ivana Soljan, William Crewdson and Alex Penkul. These appointments are a welcome addition to the Board, which is now well equipped to lead the Group's into the next phase of its evolution as a developer and operator of high end hotel and leisure assets in Croatia.

At 31 December 2011 the Group held cash balances of €4.3 million. Total assets amounted to €275.8 million and, after deducting total liabilities of €175.7 million, total equity was €100.1 million. This equates to €0.55 cents per share, taking account of the increase in Ordinary Shares issued during the year. The loss for the year was €15.9 million. Operationally, the Group's attention is focussed primarily on its resort at Dubrovnik Sun Gardens ("DSG") and in particular the initial phases of its Residences sales programme, which realised its first sales during 2011. Trading performance at DSG also improved in 2011, during which time the Group took over day to day management of the resort, which included the conversion of the Radisson Blu hotel to a franchise agreement with Rezidor. This improving trend has continued into the first months of 2012.

In May 2012, the Board approved a revision to the Group's Share Option Plan ("Options"), whereby existing Options would be withdrawn and cancelled. With effect from 1 July, 2012, new five-year Options over 7,900,000 Ordinary Shares with an exercise price of €0.20 are to be granted to members of the Group's management team and to Directors.

While the Group remains constrained by market conditions from resuming its broader development plans for the time being, the Directors are confident that the Group's existing platform of operations will deliver markedly stronger performance in the coming year.

Norman Lamont

Chairman

CHIEF EXECUTIVE'S REPORT

2011 was a watershed year for the Company. We acquired full ownership of our first operational resort, assumed responsibility for its day-to-day operations, raised equity capital for the first time since 2007 and completed the transformation from a fund to a company, becoming independent of Jupiter Fund Management Group plc in the process. Concomitantly with the separation, the Company was renamed iO Adria Limited.

Highlights of 2011 included a significant breakthrough in registering freehold title of the Company's Residences at Dubrovnik Sun Gardens, a first for residential buildings in a tourist zone in Croatia, the resultant commencement of residential sales and receipt of hospitality industry awards for Best New Development and Best New Spa.

It remains a very challenging environment for businesses such as ours that are reliant upon the availability of bank debt to develop new high-value resort projects. There has been scant appetite amongst the banks active in Croatia to lend to developers for the past three years. The impact of requirements imposed on banks in general to meet more stringent reserve requirements is widely apparent. In Croatia, the posture of banks towards asset-based lending is further negatively coloured by the difficulties they face enforcing security and, it should be said, by a marked absence of exemplary loan performance in relation to tourism development projects in the country over the past decade.

This said, nothing that has occurred in the past few years has dented the conviction that underlies our business case for the development of high end tourism in Croatia. The performance of Dubrovnik Sun Gardens under our management in its first full year of operations, we believe, illustrates the potential.

Croatian Economic and Political Developments

The Croatian economy as a whole remains very weak. Following two years of recession in 2009-2010, the economy was substantively flat in 2011. Most commentators, including the IMF, believe that the economy will experience further modest shrinkage in 2012 before recommencing anaemic growth in 2013. The performance prospects of the Croatian economy are linked, however, to those of the Eurozone and of its other neighbouring countries. Continuing economic stasis or shrinkage in the region will have a corresponding negative impact on the performance of Croatia's economy.

Croatia at length completed its EU accession negotiations in June, 2011, and was rewarded with a target entry date of July, 2013, subject to ongoing monitoring in the interim. The leading political party in the Croatian coalition government, HDZ (the Croatian Democratic Union), had hoped that this would boost their standing with the country's electorate sufficiently to ward off defeat at the General Election in December, but in this they were disappointed. A new coalition government was formed, led by the Social Democratic Party under Zoran Milanovic.

The new government faces a challenging programme of fiscal reform and entrenchment that must include tackling the size and cost of public sector employment, former governments having lacked the political will to make any material headway in this regard. The new government has committed itself to a continuing reduction in the budget deficit, to 4.5% in 2012 and to 3% thereafter, in line with the EU's Fiscal Responsibility Act. This is a serious challenge at a time of low FDI, weak consumer spending and high unemployment (estimated at 14%). Public debt remains relatively low at 50% of GDP, though it is growing. Weak domestic demand and growing export revenues from tourism resulted in a current account deficit of only 1% over the past year. The country is rated BBB- by S&P at the time of writing, with a negative outlook reflecting the country's overall lack of competitiveness and the problems of a bloated public sector and inflexible labour pool.

Croatian Tourism in 2011

Croatia had a successful year in tourism, at least as regards foreign arrivals and overnights, which increased by 8% and 7%, respectively. In Dubrovnik County, the annual growth in tourism traffic was 17%, the substantial majority of which was in the high end segment. The sector's overall economic fortunes during the year are less clear and difficult to measure. Claims by the outgoing Minister of Tourism that tourism revenues had grown by 14% during 2011 were belied by operators and owners of hotels, restaurants and bars who, in much of the country, complained of a year-on-year stagnation or decline in revenues. Our assessment is that the volume growth within the year derived primarily from low and mid-scale tourists, maintaining tight controls on their holiday budgets. There was a very marginal addition to the country's high-end room stock during the year, though a number of four-star hotels reopened following refurbishment. Shoulder and low season growth was most pronounced in Dubrovnik.

Financial Results

The Company made a loss in the financial year of €15.9 million on turnover of €15.9 million, equivalent to a loss of €0.10 per share. This is the first period in which Dubrovnik Sun Gardens ("DSG") has been consolidated into the Company's accounts. Turnover at DSG contributed €14.6 million of the Group's annual revenues (92%), the balance deriving from the Company's operations at Nauta Lamjana shipyard and at Preko Marina. Included within expenses is an amount of €4.3 million for depreciation.. A charge of €2 million was made during the period to reflect impairment of the value of the Company's other development project sites. Administrative costs for the year reduced to €2 million. Finance costs were €5.9 million and increased significantly over 2010, reflecting the debt burden carried by DSG, though this will be materially mitigated in coming periods as a result of the debt restructuring terms negotiated at the end of the period under review and due to come into effect from July, 2012.

Operations

Dubrovnik Sun Gardens ("DSG")

Following the acquisition of our partner's 50% stake in DSG in December, 2010, iO Adria assumed operational control of the resort early in 2011 under a license agreement with Rezidor. Rezidor had managed DSG under a management agreement from its initial opening in July, 2009, within its *Radisson Blu* brand portfolio. The key executive positions within the resort have been filled by existing iO Adria management. The resort retains the *Radisson Blu* brand.

