

Diamond Resorts (Holdings) Limited

Report and Financial Statements

Year Ended

31 December 2007



BDO Stoy Hayward
Chartered Accountants

Diamond Resorts (Holdings) Limited

**Annual report and financial statements
for the year ended 31 December 2007**

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Directors

S J Hulme
S Crook

Secretary and registered office

S Crook

Citrus House
Caton Road
Lancaster
Lancashire
LA1 3UA

Company number

5071128

Auditors

BDO Stoy Hayward LLP
Commercial Buildings
11-15 Cross Street
Manchester
M2 1WE

Diamond Resorts (Holdings) Limited

Report of the directors for the year ended 31 December 2007

The directors present their report together with the audited financial statements for the year ended 31 December 2007

Results and dividends

The loss for the year after taxation amounted to £6,785,000 (2006 loss £12,031,000) The directors do not recommend the payment of a dividend

During the period the company continued to run minimal cold-line sales and marketing operations (sales to new prospects) This was a result of the decision in the prior period to focus on warm-line sales to existing holiday owners Warm-line sales can be operated with significantly reduced marketing outlays and are more efficient and hence, profitable

Principal activity

The principal activity of the company is that of a group holding company The group's activities include the development, maintenance and management of holiday accommodation and the sale and marketing of holiday ownership There are no plans to alter the activities of the group

Review of the business and future developments

The profit and loss account is set out on page 7 and shows turnover for the year of £39 million (2006 £52 million) and a loss after tax of £7 million (2006 loss of £12 million)

Turnover has decreased by 26%, mainly due to the continued decline in marketing activity associated with the cold-line business during the period under review The directors expect the rate of decline in turnover to continue again in 2008 but at a much lower level Marketing activity did not increase as anticipated in the previous period due to a delay in implementation of the new timeshare brand, promotional products and associated client capture techniques This is now underway and the directors expect an improvement in turnover from 2009

The operating loss in the period has decreased by 58%, which is largely attributable to the increased focus on warm-line sales and the restructuring costs absorbed in the previous period This decrease would have been greater but for professional fees incurred during the period of £4,500,000 (2006 £1,200,000) These higher fees were incurred during the management team changeover, the sale of the business to Diamond Resorts Holdings LLC and the review and support required in the company's financial and commercial operations

The directors expect that operating losses will be lower in 2008 due to greater stability and the effects of marketing strategy changes

Diamond Resorts (Holdings) Limited

Report of the directors for the year ended 31 December 2007 (Continued)

Principal risks and uncertainties

The market for timeshare accommodation in Europe is highly competitive. The major commercial risk for the business relates to the ability of the group to generate revenue from sales and marketing activities.

The group has no significant external bank creditors. The group is funded by, and has an undertaking from, Diamond Resorts Corporation (formerly Sunterra Corporation) to provide support as necessary to fund the group's operations for the foreseeable future.

Supplier payment policy

The group does not follow a specific policy on the payment of suppliers. It agrees payment terms with its suppliers when it enters into purchase contracts and adheres to these arrangements providing it is satisfied that the supplier has provided the goods or services in accordance with the agreed terms and conditions. At 31 December 2007 the number of days purchases within creditors was 22 (2006: 33).

Employment of disabled persons

It is the group's policy to provide equal opportunities for all staff, including disabled persons. Applications for employment and promotions from disabled persons are treated on the same basis as those from other applicants having regard to ability, requirements of the job and experience. In the event of employees becoming disabled, the group will use its best endeavours to ensure continuity of employment through rehabilitation and retraining.

Employee involvement

It is group policy to involve employees in the business and to ensure that matters of concern to them, including the group's aims and objectives and its financial performance, are communicated in an open and regular way. This is achieved through an employee committee, management briefings and other informal communications.

Post balance sheet events

On 12 February 2008 the company acquired the entire issued share capital of Inplace Limited, a company whose principal activity is the management of a golf club, for consideration of £451,000.

On 17 March 2008, the company announced its intention to stop making travel bookings on the behalf of members and to transfer these services to a preferred partner, Interval International. At the date these accounts are issued for signing, discussions are still taking place. All existing travel bookings will remain with Diamond Resorts Travel. From the changeover date all future bookings are expected to be made by the travel department of Interval International. Diamond Resorts Travel will cease to make new bookings unless to facilitate an amendment of a current travel booking. The directors believe that this decision will benefit future profitability as future savings in administration costs and capital investment will be greater than the small margins achievable in the highly competitive travel agency environment.

On 27 March 2008 the company signed a contract to sell a hotel property situated in London. At the balance sheet date this property was held in Stocks – Timeshare Points (Note 13) at a value of £3,007,000. At the date these financial statements were issued for signing the sale had a completion date of 29 August 2008, for an agreed consideration of £7,250,000. The company has received a non refundable deposit of £1,000,000 on this transaction.

On 4 July 2008 the company completed the sale of a former sales office property situated in Burton Upon-Trent, Staffordshire, for an agreed consideration of £395,000. At the balance sheet date this property was held in Tangible Assets – Freehold Land & Buildings at a net book value of £59,000.

On 29 July 2008, Diamond Resorts (Europe) Ltd purchased the business and assets of a telemarketing and distributor sales business trading under the name of LCI Travel for a total consideration of £850,000. LCI Travel was involved in the sale and marketing of timeshare related products.

