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**Diamond Resorts (Holdings)
Limited**

Report and Financial Statements

Year Ended

31 December 2008



BDO Stoy Hayward
Chartered Accountants

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Diamond Resorts (Holdings) Limited

**Annual report and financial statements
for the year ended 31 December 2008**

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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
3 Hardman Street
Spinningfields
Manchester
M3 3AT

Diamond Resorts (Holdings) Limited

Report of the directors for the year ended 31 December 2008

The directors present their report together with the audited financial statements for the year ended 31 December 2008.

Results and dividends

The consolidated loss for the year after taxation amounted to £1.1m (2007: £6.8m loss). The directors do not recommend the payment of a dividend (2007: £nil).

During the year the group continued to integrate the Diamond Resorts International brand tenets of simplicity, choice and comfort, achieved through consistency of guest hospitality across its worldwide resort portfolio, streamlined owner administration and an improved reservation experience. As a result, the creation of a worldwide holiday club utilising the Diamond Resorts International identity has been a key company focus.

The group has in tandem initiated the globalisation of the sales and marketing process with a change in emphasis with regard to warm line selling (selling to onsite guests). Formulation of a new corporate sales team has been undertaken and there has also been investment in the cold line selling process (selling to new prospects), with the acquisition of the telemarketing and distributor sales business, LCI Travel.

During the year the company also completed the closure of its UK based travel business and the transfer of these services to its preferred partner, Interval International. As expected, this decision has benefited profitability during the period.

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 6 and shows turnover for the year of £41 million (2007: £40 million) and a loss after tax of £1.1 million (2007: £6.8 million loss).

Turnover has increased by 3%, mainly due to improved sales of timeshare points, which were £2m higher during the period. The Directors are pleased with this trend and believe that the actions implemented from decisions made in the previous period; the launch of the new DRI brand, a European Collection sampler product and onsite concierge marketing (a client capture technique) have made a key contribution towards this revenue turnaround.

The company has significantly reduced losses during the period. This was largely attributable to lower levels of corporate overhead expenditure, particularly reduced professional fees during the period at £2m (2007: £4.5m.) In addition, the company realised a profit of £4 million from the sale of a hotel property in London. Total proceeds received on this transaction as at the balance sheet date were £6.9m.

The Directors are mindful of the current worldwide downturn and the increased cost base of Continental European holidays for the UK holiday maker due to the weakness of sterling now. As a result, the trading result is not expected to be significantly improved during 2009.

Diamond Resorts (Holdings) Limited

Report of the directors for the year ended 31 December 2008 (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 headed by Diamond Resorts (Holdings) Limited has no significant external bank creditors. The group is funded by, and has an undertaking from, Diamond Resorts 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 2008 the number of days' purchases within creditors was 26 (2007: 22).

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 amongst other things through management briefings and other informal communications.

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.

S Crook

M M Kandel (appointed 7 January 2008, resigned 22 July 2008)

S J Hulme (appointed 22 July 2008)

F C Bauman (resigned 7 January 2008)

Diamond Resorts (Holdings) Limited

Report of the directors for the year ended 31 December 2008 (continued)

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
Secretary**

3rd July 2009

Diamond Resorts (Holdings) Limited

Report of the independent auditors

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

We have audited the consolidated and parent company financial statements of Diamond Resorts (Holdings) Limited for the year ended 31 December 2008 which comprise the consolidated profit and loss account, the group and company balance sheets, the consolidated cash flow statement and the consolidated 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.