With regard to sales, the key areas of immediate focus in 2011 were to raise average room rates significantly (Rezidor had launched the resort at relatively low rate levels), to reduce the over-weighting of pre-contracted high season tour operator business, to differentiate DSG's 207 Residences from the resort's hotel rooms by building distinct sales channels and to capitalise more on the resort's unique selling points in relation to the MICE segment.

The potential during 2011 to raise pricing and reduce tour operator dependency was restricted by the high proportion of pre-contracted business for the high season already in place. Through active management by the sales team, a 28% increase in rooms revenue was achieved during the year via a combination of rate and occupancy improvement. By clawing back allocations of Residences from distributors where practicable, we were able to test and prove the demand for higher-yielding apartments in July and August. Specifically, we began to achieve daily rates for two-bed Residences of between €500 - €600 and of €1000 for the three-bed Residences. The resort's Residences are an offering currently unique in central and southern Dalmatia providing luxury accommodation for families within a full-service five-star resort. The high season prices achieved are indicative of the quality of the fabric and service levels offered by the resort and of the broadening appeal of Dubrovnik as an up-scale destination.

The increase in rooms revenue fed a corresponding increase in food and beverage income and in other income, notably from the resort's excellent *occo* spa. Total revenue in the resort increased by 31% for the full year.

The decision was taken at the end of 2010 to keep the resort open during the Winter months for the first time and to begin marketing DSG as a year-round destination. Croatia's tourism industry remains the most seasonal in Europe, some 87% of overnights falling between May and September. In keeping with the Company's strategy, DSG was designed to promote seasonal extension. In 2011, 79% of DSG's overnights occurred between May and September. This figure will fall to around 76% in 2012 and it is our goal that it reduces below 70% within the next three years as the resort achieves a stabilised level of performance. There is much to be done in order to achieve the resort's full potential in this regard. Promotion of Dubrovnik as a low season destination is still at an early stage and the low season airlift remains comparatively thin, though improving. The continuing expansion of Dubrovnik's airport facilities and range of scheduled and charter air traffic is a significant factor in broadening its global appeal as a destination and in reducing its high level of seasonality.

During 2011, DSG attracted visitors from 98 different countries and hosted a total of 68 conferences and business groups, the latter generating over 16,000 room nights, 29% of total room nights sold and in line with budget. The resort's MICE business grew 45% in 2011 by room nights and 62% measured by rooms revenue. DSG's potential to compete with more established European destinations to win a greater share of prestigious low and shoulder season conferences and corporate events is undisputed. Converting this potential into reality will remain a key point of focus over the coming years.

Residential Sales

It is a key objective of the Company to demonstrate buyer demand for upscale residential resort accommodation in Croatia, notwithstanding substantial continuing overhangs of often heavily discounted supply in many other established markets for second home properties, most notably in Spain. Without the capital recovery afforded to developers by residential sales, the economics of resort development generally fall down; expected cash flows from mature lodging operations alone do not justify the very high investment required to deliver the range and quality of facilities necessary to attract high-end tourists and MICE business to resort destinations.

The legislative programme implemented by successive Croatian governments over the past decade, to encourage high-end tourism whilst preserving the country's natural assets, aimed at proscribing the development of highly seasonal resorts of the type that had taken shape in other parts of the Mediterranean that were "dark" for much of the year. Though tourism-related legislation envisaged residential development within tourist zones, it sought to embargo sales of such residences to foreign buyers, who would use them only for a small fraction of each year and leave them vacant for the remainder, by prohibiting sub-division of land within tourist zones. In practice this has proved to be too blunt an instrument that has defeated or deterred investors attempting to develop the kind of schemes that the government of Croatia wishes to attract.

In July, 2011, after a very protracted process, the 207 Residences at DSG were sub-divided from the main DSG tourist zoned plot in a combination of individually registered apartments and mixed-use buildings. This created a precedent in Croatia and enabled us at length to begin to market the Residences for sale to individual buyers on a freehold basis within the framework of Croatian legislation that requires such accommodation to be available for rent when not occupied by their owners.

Though the lengthy delay in registering the sub-division was financially damaging to the company, it has had at least one compensating benefit, in that the Residences now being marketed for sale have individual rental income histories that can be reviewed by potential buyers. DSG's residences range in size from $45m^2$ to $110m^2$ and in price (in the first phase) from €170,000 to €550,000. In 2011, the Residences generated an average gross yield relative to their expected sales price of 3.7%. We project that over the next three years the yield will grow through a mixture of increased occupancy and rate to a level where owners of the Residences will receive rental income, after accounting for homeowners' costs, of around 4% *per annum*. Aside from paying for the upkeep, maintenance and running costs of the Residences and common areas, the homeowners' fees include contributions to a sinking fund for their periodic refurbishment. The DSG residential offer to prospective second-home purchasers is a very attractive one, both by reference to alternative supply in Croatia, which remains very limited, and across the Mediterranean as a whole.

In current market conditions, buyers of second homes are both fewer in number and more cautious and sceptical than in recent years. Since the relaunch of the sales programme on the basis of freehold ownership in September, 2011, our experience has been that interested buyers will take up to nine months or more to reach a decision to proceed, though between three to four months represents the average to date. Two residences were sold before the end of the period and a further five at the time of writing, in aggregate generating sales proceeds of €1,672,000 at an average sales price of € 239,000 per residence. This is in line with our target pricing for the first phase. Sales momentum is building and is expected to be given a further lift by an improved mortgage offer that we have negotiated on behalf of buyers, providing up to 80% loan-to-value with interest fixed at 3.3% for five years of a fifteen year term. The majority of our homeowners and serious prospects have stayed at DSG at least once over the past two years. In profile, they are typically professional people of a senior managerial level, in mid-career and with young or adolescent families.

Our objective remains that sales absorption of the Residences is spread over the next four years in eight phases, with upward price adjustments between phases commensurate with increasing rental yields and as the reputation of DSG continues to develop.

Development Projects

iO Adria continues to own six substantial development sites in Croatia, aside from the remaining two phases of DSG. Work has continued selectively on these sites over the past year, relating to permitting and some design. The projects in the most advanced state remain the Markocija Estate in northern Istria, the second phase of DSG, and the Preko Hotel opposite Zadar in northern Dalmatia. A lack of financing options remains the impediment to commencement of construction. In the case of the Markocija Estate, the tourist residential offering comprises three quarters of the total accommodation capacity of the planned resort. In addition to the general shortage of availability of construction-related debt in Croatia currently, it is incumbent on us to demonstrate evidence of unsatisfied latent demand for serviced second-home resort properties in Croatia and for confidence in off-plan sales to increase significantly from its current low ebb. The growing momentum of residential sales at DSG will assist to some degree in establishing both potential demand and the Company's credentials as developer and operator. We are doubtful, though, that there will be a material improvement in the debt funding environment over the coming year or more that would enable us to begin a construction programme in respect of our ready-to-build sites. Our focus with regard to the development projects, therefore, continues to be to maintain and enhance the permitting status of each, within a prioritised framework and strictly limited budgets.