Diamond Resorts (Holdings) Limited

Report of the directors for the year ended 31 December 2007 (*Continued*)

Directors

The directors who held office during the year and to the date of approval are shown below. All directors served throughout the year unless otherwise indicated.

F C Bauman (resigned 7 January 2008)
S Crook (appointed 5 October 2007)
M M Kandel (appointed 7 January 2008, resigned 22 July 2008)
S J Hulme (appointed 22 July 2008)

Statement of directors' responsibilities

The directors are responsible for preparing the directors' report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the 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 accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements,
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the company will continue in business.

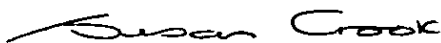
The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors

The current directors have taken all the steps that they ought to have taken to make themselves aware of any information needed by the company's auditors for the purposes of their audit and to establish that the auditors are aware of that information. The directors are not aware of any relevant audit information of which the auditors are unaware.

BDO Stoy Hayward LLP offer themselves for reappointment as auditors in accordance with section 385 of the Companies Act 1985.

By order of the Board



S Crook
Director

19th August 2008

Diamond Resorts (Holdings) Limited

Report of the independent auditors

Independent auditors' report to the shareholders of Diamond Resorts (Holdings) Limited

We have audited the group and parent company financial statements of Diamond Resorts (Holdings) Limited for the year ended 31 December 2007 which comprise the group profit and loss account, the group and company balance sheets, the group cash flow statement and the group statement of total recognised gains and losses and the related notes. These financial statements have been prepared in accordance with the accounting policies set out therein.

Respective responsibilities of the directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and have been properly prepared in accordance with the Companies Act 1985 and whether the information given in the directors' report is consistent with those financial statements. We also report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

Our report has been prepared pursuant to the requirements of the Companies Act 1985 and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of the Companies Act 1985 or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Diamond Resorts (Holdings) Limited

Report of the independent auditors (*continued*)

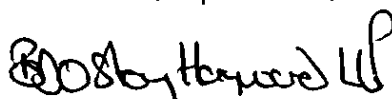
Opinion

In our opinion

- the group financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the group's affairs as at 31 December 2007 and of its loss for the year then ended,
- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the parent company's affairs as at 31 December 2007,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the directors' report is consistent with the financial statements

BDO STOY HAYWARD LLP

Chartered Accountants
and Registered Auditors
Manchester



22/08/08

Diamond Resorts (Holdings) Limited

Consolidated profit and loss account for the year ended 31 December 2007

	Note	2007 £'000	2006 £'000
Turnover	2	38,876	52,244
Cost of sales		(8,388)	(15,010)
Gross profit		<u>30,488</u>	<u>37,234</u>
Distribution costs		(9,389)	(18,840)
Administration expenses		(27,442)	(28,715)
Other operating income	4	2,534	1,345
Operating loss before restructuring costs		(3,809)	(5,224)
Restructuring costs		-	(3,752)
Operating loss	3	<u>(3,809)</u>	<u>(8,976)</u>
Net interest	7	(2,403)	(2,375)
Loss on ordinary activities before taxation		<u>(6,212)</u>	<u>(11,351)</u>
Tax on loss on ordinary activities	8	(573)	(680)
Loss for the financial year		<u><u>(6,785)</u></u>	<u><u>(12,031)</u></u>

The results disclosed above all relate to continuing operations

The notes on pages 11 to 29 form part of these financial statements

Diamond Resorts (Holdings) Limited

Consolidated statement of total recognised gains and losses for the year ended 31 December 2007

	Note	2007 £'000	2006 £'000
Loss for the financial year	21	(6,785)	(12,031)
Net exchange differences on retranslation of foreign undertakings		941	(537)
Total recognised losses for the year		<u>(5,844)</u>	<u>(12,568)</u>


The notes on pages 11 to 29 form part of these financial statements

Diamond Resorts (Holdings) Limited

Consolidated balance sheet for the year ended 31 December 2007

	Note	2007 £'000	2007 £'000	2006 £'000	2006 £'000
Fixed assets					
Intangible assets	10		1,312		1,408
Tangible assets	11		3,211		3,317
Investments	12		32		32
			<u>4,555</u>		<u>4,757</u>
Current assets					
Stocks	13	29,485		30,367	
Debtors					
Amounts falling due within one year	14	39,407		36,175	
Amounts falling due after more than one year	14	3,080		3,531	
Cash at bank and in hand	15	39,273		37,950	
		<u>111,245</u>		<u>108,023</u>	
Creditors amounts falling due within one year	16	(123,105)		(113,831)	
Net current liabilities			(11,860)		(5,808)
Total assets less current liabilities			<u>(7,305)</u>		<u>(1,051)</u>
Creditors amounts falling due after more than one year	17		(26)		(39)
Provisions for liabilities and charges	18		(7,316)		(7,713)
Net liabilities			<u>(14,647)</u>		<u>(8,803)</u>
Capital and reserves					
Called up share capital	20		49,000		49,000
Profit and loss account	21		(9,938)		(4,094)
Capital reserve	21		500		500
Merger reserve	21		(54,209)		(54,209)
Equity shareholders' deficit	22		<u>(14,647)</u>		<u>(8,803)</u>

The financial statements were approved by the Board and authorised for issue on 19th August 2008