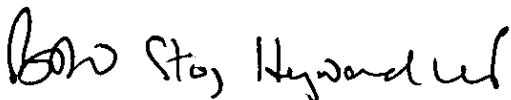
Diamond Resorts (Holdings) Limited

Report of the independent auditors (*continued*)

Opinion

In our opinion:

- the consolidated 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 2008 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 2008;
- 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*

Date: 9 July 2009

Diamond Resorts (Holdings) Limited

Consolidated profit and loss account for the year ended 31 December 2008

	Note	2008 £'000	2007 £'000 As restated
Turnover	2	41,305	39,906
Cost of sales		(7,968)	(8,324)
Gross profit		<u>33,337</u>	<u>31,582</u>
Distribution costs		(15,862)	(10,847)
Administration expenses		(24,897)	(27,506)
Other operating income	4	8,082	2,962
Operating profit/(loss)	3	660	(3,809)
Interest receivable	7	1,541	1,364
Interest payable	8	(3,050)	(3,767)
Loss on ordinary activities before taxation		<u>(849)</u>	<u>(6,212)</u>
Tax on loss on ordinary activities	9	(265)	(573)
Loss on ordinary activities		<u><u>(1,114)</u></u>	<u><u>(6,785)</u></u>

The results disclosed above all relate to continuing operations.

The notes on pages 11 to 31 form part of these financial statements.

Diamond Resorts (Holdings) Limited

Consolidated statement of total recognised gains and losses for the year ended 31 December 2008

	Note	2008 £'000	2007 £'000
Loss for the financial year		(1,114)	(6,785)
Exchange differences on retranslation of foreign undertakings		(169)	941
Total recognised losses for the year		<u>(1,283)</u>	<u>(5,844)</u>

The notes on pages 11 to 31 form part of these financial statements.

Diamond Resorts (Holdings) Limited

Consolidated balance sheet for the year ended 31 December 2008

	Note	2008	2008	2007	2007
		£'000	£'000	£'000	£'000
Fixed assets					
Intangible assets	11		1,783		1,312
Tangible assets	12		4,238		3,211
Investments	13		32		32
			<u>6,053</u>		<u>4,555</u>
Current assets					
Stocks	14	26,429		29,485	
Debtors:					
Amounts falling due within one year	15	59,392		39,407	
Amounts falling due after more than one year	15	2,941		3,080	
Cash at bank and in hand	16	32,030		39,273	
		<u>120,792</u>		<u>111,245</u>	
Creditors: amounts falling due within one year	17	<u>(81,734)</u>		<u>(66,168)</u>	
Net current assets			39,058		45,077
Total assets less current liabilities			<u>45,111</u>		<u>49,632</u>
Creditors : amounts falling due after more than one year	18		(54,022)		(56,963)
Provisions for liabilities and charges	19		(7,019)		(7,316)
Net liabilities			<u>(15,930)</u>		<u>(14,647)</u>
Capital and reserves					
Called up share capital	21		49,000		49,000
Profit and loss account	22		(11,221)		(9,938)
Capital reserve	22		500		500
Merger reserve	22		(54,209)		(54,209)
Equity shareholders' deficit	23		<u>(15,930)</u>		<u>(14,647)</u>

The financial statements were approved by the Board and authorised for issue on 3rd July 2009

Susan Crook

**S Crook
Director**


The notes on pages 11 to 31 form part of these financial statements

Diamond Resorts (Holdings) Limited

Company balance sheet for the year ended 31 December 2008

	Note	2008	2008	2007	2007
		£'000	£'000	£'000	£'000
Fixed assets					
Investments	13		35,327		35,327
Current assets					
Debtors	15	9,956		13,994	
		<u>9,956</u>		<u>13,994</u>	
Creditors: amounts falling due within one year	17	(5,301)		(4,019)	
Net current assets			<u>4,655</u>		<u>9,975</u>
Total assets less current liabilities			<u>39,982</u>		<u>45,302</u>
Creditors : amounts falling due after more than one year	18		(53,999)		(56,937)
Net liabilities			<u>(14,017)</u>		<u>(11,635)</u>
Capital and reserves					
Called up share capital	21		49,000		49,000
Profit and loss account	22		(63,017)		(60,635)
Equity shareholders' deficit	23		<u>(14,017)</u>		<u>(11,635)</u>

The financial statements were approved by the Board and authorised for issue on 3rd July 2009



S Crook
Director

The notes on pages 11 to 31 form part of these financial statements.