Further attempts were made during the course of 2011 to find purchasers for a number of the Company's development sites. A small number of indicative offers were received. Ultimately, none proved to have financial backing to proceed. Transactions involving the sale and purchase of development land in Croatia have remained scant. There are very few companies or individuals in the market for land-banking at present and interested developers are deterred by the absence of construction debt to gear their equity.

Valuations

The absence of direct or indirect sources of comparative property sales data continues to make valuation of the Company's development land of moot benefit. For the second successive year, the Directors decided not to commission independent valuations of the development properties, other than the development land attached to DSG. The Directors take the view that the burden of cost of the exercise outweighs the value to the company and to shareholders. The development land continues to be held in the balance sheet at the lower of acquisition cost or written down value.

Both the operations and the development land at DSG were independently valued by Colliers at the end of 2010 for the purpose of consolidating DSG for the first time into the Company's accounts.

Financing

During the year, the Company received subscriptions from shareholders representing more than two thirds of its outstanding equity to the Interim Financing concluded in July, raising a total of €5.2 million, €1.2 million more than the minimum limit set for the issue. The purpose of the Interim Financing, taken together with the additional €5 million credit line made available from Erste Bank was to ensure that the Company had sufficient funds available to cover projected overheads for at least the next three years.

At the end of the year, subsequent to the Interim Financing and the separation from Jupiter, we renegotiated the terms of the Company's debt facilities with Erste Bank. The facility available to iO Adria, the parent company, was increased to €31.5 million (of which €22 million was drawn down at the end of the period), the term extended to the end of 2015 and the interest rate reduced to a margin of 1% over Euribor. The construction debt relating to the first phase of DSG was restructured into two tranches, one of €70 million, interest free until the end of 2015, to be amortised via sales of the DSG Residences. The other tranche of €60 million bearing interest at 1% over Euribor and repayable at the rate of €1.8 million per annum until 2015 and €2.4 million per annum thereafter to 2020. The new terms are effective from 1st July, 2012. Further details are provided in the notes the Company's accounts. The restructuring provides a better framework than previously in place to de-gear the Company from the proceeds of residential sales and operational cash flows to a sustainable level.

Priorities and Prospects

Management's main objective for the coming two years is to bring the Company to profitability through a combination of performance from operations at DSG and residential sales. Operationally, we have made a strong start to 2012 and we have a high degree of confidence in exceeding our operations budget for the full year. The potential to achieve profitability at the parent company level rests on the pace of residential sales. While sales have been slower to materialise than hoped in the first months of 2012, we are optimistic of an acceleration in pace as the year progresses and confident that the results of intensive marketing and sales initiatives in our key buyer markets will bear fruit.

Other stated objectives include broadening the Company's operational base through one or a number of selective acquisitions of distressed operating assets. The key criteria for such opportunities are that they should afford realistic prospects of rapid bottom-line profitability and synergy with our existing operations and development plans. A number of such opportunities have been and continue to be analysed and negotiations are ongoing with regard to at least one potential transaction.

William Crewdson

Chief Executive

DIRECTORS' REPORT

The directors present their report together with the audited financial statements for the year ended 31 December 2011. The financial statements were approved and authorised for issue by the board on 29 June 2012.

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 since incorporation 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 9.

Manager

Until 29 July 2011, the Company was managed by Jupiter Adria Management Limited (the "Manager"), a member of Jupiter Fund Management plc (the "Jupiter Group"). The Manager provided advisory services to the Company and managed the investment and reinvestment of the Company's assets, in accordance with a management agreement dated 16 June 2006 as amended, which was due to expire on 31 December 2014. The Manager was entitled to management and performance fees as set out in Note 24 to the consolidated financial statements. The management agreement was terminated on 29 July 2011.

Directors

The directors who held office during the year ended 31 December 2011 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
Reef Hogg	Resigned 29 July 2011	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	Appointed 7 September 2011	Executive director
Ivana Soljan	Appointed 7 September 2011	Executive director
Alex Penkul	Appointed 7 September 2011	Executive director

Directors' 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. His current directorships include Balli Group plc and Phorm plc.

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 experience gained from over 30 years in London and 3 years in Southern Africa, including 20 years as a partner in PwC. He was Global Leader of the PwC Private Banking / Wealth Management 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 an international investment management company in Asia and two UK companies.

William Crewdson (Chief Executive)
William Crewdson was responsible for the concept and launch of iO Adria while head of private equity at Jupiter Asset Management. He has over twenty years of experience and a successful record specialised in making investments in and building private companies in strategic industries in the countries of Central Europe, including Croatia. He has 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 worked for 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 and Mr Garth Lorimer Turner. 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”)

The AGM will be held on 26 July 2012. Notice of the AGM and a form of proxy will be circulated to shareholders.

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 2011, and 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 the terms of our engagement. 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 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the 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 financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we 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 2011, 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 financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 2 to the financial statements concerning the Group`s ability to continue as a going concern. On 29 June 2012 the Group refinanced its existing loan facility with Erste Bank. Under the revised terms of these facilities, for DSG 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 2012 through 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 loan 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 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 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

29 June 2012

iO ADRIA LIMITED

Annual report and consolidated financial statements 31 December 2011

Consolidated balance sheet

	Note	31 December 2011 €000	31 December 2010 €000
Assets			
Property, plant and equipment	3	214,317	219,048
Goodwill	4	185	185
Total non-current assets		**214,502**	**219,233**
Inventories		281	233
Work in progress	5	4,878	4,878
Trade and other receivables	6	3,898	3,214
Property available for sale	7	47,877	48,200
Cash and cash equivalents	8	4,386	2,896
Total current assets		**61,320**	**59,421**
Total assets		**275,822**	**278,654**
Equity attributable to owners of the parent			
Ordinary shares	9, 10	1,835	1,501
Share premium		178,712	172,373
Translation reserve		664	(562)
Retained losses		(81,120)	(65,194)
Total equity		**100,091**	**108,118**
Liabilities			
Loans and borrowings	11	152,811	150,875
Finance lease liabilities	12	29	73
Deferred tax liabilities	13	6,334	6,334
Total non-current liabilities		**159,174**	**157,282**
Trade and other payables	14	16,410	13,073
Provisions	15	100	130
Finance lease liabilities	12	47	51
Total current liabilities		**16,557**	**13,254**
Total liabilities		**175,731**	**170,536**
Total equity and liabilities		**275,822**	**278,654**

The notes on pages 20 to 43 form an integral part of these consolidated financial statements.