S Crook 
Director

The notes on pages 11 to 29 form part of these financial statements

Diamond Resorts (Holdings) Limited

Company balance sheet for the year ended 31 December 2007

	Note	2007 £'000	2007 £'000	2006 £'000	2006 £'000
Fixed assets					
Investments	12		35,327		35,740
Current assets					
Debtors	14	13,994		8,737	
Cash at bank and in hand		-		5	
		<u>13,994</u>		<u>8,742</u>	
Creditors' amounts falling due within one year	16	<u>(60,956)</u>		<u>(52,969)</u>	
Net current liabilities			(46,962)		(44,227)
Total assets less current liabilities			<u>(11,635)</u>		<u>(8,487)</u>
Net liabilities			<u>(11,635)</u>		<u>(8,487)</u>
Capital and reserves					
Called up share capital	20		49,000		49,000
Profit and loss account	21		(60,635)		(57,487)
Equity shareholders' deficit	22		<u>(11,635)</u>		<u>(8,487)</u>

The financial statements were approved by the Board and authorised for issue on 19th August 2008

S Crook
Director

Susan Crook

The notes on pages 11 to 29 form part of these financial statements

Diamond Resorts (Holdings) Limited

Consolidated cash flow statement for the year ended 31 December 2007

	Note	2007 £'000	2007 £'000	2006 £'000	2006 £'000
Net cash inflow/(outflow) from operating activities	25		1,748		(6,539)
Returns on investments and servicing of finance					
Interest paid		(4)		(23)	
Interest received		1,383		808	
Interest on finance leases		(9)		(5)	
Net cash inflow from returns on investments and servicing of finance			1,370		780
Taxation			(1,295)		(160)
Capital expenditure and financial investment					
Purchase of tangible fixed assets		(172)		(1,909)	
Sale of tangible fixed assets		116		2,088	
Net cash (outflow) / inflow from capital expenditure and financial investment			(56)		178
Cash inflow / (outflow) before financing			1,767		(5,741)
Management of liquid resources					
Increase/(decrease) of short term deposits			80		(278)
Financing					
Capital element of hire purchase contract		4		(77)	
Increase in borrowings from parent company		-		7,773	
Net cash inflow from financing			4		7,696
Increase in cash	27		1,851		1,677

The notes on pages 11 to 29 form part of these financial statements

Diamond Resorts (Holdings) Limited

Notes forming part of the financial statements for the year ended 31 December 2007

1 Accounting policies

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost convention

The financial statements have been prepared on a going concern basis, notwithstanding the deficiency in net assets, because of an undertaking by Diamond Resorts Corporation to provide sufficient financial support for the foreseeable future to enable liabilities to be met as they fall due

Basis of consolidation

The group financial statements consolidate the accounts of Diamond Resorts (Holdings) Limited and all of its subsidiary undertakings (see note 31) drawn up to 31 December 2007. The consolidation of subsidiaries has been accounted for using the merger method of accounting

Turnover

Turnover primarily consists of sales of stocks of holiday ownership, in the form of points in Diamond Resorts European Collection Limited (formerly Club Sunterra Ltd), which give members the right to accommodation in holiday resorts owned by the group and also other non-points trading stock, comprising land and buildings not put into trust, but which may be available for use and facilities accommodation not currently used as club resorts and awaiting refurbishment or sale. All these sales are recognised when they become contractually complete, which includes receiving all of the purchase consideration

Additionally resort management and maintenance fees are recognised over the period during which the services are provided

Where a group company acts as principal rather than agent, commissions earned and the related costs are shown in turnover and cost of sales respectively

Other operating income

Other operating income consists primarily of peripheral revenues and cost reimbursements obtained from private members clubs and club members for administration services and occupied facilities

Rental of surplus holiday accommodation not utilised by the group's sales and marketing operation is also included

Tangible fixed assets and depreciation

Depreciation is calculated to write down the cost of all tangible fixed assets other than freehold land in equal annual instalments over their expected useful economic lives. The rates generally applicable are

Freehold buildings	-	2% to 5% per annum
Fixtures and fittings	-	20% per annum
Motor vehicles	-	33% per annum

Intangible fixed assets

Patents, intellectual property rights and trademarks are included at cost and amortised on a straight line basis over their useful economic lives

Investments

Investments are stated at cost less amounts written off

Diamond Resorts (Holdings) Limited

Notes forming part of the financial statements
for the year ended 31 December 2007 (continued)

1 Accounting policies (continued)

Goodwill

Goodwill arising on an acquisition of a business is the difference between the fair value of the consideration payable and the fair value of the net assets acquired. It is capitalised and amortised through the profit and loss account over the directors' estimate of its useful economic life up to a maximum of 20 years. Impairment tests on the carrying value of goodwill are undertaken.

Impairment of fixed assets and goodwill

The need for any fixed asset impairment write down is assessed by comparing the carrying value of the asset against the higher of its realisable value and value in use.

Stock

Stocks are valued at the lower of cost and net realisable value.

Cost is determined for each component of stock as follows:

Points, representing the right to use holiday resorts	Weighted average cost of developing and acquiring resorts, comprising accommodation and resort facilities, purchase price of weeks acquired in the market, purchase price of weeks repossessed from members
Other non-points trading stock, comprising land and buildings not yet put into trust, but which may be available for use, facilities not currently used as club resorts and awaiting refurbishment or sale	Purchase price of properties, cost of land acquisition, construction and related costs
Work in progress being holiday resorts currently in the course of construction	Purchase price of properties, cost of land acquisition, construction and related expenses
Consumables, marketing materials and resort supplies	Purchase price

Net realisable value is based on estimated selling price, less further costs expected to be incurred to complete disposal.