Diamond Resorts (Holdings) Limited

Consolidated cash flow statement for the year ended 31 December 2008

	Note	2008 £'000	2008 £'000	2007 £'000	2007 £'000
Net cash inflow from operating activities	26		299		1,748
Returns on investments and servicing of finance					
Interest paid		(9)		(4)	
Interest received		1,541		1,383	
Interest on finance leases		(6)		(9)	
Net cash inflow from returns on investments and servicing of finance			1,526		1,370
Taxation			73		(1,295)
Capital expenditure and financial investment					
Purchase of tangible fixed assets		(1,018)		(172)	
Sale of tangible fixed assets		364		116	
Net cash outflow from capital expenditure and financial investment			(654)		(56)
Acquisitions and disposals (note 33)			(631)		-
Cash inflow before financing			613		1,767
Management of liquid resources					
(Decrease)/increase of short term deposits			(131)		80
Financing					
Capital element of hire purchase contract		-		4	
Decrease in borrowings from parent company		(8,000)		-	
Net cash (outflow)/inflow from financing			(8,000)		4
(Decrease)/increase in cash	27		(7,518)		1,851

The notes on pages 11 to 31 form part of these financial statements.

Diamond Resorts (Holdings) Limited

Notes forming part of the financial statements for the year ended 31 December 2008

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 32) drawn up to 31 December 2008. 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, (which give members the usage right to accommodation in holiday resorts owned by the group), and other non-points trading stock (comprising land and buildings not put into trust, but which may be available for members to use), and facilities 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.

Other operating income also includes any profits made on the sale of timeshare properties held as current assets.

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.

Diamond Resorts (Holdings) Limited

Notes forming part of the financial statements for the year ended 31 December 2008 (continued)

1 Accounting policies (continued)

Investments

Investments are stated at cost less amounts written off.

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 2008 (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 year 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 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 2008 (continued)**

3 Operating profit/(loss)

The operating result is stated after charging:	2008	2007
	£'000	£'000
Depreciation:		
- owned assets	515	1,647
- assets held under finance leases and hire purchase contracts	4	11
Impairment of assets:		
- impairment of intangibles	586	-
Auditors' remuneration:		
- audit services	260	373
Amortisation of intangible fixed assets	346	135
Operating lease rentals:		
- land and buildings	522	608
- other	60	51
Profit on sale of inventory	4,352	-
	<u> </u>	<u> </u>

Diamond Resorts (Holdings) Limited

Notes forming part of the financial statements
for the year ended 31 December 2008 (*continued*)

4 Other operating income

	2008 £'000	2007 £'000
Commission and fees received	721	1,102
Rental income	1,972	703
Income from resort clubs	794	928
Sundry income	113	229
Profit on disposal of tangible asset (former UK sales centre)	326	-
Profit on disposal of other asset (unsold timeshare stock at La Quinta)	130	-
Profit on disposal of Carlton Court (unsold timeshare stock in London)	4,026	-
	<u>8,082</u>	<u>2,962</u>

During the year the company sold a property previously held in stock. After taking into consideration all costs incurred the sale generated a profit on disposal of £4,026,000.

5 Employees

	Group		Company	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000
<i>Staff costs for the year were as follows:</i>				
Wages and salaries	11,670	10,086	-	-
Social security costs	1,720	1,409	-	-
Pension costs	12	1	-	-
	<u>13,402</u>	<u>11,496</u>	<u>-</u>	<u>-</u>

	Group		Company	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000
<i>The average number of employees during the year was:</i>				
Sales and marketing	167	66	-	-
Travel and reservations	22	84	-	-
Finance and administration	188	166	-	-
	<u>377</u>	<u>316</u>	<u>-</u>	<u>-</u>

Diamond Resorts (Holdings) Limited

**Notes forming part of the financial statements
for the year ended 31 December 2008 (continued)**

6 Directors' remuneration

	2008 £'000	2007 £'000
<i>Remuneration in respect of directors was as follows:</i>		
Emoluments and benefits in kind	102	20
	<u>102</u>	<u>20</u>
	<u>102</u>	<u>20</u>
 <i>Remuneration in respect of the highest paid director was as follows:</i>		
Emoluments and benefits in kind	102	20
	<u>102</u>	<u>20</u>
	<u>102</u>	<u>20</u>

During the year the company did not contribute to private pension plans of any directors (2007: no directors).