Approved by the board of directors on 29 June 2012 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 2010		1,501	172,373	(51,701)	(337)	**121,836**
Loss for the year		-	-	(13,720)	-	**(13,720)**
Share based payments	10	-	-	227	-	**227**
Translation difference		-	-	-	(225)	**(225)**
At 31 December 2010		**1,501**	**172,373**	**(65,194)**	**(562)**	**108,118**
Loss for the year		-	-	(15,926)	-	**(15,926)**
Shares issued	9, 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**

The notes on pages 20 to 43 form an integral part of these consolidated financial statements.

Consolidated income statement

	Note	Year ended 31 December 2011 €000	Year ended 31 December 2010 €000
Revenue	28	**15,878**	**2,830**
Cost of sales and related operating expenses		(21,939)	(3,502)
Administrative expenses		(1,955)	(2,867)
Management fees	23	864	(2,125)
Professional fees		(471)	(334)
Share based payments	10	-	(227)
Directors' fees and expenses	17	(363)	(214)
Total expenses		**(23,864)**	**(9,269)**
Impairment provision – property, plant and equipment	3	(1,979)	(5,900)
Operating loss		**(9,965)**	**(12,339)**
Finance expense	18	(5,924)	(1,100)
Finance income	18	27	85
Net finance expense		**(5,897)**	**(1,015)**
Share of losses of jointly controlled entities	22	-	(8,472)
Fair value adjustment to the Group's equity interest in the jointly controlled entities prior to the business combination	22	-	3,714
(Loss) / gain recognised on the business combination	22	(44)	4,405
Loss before tax		**(15,906)**	**(13,707)**
Income tax expense	19	(20)	(13)
Loss for the year		**(15,926)**	**(13,720)**
Allocated to:			
Owners of the parent		(15,926)	(13,720)
Loss for the year		**(15,926)**	**(13,720)**
Earnings per share from continuing operations attributable to the equity holders of the company			
Basic loss per share (€)	21	(0.10)	(0.09)
Diluted loss per share (€)	21	(0.10)	(0.09)

Consolidated statement of comprehensive loss

	Year ended 31 December 2011 €000	Year ended 31 December 2010 €000
Loss for the year	(15,926)	(13,720)
Translation difference	1,226	(225)
Total comprehensive loss for the year	**(14,700)**	**(13,945)**
Allocated to:		
Owners of the parent	(14,700)	(13,945)
Loss for the year	**(14,700)**	**(13,945)**

All results relate to continuing operations.

The notes on pages 20 to 43 form an integral part of these consolidated financial statements.

Consolidated statement of cash flows

	Note	Year ended 31 December 2011	Year ended 31 December 2010
		€000	€000
Loss for the year		**(15,926)**	**(13,720)**
Adjustments for:			
Interest expense	18	5,786	964
Interest income	18	(11)	(37)
Depreciation and amortisation	3	4,327	751
Share based payments	10	-	227
Share of losses of jointly controlled entities	22	-	8,472
Fair value adjustment to the Group's equity interest in the jointly controlled entities prior to the business combination	22	-	(3,714)
Loss / (gain) recognised on the business combination	22	44	(4,405)
Impairment provision – property, plant and equipment	3	1,979	5,900
Operating cash flow before changes in working capital		**(3,801)**	**(5,562)**
Change in inventories		(52)	19
Change in trade and other receivables		(700)	870
Change in trade and other payables and provisions		4,190	80
Cash flow from operations		**(363)**	**(4,593)**
Interest paid		(4,478)	(14)
Interest received		11	37
Net cash used in operating activities		**(4,830)**	**(4,570)**
Cash flow from investing activities			
Purchase of property, plant and equipment	3	(1,133)	(1,443)
Disposal of property, plant and equipment	3	531	87
Acquisition of subsidiaries, net of cash acquired	22	153	(9,446)
Net cash used in investing activities		**(449)**	**(10,802)**
Cash flow from financing activities			
Proceeds from issue of ordinary shares	9, 10	5,233	-
Proceeds from borrowings	11	2,020	21,599
Repayment of borrowings	11	(408)	(11,152)
Net cash from financing activities		**6,845**	**10,447**
Net decrease in cash and cash equivalents		**1,566**	**(4,925)**
Opening cash and cash equivalents		2,896	7,825
Effect of exchange rate fluctuations on cash held		(76)	(4)
Closing cash and cash equivalents		**4,386**	**2,896**

The notes on pages 20 to 43 form an integral part of these consolidated financial statements.

1. General information

iO Adria Limited (the "Company"), formerly Jupiter Adria Limited, was incorporated in Bermuda as Ilyria Holdings Limited, an exempt limited liability company on 24 October 2005. The Company's name was changed to Jupiter Adria Limited on 10 May 2006 and to iO Adria Limited on 1 August 2011. The principal activity of the Company is to invest in, develop and operate leisure and tourism related opportunities in Croatia. The consolidated financial statements of the Company comprise the financial statements of the Company and its subsidiaries (together referred to as the "Group").

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 29 June 2012.

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 2011, the Group had total equity of €100.1million and net current assets of €44.6million. Included within net current assets are property available for sale of €47.9million, the proceeds from which are to be applied to the repayment of debt relating to Dubrovnik Sun Gardens ("DSG"). Also included within net current assets are cash balances of €4.4 million, of which €0.4million is restricted to use in the operations of DSG and therefore are not freely available for use elsewhere within the Group. In July 2011 the Group raised an additional €5.2 million of cash via an issue of Ordinary Shares. The Company also has available a further €5.0 million of working capital loan facilities, none of which was drawn at 31 December 2011.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 equity and bank facilities. As explained in more detail in note 11, the Group has loans and borrowings at 31 December 2011 of €152.7 million, of which €129.9 million relates to DSG. With regards to the DSG loan facility in place at 31 December 2011, 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 number of residential unit sales to be completed in certain periods of time. A waiver has been granted on the 16th of December 2011 with regards to the residential unit sales test for the year ended 31 December 2011.

On 29 June 2012, the Company and DSG concluded a refinancing of their respective loan facilities. Under the revised terms of these facilities, for DSG 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 2012 through 2015. At the date of this report, during 2012 five residences had been sold, realising net sales proceeds of €1.3 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. Further details regarding the refinancing are disclosed in note 24.

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 ongoing 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

Revenue is comprised of marine services including the provision of temporary marine repair facilities to third parties, the repair and maintenance of marine vessels and the sale of related supplies, turnover from the operation of a restaurant and bar (excluding VAT and similar taxes) and the sublet of a property to a third party. Revenue is recognised in the accounting period in which the services are rendered.