Deferred taxation

Deferred tax is recognised on all timing differences where the transactions or events that give the group an obligation to pay more tax in the future, or a right to pay less tax in the future, have occurred by the balance sheet date. Deferred tax assets are recognised when it is more likely than not that they will be recovered. Deferred tax is measured using rates of tax that have been enacted or substantively enacted by the balance sheet date.

Deferred tax balances are not discounted.

Diamond Resorts (Holdings) Limited

**Notes forming part of the financial statements
for the year ended 31 December 2007 (continued)**

Accounting policies (continued)

Contributions to pension schemes

The pension costs charged against profits represent the amount of the contributions payable to the private defined contribution pension plans of certain employees in respect of the accounting period. Any amounts outstanding at the year end are separately identified.

Leased assets

Assets held under finance leases and hire purchase contracts are capitalised and depreciated over their expected useful lives. The interest element of leasing payments represents a constant proportion of the capital balance outstanding and is charged to the profit and loss account over the period of the lease.

All other leases are regarded as operating leases and the payments made under them are charged to the profit and loss account on a straight line basis over the lease term.

Club accounting

A distinction is drawn between assets and liabilities of the group and assets and liabilities of the clubs. The former comprise of maintenance fee debtors receivable from club members on behalf of the clubs, over which the group has the right to recover the timeshare points owned by any defaulting club members. Cash balances relating to the clubs are included within group cash and the nature of restrictions on its use by the group is disclosed in the notes to the financial statements. Other club assets and liabilities and the net surplus and deficits for clubs are netted off and shown in the group financial statements as a net liability on behalf of club members.

Club income and expenditure is excluded from the profit and loss account as it is not group income and expenditure, the group acting as an agent on behalf of the clubs. Club income and expenditure is netted off in the profit and loss account and the net surpluses and deficits included in the net liability on behalf of club members.

Foreign currency

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date, and the gains or losses on transactions are included in the profit and loss account.

The results of overseas operations are translated at the average rates of exchange during the year and their balance sheets at the rates ruling at the balance sheet date. Exchange differences arising from retranslation of the opening net assets and from the difference between average rates of exchange and the rate ruling at the balance sheet date are taken directly to reserves.

2 Turnover

The turnover and loss on ordinary activities before taxation are attributable to the principal activity of the group. Turnover includes sales of stocks of holiday ownership, in the form of timeshare points in Diamond Resorts European Collection Ltd (formerly Club Sunterra Limited), together with commissions on related activities and resort management fees charged at a cost plus agreed percentage. An analysis of turnover by geographical location and business segment has not been presented as the directors considered such a disclosure to be seriously prejudicial to the interest of the group.

Diamond Resorts (Holdings) Limited

Notes forming part of the financial statements
for the year ended 31 December 2007 *(continued)*

3 Operating loss

The operating loss is stated after charging	2007	2006
	£'000	£'000
Depreciation		
- owned assets	1,647	1,477
- assets held under finance leases and hire purchase contracts	11	45
Exceptional items		
- Restructuring costs	-	3,752
- Overseas taxes	-	789
Auditors' remuneration		
- audit services	373	585
- taxation	-	100
- forensic accounting services	-	35
Amortisation of intangible fixed assets	135	133
Operating lease rentals		
- land and buildings	608	618
- other	51	99

Diamond Resorts (Holdings) Limited

Notes forming part of the financial statements
for the year ended 31 December 2007 (*continued*)

4 Other operating income

	2007 £'000	2006 £'000
Commission and fees received	1,102	656
Rental income	275	283
Income from resort clubs	928	337
Sundry income	229	69
	<u>2,534</u>	<u>1,345</u>

5 Employees

	Group 2007 £'000	2006 £'000	Company 2007 £'000	2006 £'000
<i>Staff costs for the year were as follows</i>				
Wages and salaries	10,086	12,561	-	-
Social security costs	1,409	1,802	-	-
Pension costs	1	146	-	-
	<u>11,496</u>	<u>14,509</u>	<u>-</u>	<u>-</u>

	Group 2007 £'000	2006 £'000	Company 2007 £'000	2006 £'000
<i>The average number of employees during the year was</i>				
Sales and marketing	66	128	-	-
Travel and reservations	84	94	-	-
Finance and administration	166	175	-	-
	<u>316</u>	<u>397</u>	<u>-</u>	<u>-</u>

Diamond Resorts (Holdings) Limited

Notes forming part of the financial statements
for the year ended 31 December 2007 *(continued)*

6 Directors' remuneration

	2007 £'000	2006 £'000
<i>Remuneration in respect of directors was as follows</i>		
Emoluments and benefits in kind	20	258
Pension contributions	-	16
	<u>20</u>	<u>274</u>
	<u>20</u>	<u>274</u>
	2007 £'000	2006 £'000
<i>Remuneration in respect of the highest paid director was as follows</i>		
Emoluments and benefits in kind	20	255
Pension contributions	-	5
	<u>20</u>	<u>260</u>
	<u>20</u>	<u>260</u>

During the year the company contributed to the private pension plans of no directors (2006 1 director)

7 Net interest

	2007 £'000	2006 £'000
Interest payable to group undertakings	3,758	3,155
Finance leases and hire purchase contracts	9	5
Other interest	(3)	(20)
Bank interest receivable	(1,361)	(765)
	<u>2,403</u>	<u>2,375</u>
	<u>2,403</u>	<u>2,375</u>