7 Interest receivable

	2008 £'000	2007 £'000
Other interest	286	3
Bank interest receivable	1,255	1,361
	<u>1,541</u>	<u>1,364</u>
	<u>1,541</u>	<u>1,364</u>

8 Interest payable

	2008 £'000	2007 £'000
Interest payable to group undertakings	3,044	3,758
Finance leases and hire purchase contracts	6	9
	<u>3,050</u>	<u>3,767</u>
	<u>3,050</u>	<u>3,767</u>

Diamond Resorts (Holdings) Limited

Notes forming part of the financial statements for the year ended 31 December 2008 (continued)

9 Tax on loss on ordinary activities

	2008 £'000	2007 £'000
The tax charge represents:		
- UK corporation tax at 28.5% (2007: 30%)	-	-
- Overseas	383	400
- Adjustment in respect of prior years	92	137
	<u>475</u>	<u>537</u>
Deferred tax (Note 20)	(210)	36
	<u>265</u>	<u>573</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 :

	2008 £'000	2007 £'000
Loss on ordinary activities before taxation	(849)	(6,212)
Loss on ordinary activities before taxation multiplied by standard rate of corporation tax in the UK of 28.5% (2007: 30%)	<u>(242)</u>	<u>(1,864)</u>
Effect of:		
Depreciation for the year in excess of capital allowances	113	174
Higher tax rates on overseas earnings	175	47
Trade losses utilised	(927)	(179)
Losses carried forward not recognised as deferred tax asset	1,304	1,130
Other timing differences	146	1,193
Adjustment in respect of prior years	(92)	-
Item relating to prior year adjustments	(2)	36
Current tax charge for the year	<u>475</u>	<u>537</u>

10 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 £2,382,000 (2007: £3,148,000). See note 22.

Diamond Resorts (Holdings) Limited

Notes forming part of the financial statements
for the year ended 31 December 2008 (*continued*)

11 Intangible fixed assets

Group	Purchased goodwill £'000	Patents and rights £'000	Total £'000
<i>Cost</i>			
At 1 January 2008	2,253	172	2,425
Additions	1,387	17	1,404
Impairment	(586)	-	(586)
At 31 December 2008	<u>3,054</u>	<u>189</u>	<u>3,243</u>
<i>Amortisation</i>			
At 1 January 2008	1,064	49	1,113
Provided in the year	332	15	346
At 31 December 2008	<u>1,396</u>	<u>64</u>	<u>1,460</u>
<i>Net book value</i>			
At 31 December 2008	<u>1,658</u>	<u>125</u>	<u>1,783</u>
At 31 December 2007	<u>1,189</u>	<u>123</u>	<u>1,312</u>

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

The goodwill added during the year relates to the acquisitions of the telemarketing and distributor sales business, LCI Travel (£26,000), and Inplace Limited (£537,000), whose principal business is the management of a golf club. LCI Travel is being amortised over 2 years and Inplace Limited is being amortised over 20 years, this is based on the directors' best estimate of their respective useful economic lives.

See note 33 for details of the acquisitions made within the year.

Diamond Resorts (Holdings) Limited

Notes forming part of the financial statements
for the year ended 31 December 2008 *(continued)*