Cost of goods sold is comprised of supplies directly used in the provision of these marine, restaurant and bar services 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 that it is virtually certain 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.

2011 recommended and new IFRS standards

Adoption of new and revised IFRS Standards

Standards and Interpretations recently effective

The following new standards, amendments to standards and interpretations, issued by the International Accounting Standards Board (IASB) or the IFRS Interpretations Committee (IFRIC), are effective for the year ended 31 December 2011 and have been applied in preparing these consolidated financial statements:

Amendment to IAS 24, *Related Party Disclosures* – the amendment revises the definition of a related party and requires additional disclosures of related party relationships and transactions. The revised standard became effective for annual periods beginning on or after 1 January 2011. The adoption of this amendment did not have a material impact on the consolidated financial statements.

Amendments to IFRS 7, *Financial Instruments: Disclosures* – the amendments clarifies the qualitative disclosure to be made in the context of the quantitative disclosures to better enable users to evaluate an entity's exposure to risks arising from financial instruments. The revised standard became effective for annual periods beginning on or after 1 January 2011. The adoption of this amendment did not have a material impact on the consolidated financial statements.

IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments* – clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished by the debtor issuing its own equity instruments to the creditor (a debt for equity swap). The interpretation requires a gain or loss to be recognized in profit or loss when a liability is settled through the issuance of the entity's own equity instruments. The revised standard became effective for annual periods beginning on or after 1 July 2010. The adoption of this amendment did not have a material impact on the consolidated financial statements.

Amendment to IFRS 3 *(Revised), Business Combinations* – clarifies the transition requirements for contingent consideration arising from a business combination that occurred before the effective date of the revised IFRS. The amendment limits the accounting policy choice, upon initial recognition, to measure non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation at either fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets. The revised standard became effective for annual periods beginning on or after 1 July 2010. The adoption of this amendment did not have a material impact on the consolidated financial statements.

Amendment to IAS 1, *Presentation of Financial Statements* – the amendment clarifies that disaggregation of changes in each component of equity arising from transactions recognized in other comprehensive income is required to be presented either in the statement of changes in equity or in the notes to the financial statements. The revised standard became effective for annual periods beginning on or after 1 January 2011. The adoption of this amendment did not have a material impact on the consolidated financial statements.

Standards and Interpretations recently issued but not yet effective

The following new standards, amendments and interpretations, issued by the IASB or the IFRIC, are not yet effective for the year ended December 31, 2011 and have not been applied in preparing these consolidated financial statements:

Amendments to IAS 1, *Presentation of Items of Other Comprehensive Income (OCI)* – The main change resulting from this amendment is a requirement for entities to group items presented in OCI on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in OCI. The Group will apply the amendment to IAS 1 prospectively from 1 July 2012, subject to the European Union endorsement.

IFRS 9, *Financial Instruments* – This is the first part of a new standard on classification and measurement of financial assets that will replace IAS 39. IFRS 9 has two measurement categories: amortised cost and fair value. All equity instruments are measured at fair value. A debt instrument is at amortised 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 stated at fair value through profit or loss. The Group will apply IFRS 9 prospectively from 1 January 2013 subject to the European Union endorsement.

IFRS 10, *Consolidated Financial Statements* – This standard builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements. The Group will apply IFRS 10 prospectively from 1 January 2013, subject to the European Union endorsement.

IFRS 11, *Joint Arrangements* – This standard provides for a more realistic 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. Proportional consolidation of joint ventures is no longer allowed. The Group will apply IFRS 11 prospectively from 1 January 2013, subject to the European Union endorsement.

IFRS 12, *Disclosures of Interests in Other Entities* – This standard includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose entities and other off balance sheet entities. The Group will apply IFRS 12 prospectively from 1 January 2013, subject to the European Union endorsement.

IFRS 13, *Fair Value Measurement* – This standard aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs. The Group will apply IFRS 13 prospectively from 1 January 2013, subject to the European Union endorsement.

3. Property, plant and equipment

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**

At 31 December 2010	Land €000	Buildings €000	Plant & equipment €000	Property under development €000	Total €000
Cost					
At 1 January 2010	81,305	-	4,671	10,216	**96,192**
Additions at cost	170	-	168	2,578	**2,916**
Acquisition of subsidiaries (note 22)	43,708	55,478	22,714	6,000	**127,900**
Disposals	-	-	(234)	-	**(234)**
Exchange differences	(185)	-	(105)	(110)	**(400)**
At 31 December 2010	**124,998**	**55,478**	**27,214**	**18,684**	**226,374**
Accumulated depreciation and impairment					
At 1 January 2010	-	-	880	-	**880**
Charge for the period	-	-	736	-	**736**
Disposals	-	-	(112)	-	**(112)**
Impairment	5,900	-	-	-	**5,900**
Exchange differences	-	-	(78)	-	**(78)**
At 31 December 2010	**5,900**	**-**	**1,426**	**-**	**7,326**
Net book value at 31 December 2010	**119,098**	**55,478**	**25,788**	**18,684**	**219,048**
Assets held under finance leases have the following net book value:					
Cost			**210**	-	**210**
Accumulated depreciation			**(104)**	-	**(104)**
Net book value at 31 December 2010			**106**	**-**	**106**

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.

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.

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 2011 €000	31 December 2010 €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.

The Group is of the opinion that litigation proceedings 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 2011 €000	31 December 2010 €000
Amounts falling due within one year:		
Trade receivables	1,491	707
Other receivables	491	549
Receivable from related parties (note 23)	560	357
VAT	645	903
Prepayments and accrued income	711	698
	3,898	**3,214**

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 2011	48,200
Disposals	(323)
At 31 December 2011	**47,877**

Property available for sale comprise 207 residential units which form part of Dubrovnik Sun Gardens, which are currently being marketed for sale in phases. During 2011 two residences were sold, realising sales proceeds of €408,000.

8. Cash and cash equivalents

Cash and cash equivalents held by the Group at 31 December 2011 comprise cash held at bank and in transit.

Out of the total Group cash balances held at 31 December 2011 of €4,386,000, 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 €394,000, 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	
150,052,287 fully paid Ordinary Shares of €0.01 each	€1,500,523
Issued shares at 31 December 2010	**150,052,287**
Ordinary shares issued in 2011	
33,362,500 fully paid Ordinary Shares of €0.01 each	€333,625
Issued shares at 31 December 2011	**183,414,787**

10. Share based payments

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).