Diamond Resorts (Holdings) Limited

Notes forming part of the financial statements
for the year ended 31 December 2007 (continued)

8 Tax on loss on ordinary activities

	2007 £'000	2006 £'000
The tax charge represents		
- UK corporation tax at 30% (2007 30%)	-	-
- Overseas	400	684
- Adjustment in respect of prior years	137	(4)
	<u>537</u>	<u>680</u>
Deferred tax (Note 19)	36	-
	<u>573</u>	<u>680</u>

Factors affecting the tax charge for the year

The difference between the actual tax assessed for the year and the expected charge based on the standard rate of corporation tax in the United Kingdom is explained as follows

	2007 £'000	2006 £'000
Loss on ordinary activities before taxation	(6,212)	(11,351)
Loss on ordinary activities before taxation multiplied by standard rate of corporation tax in the UK of 30% (2007 30%)	(1,864)	(3,405)
Effect of		
Expenses not deductible for tax purposes	(428)	244
Depreciation for the year in excess of capital allowances	174	485
Higher/lower tax rates on overseas earnings	47	43
Trade losses utilised	(179)	(491)
Losses carried forward not recognised as deferred tax asset	1,558	2,632
Other timing differences	1,193	1,074
Adjustment in respect of prior years	-	(8)
Item relating to prior year adjustments	36	106
Current tax charge for the year	<u>537</u>	<u>680</u>

9 Loss for the financial year

The company has taken advantage of section 230 of the Companies Act 1985 and has not included its own profit and loss account in these financial statements. The company's loss for the financial year was £3,148,000 (2006 £3,008,000), (note 21)

Diamond Resorts (Holdings) Limited

Notes forming part of the financial statements
for the year ended 31 December 2007 *(continued)*

10 Intangible fixed assets

Group	Purchased goodwill £'000	Patents and rights £'000	Total £'000
Cost			
At 1 January 2007	2,253	133	2,386
Additions	-	39	39
At 31 December 2007	<u>2,253</u>	<u>172</u>	<u>2,425</u>
Amortisation			
At 1 January 2007	952	26	978
Provided in the year	112	23	135
At 31 December 2007	<u>1,064</u>	<u>49</u>	<u>1,113</u>
Net book value			
At 31 December 2007	<u>1,189</u>	<u>123</u>	<u>1,312</u>
At 31 December 2006	<u>1,301</u>	<u>107</u>	<u>1,408</u>

The goodwill relates to the purchase of IGR Mougins SARL and Vilar do Golf LDA and is being amortised over 20 years, which the directors feel is the best estimate of the useful economic life

Diamond Resorts (Holdings) Limited

Notes forming part of the financial statements
for the year ended 31 December 2007 (continued)

11 Tangible fixed assets

Group	Freehold land and buildings £'000	Leasehold Property £'000	Fixtures and Fittings £'000	Motor vehicles £'000	Total £'000
Cost or valuation					
At 1 January 2007	2,485	811	10,443	383	14,122
Additions	-	57	65	11	133
Disposals	(73)	(9)	(2,009)	(18)	(2,109)
Foreign exchange	517	568	451	(2)	1,534
At 31 December 2007	<u>2,929</u>	<u>1,427</u>	<u>8,950</u>	<u>374</u>	<u>13,680</u>
Depreciation					
At 1 January 2007	1,817	262	8,504	222	10,805
Provided in the year	404	312	865	77	1,658
Disposals	-	(8)	(1,976)	(10)	(1,994)
At 31 December 2007	<u>2,221</u>	<u>566</u>	<u>7,403</u>	<u>289</u>	<u>10,469</u>
Net book value					
At 31 December 2007	<u>708</u>	<u>861</u>	<u>1,547</u>	<u>85</u>	<u>3,211</u>
At 31 December 2006	<u>668</u>	<u>549</u>	<u>1,939</u>	<u>161</u>	<u>3,317</u>

The net book value of assets held under finance leases at 31 December 2007 amounted to £11,000 (2006 £34,000) Depreciation charged on these assets in the year amounted to £11,000 (2006 £45,000)

Diamond Resorts (Holdings) Limited

Notes forming part of the financial statements
for the year ended 31 December 2007 (*continued*)

12 Investments

	Group £'000	Company £'000
Cost		
At 1 January 2007	32	35,740
Impaired during the year	-	(413)
Cost at 31 December 2007	<u>32</u>	<u>35,327</u>

Significant subsidiary undertakings as at 31 December 2007 are shown in note 32

13 Stocks

	Group 2007 £'000	2006 £'000
Timeshare points	15,676	18,717
Other non-points trading stock	11,412	10,053
Work in progress	2,084	915
Consumables	313	682
	<u>29,485</u>	<u>30,367</u>

14 Debtors

	Group 2007 £'000	2006 £'000	Company 2007 £'000	2006 £'000
<i>Amounts falling due within one year</i>				
Trade debtors	2,122	2,707	-	-
Club maintenance fee debtors	32,429	30,619	-	-
Other debtors	2,328	1,483	-	-
Amounts owed by group companies	-	-	13,994	8,737
Prepayments and accrued income	1,053	1,304	-	-
Taxation and social security	1,475	62	-	-
	<u>39,407</u>	<u>36,175</u>	<u>13,994</u>	<u>8,737</u>
<i>Amounts falling due after more than one year</i>				
Trade debtors	661	1,031	-	-
Corporation tax receivable	2,419	2,500	-	-
	<u>3,080</u>	<u>3,531</u>	<u>-</u>	<u>-</u>

Diamond Resorts (Holdings) Limited

Notes forming part of the financial statements
for the year ended 31 December 2007 (continued)

15 Cash at bank and in hand

Cash at bank and in hand includes restricted cash balances of £30,689,000 (2006 £30,591,000) held on behalf of the club members. None of the restricted cash amounts held are available for use by the group.