On 13 September 2006 the Company established a Share Option Plan that entitles Eligible Participants to purchase Ordinary Shares subject to the terms of the Plan. Eligible Participants include any person who is either a director of a Participating Company or is an employee of or consultant to a Participating Company. A Participating Company includes members of the Group and the Manager. In accordance with the Plan, share options are exercisable at the option exercise price of the Ordinary Shares following the third anniversary of the grant date. The terms and conditions of the grants are set out below. All options are to be settled by physical delivery of Ordinary Shares.

Grant date	Number of options ('000)	Vesting conditions	Contractual life of options
13 September 2006 to Directors	525	Options may only be exercised following the third anniversary of the grant date at an exercise price of €1.00.	10 years
16 October 2006 to Directors	200	Options may only be exercised following the third anniversary of the grant date at an exercise price of €1.00.	10 years
5 June 2007 to Employees	200	Options may only be exercised following the third anniversary of the grant date at an exercise price of €1.00.	10 years
5 June 2007 to Employees	950	Options may only be exercised following the third anniversary of the grant date at an exercise price of €1.15.	10 years
12 March 2008 to Employees	176	Options may only be exercised following the third anniversary of the grant date at an exercise price of €1.80.	10 years
Total share options	**2,051**	**Outstanding at 31 December 2011 and 2010**	

The options outstanding at 31 December 2011 have a weighted average exercise price of €1.14 (2010: €1.14) and a weighted average contractual life of 5 years (2010: 5 years). The fair value of services received in return for share options granted is based on the fair value of share options granted measured using the Black-Scholes formula with the following inputs: .

Grant Date	12 March 2008 to Employees	5 June 2007 to Employees	5 June 2007 to Employees	13 September 2006 and 16 October 2006 to Directors
Fair value of option at grant date	€0.85	€1.07	€1.16	€0.55
Ordinary Share price as at grant date	€1.80	€1.15	€1.15	€1.15
Exercise price	€1.80	€1.15	€1.00	€1.00
Expected volatility	24.57%	20.68%	20.68%	23.44%
Option life	10 years	10 years	10 years	10 years
Risk-free interest rate	4.60%	4.18%	4.18%	3.75%

The expected volatility was computed using the volatility of the shares of a publicly quoted company engaged in comparable business activities to the Group. An expense of €nil (2010: €227,000) for outstanding share options was recognised for the year.

11. Loans and borrowings

	31 December 2011 €000	31 December 2010 €000
Non-current:		
Bank borrowings	152,811	150,875
	152,811	**150,875**

During 2010, Group loans and borrowings increased significantly as a result of the business combination disclosed in note 22. Further information regarding the Group's loans and borrowings are disclosed in the table below.

Borrower	Facility €000	Interest	Repayment	31 December 2011 €000	31 December 2010 €000
iO Adria Limited *Acquisition loan*	31,400	3 month EURIBOR + 250 bps	Bullet repayment December 2013	22,719	21,599
DVS *Senior loan tranche A*	53,000	3 month EURIBOR + 200 bps	Amortising quarterly over 18 years from September 2013	53,000	53,000
DVS *Senior loan tranche B*	50,000	3 month EURIBOR + 200 bps	Bullet repayment December 2014	49,592	50,000
DVS *Senior loan tranche C*	5,000	3 month EURIBOR + 200 bps	Bullet repayment December 2014	5,000	5,000
DVS *Working capital and investment loan tranche D*	5,000	3 month EURIBOR + 250 bps	Bullet repayment December 2014	5,000	3,776
DVS *Working capital and investment loan tranche E*	10,000	3 month EURIBOR + 250 bps	Bullet repayment December 2020	10,000	10,000
VSO *Loan*	7,500	3 month EURIBOR + 150 bps	Bullet repayment December 2014	7,500	7,500
Total				**152,811**	**150,875**

On 23 March 2011, the Group signed a standstill amendment to the senior loans and working capital and investment loans. Under the terms of the standstill agreement, interest due to be paid on the DVS senior and working capital loans from 31 December 2010 to 31 December 2012 inclusive may be deferred for payment until 31 March 2013, by which date the total amount of interest deferred falls due for payment. The maximum amount of interest that may be deferred for payment is €10 million. No interest is charged on interest where payment is deferred. At 31 December 2011, deferred interest amounted to €5.3 million.

On 15 December 2010, the Group signed a three year, €26.6 million acquisition loan facility agreement, the primary purpose of which was to fund the acquisition of SV, VSO and DVS (note 22) and to refinance the then balance outstanding on its €12 million loan facility. On 29 July 2011, this facility was increased to €31.4 million.

The acquisition loan facility is secured by mortgages against certain development land owned by the Group relating to its projects at Markocija, Motovun, Novigrad, Nauta Lamjana and Sipan. At 31 December 2011, €22.7 million had been utilised. The balance of the facility remains available to cover future interest and related fees and also interest payable in respect of the €7.5 million VSO loan.

11. Loans and borrowings (continued)

On 15 December 2010, on completing the acquisition of SV, VSO and DVS, the Group assumed loans and borrowings of €129.3 million which relate primarily to project loans used to fund the construction of the first phase of Dubrovnik Sun Gardens resort ("DSG"). The DVS loans are secured against the property, plant and equipment of DSG. Tranches C and D are repayable in advance of December 2014 from net sale proceeds realised from properties available for sale (note 7). 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 number of residential unit sales to be completed in certain periods of time. A waiver has been granted with regards to the residential unit sales test for the year ended 31 December 2011.

The VSO loan is secured on as yet undeveloped land owned by VSO and a second ranking charge over the Group's projects at Motovun, Novigrad, Nauta Lamjana and Sipan.

On 29 June 2012 the Group completed a refinancing of its loan facilities, further details of which are disclosed in note 24.

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	47	5	52
Between one and five years	29	1	30
At 31 December 2011	**76**	**6**	**82**
Less than one year	51	9	60
Between one and five years	73	5	78
At 31 December 2010	**124**	**14**	**138**

Finance lease obligations comprise leases for motor vehicles

13. Deferred tax liabilities

	31 December 2011 €000	31 December 2010 €000
Deferred tax liabilities	6,334	6,334
	6,334	**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 2011 €000	31 December 2010 €000
Trade payables	3,621	2,522
Amounts due to related parties (note 23)	362	2,839
Other payables and accruals	12,427	7,712
	16,410	**13,073**

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

15. Provisions

	31 December 2011 €000	31 December 2010 €000
Opening balance	130	375
Reclassified during the period	(30)	-
Released during period	-	(245)
Carrying amount	**100**	**130**

Provisions held at 31 December 2011 comprise the following: €100,000 (2010:100,000) in respect of a claim being made by suppliers to the Group which is under dispute.

During 2010, a provision of €245,000 was released: this was being carried in respect of liabilities that may arise during the course of liquidating Nova Dubrovnik d.o.o. These provisions represent the Group's estimate of the most likely liability that may arise in order to settle these claims in full.

16. Staff numbers and costs

Staff	**Year ended 31 December 2011**	**Year ended 31 December 2010**
Average numbers (including part time employees)	477	106
	€000	**€000**
Payroll costs:		
Wages and salaries	5,641	1,582
Social security	2,478	517
Pensions	775	308
Total payroll costs	**8,894**	**2,407**

Average staff numbers have increased significantly during the year following the acquisition of Dubrovnik Sun Gardens (note 22). 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

Directors' remuneration is set out below.

	Year ended 31 December 2011 €000	Year ended 31 December 2010 €000
The Rt. Hon. The Lord Lamont of Lerwick	50	50
Donald Lines	-	14
Goranko Fizulic	25	25
Reef Hogg	15	25
Bernard Lambert	25	25
Garth Lorimer Turner	25	25
J. Andrew Smith	25	25
Bruce Weatherill	25	25
William Crewdson [1]	66	-
Ivana Soljan [1]	50	-
Alex Penkul [1]	57	-
Total	**363**	**214**

[1] From date of appointment, 7 September 2011

Directors' interests

Directors' interests in the share capital of the Company at 31 December 2011 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	Exercise price
The Rt. Hon. The Lord Lamont of Lerwick	147,467	125,000 [1]	€1
Goranko Fizulic	-	100,000 [1]	€1
Bernard Lambert	-	100,000 [1]	€1
Garth Lorimer Turner	180,000	100,000 [2]	€1
J. Andrew Smith	48,000	100,000 [1]	€1
Bruce Weatherill	200,000	-	-
William Crewdson	11,000,000	-	-
Ivana Soljan	-	-	-
Alex Penkul	-	500,000 [3]	€1.15

[1] Granted 13 September 2006 [2] Granted 16 October 2006 [3] Granted 5 June 2007

The options 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 2011 (2010: nil).

18. Finance expense and income

	Year ended 31 December 2011	Year ended 31 December 2010
Finance expense	**€000**	**€000**
Interest expense	5,786	964
Foreign exchange losses	138	136
	5,924	**1,100**
Finance income		
Interest income	11	37
Foreign exchange gains	16	48
	27	**85**

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 2011 €000	31 December 2010 €000
Loss before tax	(15,906)	(13,707)
Tax expenses and benefits calculated at domestic rates applicable to the respective countries	(3,476)	(871)
Expenses not deductible for tax purposes	480	383
Tax losses not recognised	3,016	501
Income tax expense	**20**	**13**
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 28%. 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:**	**2011 total €000**	**2010 total €000**
2006	31 December 2011	-	537
2007	31 December 2012 – 14	893	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	-
Total		**12,454**	**9,975**

Deferred tax asset not recognised		
Opening balance	9,975	3,362
Tax loss for the current period	3,016	501
Tax losses acquired	-	6,583
Tax loss expired	(537)	(471)
Closing balance	**12,454**	**9,975**

19. Taxation and deferred tax (continued)

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.

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$31,000 (2010: US$ 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. No deferred tax asset has been recognised at 31 December 2011 (2010: €nil), due to the uncertainty 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 2011 €000	Year ended 31 December 2010 €000
The following items have been included in arriving at the loss for the period:		
Staff costs (note 16)	8,894	2,407
Depreciation (note 3) and amortization	4,327	751
Repairs and maintenance on property, plant and equipment	359	196
Auditors' remuneration charged in the income statement comprises:		
Audit of the Company	78	80
Audit of subsidiaries	72	73
	150	**153**

Staff costs and the depreciation charge have increased significantly during the year following the acquisition of Dubrovnik Sun Gardens (note 22).

21. Loss per share

Basic and diluted loss per share [1]	Year ended 31 December 2011	Year ended 31 December 2010
Loss attributable to ordinary shareholders (€'000)	(15,926)	(13,720)
Weighted average number of Ordinary Shares	164,219,924	150,052,287
Basic loss per share (€)	(0.10)	(0.09)

[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)**

On 16 July 2008, the Group acquired 50% of the ordinary share capital of Suncani Vrtovi d.o.o. ("SV") and Vrtovi Sunca Orasac d.o.o. ("VSO"): SV owns 100% of the ordinary share capital of Dubrovacki Vrtovi Sunca d.o.o. ("DVS"). Together with SV, VSO and DVS, the Group is developing the Dubrovnik Sun Gardens resort ("DSG"). The first phase of DSG, which comprises a 201 key Radisson Blu hotel, 207 residential apartments for sale and extensive resort facilities and amenities, opened in July 2009. The Group operates the Radisson Blu hotel under a licence agreement with Rezidor Hotel Group S.A.

On 15 December 2010, the Group completed the acquisition of the remaining 50% of the ordinary share capital of SV and VSO, for a total consideration of €17,500,000: this comprised the acquisition of receivables due to the former co-owners from DVS with a fair value of €10,000,000 and the assumption certain liabilities of the co-owners connected with the DSG project with a fair value of €7,500,000.

22. Business combinations (continued)

The fair values of consideration paid and assets and liabilities acquired are summarised below.

Consideration at 15 December 2010	**€000**
Cash	10,000
Liabilities assumed	7,500
Total consideration transferred	17,500
Fair value of the equity interest in SV and VSO held before the business combination	21,905
Total consideration	**39,405**
Negative goodwill (gain recognised on the business combination as shown in the consolidated income statement)	4,405
	43,810
Acquisition related costs (included in other administrative expenses in the consolidated income statement for 2010)	491
Recognised amounts of identifiable assets acquired and liabilities assumed	
Cash and cash equivalents	1,004
Property, plant and equipment (note 3)	127,900
Property available for sale	48,200
Inventories	206
Trade and other receivables	1,216
Trade and other payables	(6,606)
Borrowings	(121,776)
Deferred tax liabilities	(6,334)
Total identifiable net assets	**43,810**

Negative goodwill arising on the business combination of €4,405,000 results from the Group being able to successfully negotiate the acquisition of DSG for a consideration at less than the fair value of the net assets acquired.

Property available for sale comprise 207 residential units which form part of DSG, which are currently being marketed for sale in phases. Included in trade and other payables is an amount of €644,000 in respect of interest rate hedging arrangements (note 14). In the year ended 31 December 2010, DSG recorded revenues of €11,006,000 and retained losses of €16,944,000.

On 11 November 2010, the Group acquired the balance outstanding of ordinary shares in Nauta Lamjana d.d. for €176,000, taking its holding to 100%.