16 Creditors: amounts falling due within one year

	Group		Company	
	2007	2006	2007	2006
	£'000	£'000	£'000	£'000
Bank overdrafts	207	749	-	-
Obligations under finance leases (note 17)	10	32	-	-
Trade creditors	3,260	3,645	2	4
Corporation tax	2,114	2,917	-	-
Other taxation and social security	755	1,037	-	-
Other creditors	1,344	2,660	-	-
Amounts owed on behalf of club members	53,638	47,776	-	-
Amounts owed to group undertakings	-	-	4,016	3,844
Accruals and deferred income	4,839	5,894	-	-
Loan from parent company	56,938	49,121	56,938	49,121
	<u>123,105</u>	<u>113,831</u>	<u>60,956</u>	<u>52,969</u>

17 Creditors: amounts falling due after more than one year

	Group		Company	
	2007	2006	2007	2006
	£'000	£'000	£'000	£'000
Obligations under finance leases	26	-	-	-
Accruals and deferred income	-	39	-	-
	<u>26</u>	<u>39</u>	<u>-</u>	<u>-</u>

Obligations under finance leases and hire purchase contracts are secured on the assets to which they relate.

Group

	Loans and overdrafts	Finance leases	Total
	2007	2007	2007
	£'000	£'000	£'000
In one year or less, or on demand	207	10	217
In more than one year but not more than five years	-	26	26
	<u>207</u>	<u>36</u>	<u>243</u>

Diamond Resorts (Holdings) Limited

Notes forming part of the financial statements
for the year ended 31 December 2007 (continued)

18 Provisions for liabilities and charges

	Note	At 1 January 2007 £'000	Additions £'000	Amounts used £'000	At 31 December 2007 £'000
Sales and marketing	(1)	3,151	1,952	(2,747)	2,355
Overseas taxes	(2)	2,384	214	-	2,598
Maintenance and repairs	(3)	1,350	-	(75)	1,275
Litigation	(4)	723	248	(70)	902
UK taxes	(5)	105	81	-	186
		<u>7,713</u>	<u>2,495</u>	<u>(2,892)</u>	<u>7,316</u>

- (1) The group provides incentives to potential customers to purchase as part of its marketing activities. These consist primarily of awards or vouchers which can be redeemed for travel and accommodation. At 31 December 2007 the estimated cost of awards and vouchers which will be redeemed over the following two years is £2,232,000. In addition, a provision of £123,000 has been made for sales refunds.
- (2) There is a risk that the group could be required to pay additional overseas indirect taxes. The timing of these payments is uncertain.
- (3) The group has an obligation under a planning agreement with a local council to perform renovations at a UK resort with an estimated cost of £1,275,000. The period during which these renovations are to take place has still to be determined.
- (4) The group is awaiting the final outcome of an action against two overseas subsidiaries in respect of the purchase price paid for premises within a resort, and the right of the group to occupy the premises. The directors believe the eviction will be successfully defended but that an amount of approximately £600,000 will be incurred by the group. The remainder of the provision relates to construction costs required to complete a leisure centre development at a UK resort. The company is obliged, following a court judgement to provide these facilities in accordance with a long standing management agreement.
- (5) The group made payments to building contractors which may be deemed to have been subject to withholding taxes under the construction industry scheme but for which deductions were not made. Unpaid tax is estimated at £105,000. The remainder of the provision relates to additional UK employee taxes and indirect taxes that the directors feel could be payable.

Diamond Resorts (Holdings) Limited

Notes forming part of the financial statements
for the year ended 31 December 2007 (continued)

19 Deferred taxation

The movement on the deferred tax asset during the year was as follows

	£'000
At 1 January 2007	510
Movement for the year	(36)
At 31 December 2007	<u>474</u>

The deferred tax asset consists of the following

	2007 £'000	2006 £'000
Other timing differences	<u>474</u>	<u>510</u>

The company has an unrecognised deferred tax asset of £6,532,000 (2006 £5,297,000) representing unutilised tax losses carried forward

20 Share capital

	2007 £'000	2006 £'000
Authorised		
55,000,000 Ordinary shares of £1 each	<u>55,000</u>	<u>55,000</u>
Allotted, called up and fully paid		
48,999,450 Ordinary shares of £1 each	<u>49,000</u>	<u>49,000</u>

21 Profit and loss account and reserves

Group	Merger Reserve 2007 £'000	Capital Reserve 2007 £'000	Profit and loss Reserve 2007 £'000
At 1 January 2007	(54,209)	500	(4,094)
Loss for the financial year	-	-	(6,785)
Foreign exchange differences	-	-	941
At 31 December 2007	<u>(54,209)</u>	<u>500</u>	<u>(9,938)</u>
Company			2007 £'000
At 1 January 2007			(57,487)
Loss for the financial year			(3,148)
At 31 December 2007			<u>(60,635)</u>