On 16 September 2010, the Group's interest in the ordinary share capital of Occo London Limited ("occo") was reduced to 17.5%, following a recapitalisation. occo ceased to be a subsidiary on this date and the Group's residual investment in occo is carried at €nil.

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.

23. Related party transactions (continued)

Investment Manager

iO Adria Management Limited (formerly Jupiter Adria Management Limited, the "Manager") provided management services to the Company pursuant to an Investment Management Agreement (the "IMA") dated 16 June 2006, as amended. The Manager was paid a fee each quarter in arrears equal to 2% per annum of the Company's consolidated net asset value, subject to a minimum quarterly fee of €400,000. In February 2009, the terms of the IMA were amended, such that management fees were capped at €2,500,000 per annum and the payment of €1,000,000 per annum of management fees was deferred until 31 December 2011, with effect from 1 January 2009.

On 7 April 2010 the IMA was amended to increase from €1,000,000 to €1,250,000 the amount of annual fee deferred for payment until 31 December 2011. The term of the IMA was also extended to terminate on 31 December 2014.

On 4 February 2011 the IMA was amended such that management fees for the quarters ended 30 September 2010 and 31 December 2010 were reduced €475,000 and €375,000 respectively, with payment deferred until 31 December 2012. Management fees for the year ended 31 December 2011 were €1,296,000 (2010: €2,125,000). On 29 July 2011 deferred management fees of €3.6 million were waived in consideration of 7,200,000 Ordinary Shares being issued by the Company to Jupiter Fund Management plc. These Ordinary Shares were issued at €0.50 cents per share, at a deemed fair value of €0.20 cents per share, resulting in a credit to management fees in the consolidated income statement of €2,160,000. Management fees payable as at 31 December 2011 were €nil (2010: €2,500,000).

The IMA terminated on 29 July 2011.

iO Adria AG

iO Adria AG (formerly Jupiter Adria AG) is a limited liability company incorporated in Lucerne, Switzerland, which is a partner of EG iO Jadran (formerly EG Jupiter Jadran) and which makes acquisitions on behalf of EG iO Jadran. Service fees of €91,000 (2010: €81,000) were accrued for accounting services provided by iO Adria AG to the Group.

Loans to related parties

At 31 December 2011 amounts totalling €560,000 (2010: €357,000) 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

On 3rd May 2012, the board approved a revision to the Group's Share Option Plan ("Options") whereby the existing Options would be withdrawn and cancelled. Effective 1 July 2012, new Options over 7,900,000 ordinary shares are to be granted to various members of the board and management. The exercise price of the Options is €0.20 cents.

On 29 June 2012, the Group completed a refinancing of its loan facilities. The acquisition loan facility available to iO Adria Limited (note 11) has been increased to €31.4 million, from €26.6 million. Interest on amounts drawn under the facility has been reduced to EURIBOR plus 150 bps and the bullet repayment date has been extended by 12 months to December 2015. In return, mortgage security has been 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.

24. Post balance sheet events (continued)

The DVS senior and working capital loan facilities (note 11), which including the deferred interest standstill facility 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 (note 7) by December 2015, €10 million final bullet payment due December 2020. There is also a new performance covenant whereby property for sale in 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 first Debt Service Coverage Ratio test date has been extended by two years to 2015.

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 2011

	HRK	**CHF**	**GBP**
Current:	**€000**	**€000**	**€000**
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**

At 31 December 2010

	HRK	**CHF**	**GBP**
Current:	**€000**	**€000**	**€000**
Trade and other receivables	2,277	-	18
Cash	1,170	54	206
Trade and other payables and provisions	(3,413)	(9)	(41)
Finance lease liabilities	(124)	-	-
Net exposure	**(90)**	**45**	**183**

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.

Prior to it being refinanced in December 2010, the Group did not put in place any hedging arrangements in connection with the €12 million loan facility, given its relatively short dated maturity period and previously prevailing forward rate yield curves. An interest rate swap arrangement was in place in connection with loans assumed by the Group on the acquisition of the jointly controlled entities, further details of which are disclosed in note 22. This arrangement expired in December 2011.

25. Financial risk (continued)

(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 2011 €000	31 December 2010 €000
Trade and other receivables (note 6)	3,898	3,214
Cash and cash equivalents (note 8)	4,386	2,896
	8,284	**6,110**

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

At 31 December 2011, cash and cash equivalents of €nil (2010: €1,590,000) were held in the name of Jupiter Asset Management Limited on behalf of the Group.

(c) Liquidity risk

The Group currently maintains sufficient cash balances to mitigate liquidity risk. The Group monitors forecast liquidity based on expected cash flows. At 31 December 2011, 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 commencing in 2013, except in certain circumstances as disclosed more fully in note 11.

At 31 December 2011, cash and cash equivalents of €394,000 (2010: €1,004,000) 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 is being used to fund the working capital requirements of the Group. The Group intends that the majority of 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 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)**
Share of losses of jointly controlled entities	-	-	**-**
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.

For the year ended 31 December 2010

Geographic segments	**Croatia €000**	**Other* €000**	**Total €000**
Revenue from external customers	2,830	-	**2,830**
Depreciation and amortisation	751	-	**751**
Impairment provision	(5,900)	-	**(5,900)**
Operating loss	(7,451)	(4,888)	**(12,339)**
Share of losses of jointly controlled entities	(8,472)	-	**(8,472)**
Assets	276,056	2,598	**278,654**
- other non current assets	219,233	-	**219,233**
- current assets (excluding cash)	55,653	872	**56,525**
- cash	1,170	1,726	**2,896**
Liabilities	145,615	24,921	**170,536**
- non-current loans and finance leases	129,349	21,599	**150,948**
- current loans and finance leases	51	-	**51**
- current liabilities	9,751	3,322	**13,073**
- provisions	6,464	-	**6,464**

* 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	2011 Interest in ordinary share capital	2011 Indirect interest in ordinary share capital	2010 Interest in ordinary share capital	2010 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. [2]	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.[3]	-	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 [4]	100%	-	100%	-	UK
Zmorac Nekretnine d.o.o.	100%	-	100%	-	Croatia
Nova Dubrovnik d.o.o.[5]	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 [6]	100%	-	-	-	Bermuda
Associates					
Occo London Limited [7]	17.15%	-	17.15%	-	UK

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

[2.] Formerly Jupiter Adria d.o.o

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

[4.] Formerly Jupiter Adria London Limited

[5.] In liquidation

[6.] Formerly Jupiter Adria Management Limited, acquired on 29 July 2011 (note 22)

[7.] Ceased to be a subsidiary on 16 September 2010