Diamond Resorts (Holdings) Limited

Notes forming part of the financial statements
for the year ended 31 December 2007 (continued)

22 Reconciliation of movements in equity shareholders' deficit

	Group 2007 £'000	Group 2006 £'000	Company 2007 £'000	Company 2006 £'000
Loss for the financial year	(6,785)	(12,031)	(3,148)	(3,008)
Foreign exchange differences	941	(537)	-	-
Net movement in shareholders' funds	(5,844)	(12,568)	(3,148)	(3,008)
Opening shareholders' (deficit) / funds	(8,803)	3,765	(8,487)	(5,479)
Closing shareholders' deficit	(14,647)	(8,803)	(11,635)	(8,487)

23 Commitments under operating leases

As at 31 December 2007, the group had annual commitments under non-cancellable operating leases as set out below

	Land and buildings		Other	
	2007 £'000	2006 £'000	2007 £'000	2006 £'000
Within one year	89	-	10	4
In two to five years	389	564	50	46
After five years	44	44	-	1
	522	608	60	51

24 Related party transactions

The company has entered into credit facility agreements with its parent undertaking, Diamond Resorts Corporation (formerly Sunterra Corporation). The balance owed at 31 December 2007 was £56,938,000 (2006 £49,121,000)

Diamond Resorts (Holdings) Limited

Notes forming part of the financial statements
for the year ended 31 December 2007 (continued)

25 Reconciliation of operating profit to net cash outflow from operating activities

	2007 £000	2006 £000
Group operating loss	(3,809)	(8,976)
Profit on disposal of tangible fixed assets	2	45
Depreciation and amortisation of fixed assets	1,803	1,562
Decrease in stocks	882	6,948
Increase in debtors	(3,193)	(4,878)
Increase/(decrease) in creditors	7,923	(987)
(Decrease)/increase in provisions	(397)	333
Other non cash movements	(1,463)	(586)
	<hr/>	<hr/>
Net cash inflow/(outflow) from operating activities	1,748	(6,539)
	<hr/>	<hr/>

26 Reconciliation of net cash flow to movement in net debt

	2007 £000	2006 £000
Increase in cash in the year	1,851	1,677
Cash (outflow)/inflow from change in liquid resources	(80)	278
Cash (outflow)/inflow from (increase)/decrease in debt	(4)	(7,696)
	<hr/>	<hr/>
Change in net debt resulting from cash flows	1,767	(5,741)
Currency and other non cash movements	(7,800)	(2,849)
	<hr/>	<hr/>
Movement in net debt in the year	(6,033)	(8,590)
Net debt at start of year	(11,541)	(2,951)
	<hr/>	<hr/>
Net debt at end of year	(17,574)	(11,541)
	<hr/>	<hr/>

Diamond Resorts (Holdings) Limited

Notes forming part of the financial statements
for the year ended 31 December 2007 (continued)

27 Analysis of debt

	As at 1 January 2007 £'000	Cash Flow £'000	Other non cash changes £'000	Foreign Exchange £'000	As at 31 December 2007 £'000
Cash at Bank and in hand	37,947	1,309	-	17	39,273
Bank loans and overdrafts repayable on demand	(749)	542	-	-	(207)
Net cash	<u>37,198</u>	<u>1,851</u>	<u>-</u>	<u>17</u>	<u>39,066</u>
Liquid resources	414	(80)	-	-	334
Obligations under finance lease	(32)	(4)	-	-	(36)
Borrowings from parent company	(49,121)	-	(7,817)	-	(56,938)
At 31 December 2007	<u>(11,541)</u>	<u>1,767</u>	<u>(7,817)</u>	<u>17</u>	<u>(17,574)</u>

28 Capital commitments

There were no capital commitments at 31 December 2007 or 31 December 2006

29 Contingent liabilities

- (1) There is a contingent liability for overseas indirect taxes. It is not practicable to quantify this liability until the group has completed a review of its group structure. A related provision has been made for taxes which are more likely than not to be incurred (note 18)
- (2) The company is aware of tax assessments against overseas resort property owning companies which the company could be required to pay. The company expects that these assessments will be successfully appealed. In the event that the appeal is lost, the total cost of settling these assessments is estimated to be £450,000

30 Ultimate parent undertaking

At the balance sheet date the directors regarded Diamond Resorts Holdings LLC, a company incorporated in the USA, as the company's ultimate parent undertaking

The only group of which Diamond Resorts (Holdings) Limited is a member and for which group accounts are drawn up is that headed by Diamond Resorts Holdings LLC, whose principal place of business is at 3865 West Cheyenne Avenue, North Las Vegas, Nevada 89032, USA. The consolidated accounts of the group can be obtained from the above address

Diamond Resorts (Holdings) Limited

Notes forming part of the financial statements for the year ended 31 December 2007 (continued)

31 Post balance sheet events

On 12 February 2008 the company acquired the entire issued share capital of Inplace Limited, a company whose principal activity is the management of a golf club, for consideration of £453,000

On 17 March 2008, the company announced its intention to stop making travel bookings on the behalf of members and to transfer these services to a preferred partner, Interval International. At the date these accounts are issued for signing, discussions are still taking place. All existing travel bookings will remain with Diamond Resorts Travel. From the changeover date all future bookings are expected to be made by the travel department of Interval International. Diamond Resorts Travel will cease to make new bookings unless to facilitate an amendment of a current travel booking. The directors believe that this decision will benefit future profitability as future savings in administration costs and capital investment will be greater than the small margins achievable in the highly competitive travel agency environment.

On 27 March 2008 the company signed a contract to sell a hotel property situated in London. At the balance sheet date this property was held in Stocks – Timeshare Points (Note 13) at a value of £3,007,000. At the date these financial statements were issued for signing the sale had a completion date of 29 August 2008, for an agreed consideration of £7,250,000. The company has received a non refundable deposit of £1,000,000 on this transaction.

On 4 July 2008 the company completed the sale of a former sales office property situated in Burton Upon-Trent, Staffordshire, for an agreed consideration of £395,000. At the balance sheet date this property was held in Tangible Assets – Freehold Land & Buildings at a net book value of £59,000.

On 29 July 2008, Diamond Resorts (Europe) Ltd purchased the business and assets of a telemarketing and distributor sales business trading under the name of LCI Travel for a total consideration of £850,000. LCI Travel was involved in the sale and marketing of timeshare related products.

32 Subsidiary undertakings

The company had the following significant subsidiary undertakings as at 31 December 2007. To avoid a statement of excessive length, details concerning subsidiaries which are not significant have been omitted.

Name of subsidiary	Country of incorporation	Class held	Proportion held
Intermediate holding company			
Diamond Resorts (Group Holdings) Plc	England	Ordinary	100%
Development and/or sale of holiday ownership			
Diamond Resorts (Europe) Limited	England	Ordinary	100%
Hewicoon SL	Spain	Ordinary	100%
Collie Inversion Inmobiliario Santa Cruz SL	Spain	Ordinary	100%
Labrador Inversiones Inmobiliarias Costa del Sol SL	Spain	Ordinary	57%
Diamond Resorts Spanish Sales SL	Spain	Ordinary	100%
Diamond Resorts Tenerife Sales SL	Spain	Ordinary	100%
Diamond Resorts Balearic Sales SL	Spain	Ordinary	100%
Diamond Resorts Mijas Sales SL	Spain	Ordinary	100%
Sunterra Portugal Clube de Ferias Lda	Portugal	Ordinary	100%
Diamond Resorts Sales Italy SRL	Italy	Ordinary	100%
Diamond Resorts Deutschland Holding GmbH	Germany	Ordinary	100%
Octopus GmbH	Austria	Ordinary	100%

Diamond Resorts (Holdings) Limited

Notes forming part of the financial statements
for the year ended 31 December 2007 (continued)

32 Subsidiary undertakings (continued)

Name of subsidiary	Country of incorporation	Class held	Proportion held
Management of timeshare resorts			
Diamond Resorts Management Limited	England	Ordinary	100%
Diamond Resorts Clubs (Europe) Limited	England	Ordinary	100%
Andalucian Realty Limited	England	Ordinary	100%
Kenmore Club Limited	Scotland	Ordinary	100%
Vacation Club Partnerships Limited	England	Ordinary	100%
Thurnham Vacation Club Management Limited	England	Ordinary	100%
Contiempo SL	Spain	Ordinary	100%
Sahara Sunset Resort Management SL	Spain	Ordinary	100%
Merceta Canaries SL	Spain	Ordinary	100%
Meridat Canaries SL	Spain	Ordinary	100%
Citronsa Canaries SL	Spain	Ordinary	100%
Sunset Sur SA	Spain	Ordinary	99.9%
Diamond Resorts Mijas Management SA	Spain	Ordinary	99.9%
Vilar do Golf Empreendimentos Turisticos Lda	Portugal	Ordinary	100%
Diamond Resorts Italia SRL	Italy	Ordinary	100%
Diamond Resorts Deutschland Betriebsgesellschaft GmbH	Germany	Ordinary	100%
Alpine Apartment Hotel LmbH	Austria	Ordinary	100%
IGR Mougins SARL	France	Ordinary	100%
Diamond Resorts Benalmadena Management SL	Spain	Ordinary	100%
Diamond Resorts Mallorca Management SL	Spain	Ordinary	100%
Diamond Resorts Gran Canarias Management SL	Spain	Ordinary	100%
Diamond Resorts Menorca Management SL	Spain	Ordinary	100%
Provision of finance and travel services			
DR Financial Services Limited	England	Ordinary	100%
Diamond Resorts Travel Limited	England	Ordinary	100%
Diamond Resorts Holidays Limited	England	Ordinary	100%
Diamond Resorts Voyages SARL	France	Ordinary	100%

Diamond Resorts (Holdings) Limited

Notes forming part of the financial statements
for the year ended 31 December 2007 (*continued*)

32 Subsidiary undertakings (*continued*)

Clubs *

Thurnham Hall	England
Pine Lake	England
Wychnor Park	England
Woodford Bridge	England
Cromer Country Club	England
Kenmore Club	England
Royal Sunset Beach Club	Spain
Royal Tenerife Country Club	Spain
Sahara Sunset	Spain
Sunset Bay	Spain
Sunset Harbour	Spain
Santa Barbara	Spain
Sunset View	Spain
Benal Beach	Spain
Club del Carmen	Spain
White Sands Beach Club	Spain
White Sands Country Club	Spain
Cala Blanca	Spain
Los Amigos Beach Club	Spain
La Quinta	Spain

* These are unincorporated undertakings which are consolidated by virtue of the group's power to exercise control over them