12 Tangible fixed assets

Group	Freehold land and buildings £'000	Leasehold property £'000	Fixtures and fittings £'000	Motor vehicles £'000	Total £'000
<i>Cost or valuation</i>					
At 1 January 2008	2,929	1,427	8,950	374	13,680
Additions	430	129	433	26	1,018
Acquisition of subsidiary undertaking	-	-	225	7	232
Disposals	(304)	-	(37)	(27)	(368)
Foreign exchange	202	323	895	62	1,482
At 31 December 2008	<u>3,257</u>	<u>1,879</u>	<u>10,466</u>	<u>442</u>	<u>16,044</u>
<i>Depreciation</i>					
At 1 January 2008	2,221	566	7,403	289	10,469
Provided in the year	36	132	325	26	519
Acquisition of subsidiary undertaking	-	-	212	3	215
Disposals	(248)	-	(36)	(27)	(311)
Foreign exchange	16	99	748	51	914
At 31 December 2008	<u>2,025</u>	<u>787</u>	<u>8,652</u>	<u>342</u>	<u>11,806</u>
<i>Net book value</i>					
At 31 December 2008	<u>1,232</u>	<u>1,092</u>	<u>1,814</u>	<u>100</u>	<u>4,238</u>
At 31 December 2007	<u>708</u>	<u>861</u>	<u>1,547</u>	<u>85</u>	<u>3,211</u>

The net book value of assets held under finance leases at 31 December 2008 amounted to £7,000 (2007: £11,000). Depreciation charged on these assets in the year amounted to £4,000 (2007: £11,000).

Diamond Resorts (Holdings) Limited

Notes forming part of the financial statements
for the year ended 31 December 2008 (*continued*)

13 Investments

	Group £'000	Company £'000
<i>Written down cost</i>		
At 1 January 2008 and 31 December 2008	32	35,327

In previous years the group wrote off investment to the lower of net assets and £1. Significant subsidiary undertakings as at 31 December 2008 are shown in note 32.

14 Stocks

	Group	
	2008 £'000	2007 £'000
Timeshare points	13,269	15,676
Other non-points trading stock	11,964	11,412
Work in progress	934	2,084
Consumables	262	313
	<u>26,429</u>	<u>29,485</u>

15 Debtors

	Group		Company	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000
<i>Amounts falling due within one year:</i>				
Trade debtors	367	2,122	-	-
Club maintenance fee debtors	52,552	32,429	-	-
Other debtors	3,737	2,328	-	-
Amounts owed by group companies	-	-	9,956	13,994
Prepayments and accrued income	1,181	1,053	-	-
Taxation and social security	1,555	1,475	-	-
	<u>59,392</u>	<u>39,407</u>	<u>9,956</u>	<u>13,994</u>
<i>Amounts falling due after more than one year:</i>				
Trade debtors	522	661	-	-
Corporation tax receivable	2,419	2,419	-	-
	<u>2,941</u>	<u>3,080</u>	<u>-</u>	<u>-</u>

Diamond Resorts (Holdings) Limited

Notes forming part of the financial statements for the year ended 31 December 2008 (continued)

16 Cash at bank and in hand - group

Cash at bank and in hand includes restricted cash balances of £22,822,000 (2007: £30,689,000) held on behalf of the club members. None of the restricted cash amounts held are available for use by the group.

17 Creditors: amounts falling due within one year

	Group		Company	
	2008	2007	2008	2007
	(as restated)	(as restated)	(as restated)	(as restated)
	£'000	£'000	£'000	£'000
Bank overdrafts	172	207	-	-
Obligations under finance leases (note 18)	13	10	-	-
Trade creditors	1,702	3,260	-	2
Corporation tax	2,452	2,114	-	-
Other taxation and social security	1,694	755	-	-
Other creditors	1,479	1,344	-	-
Amounts owed on behalf of club members	64,826	53,256	-	-
Amounts owed to group undertakings	-	-	5,301	4,017
Accruals and deferred income	9,396	5,222	-	-
	<u>81,734</u>	<u>66,168</u>	<u>5,301</u>	<u>4,019</u>

See note 34 for restatements.

18 Creditors: amounts falling due after more than one year

	Group		Company	
	2008	2007	2008	2007
	(as restated)	(as restated)	(as restated)	(as restated)
	£'000	£'000	£'000	£'000
Loan from parent company	53,999	56,937	53,999	56,937
Obligations under finance leases	23	26	-	-
	<u>54,022</u>	<u>56,963</u>	<u>53,999</u>	<u>56,937</u>

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

See note 34 for restatements.

Group

	Loans and overdrafts	Finance leases	Total
	2008	2008	2008
	£'000	£'000	£'000
In one year or less, or on demand	172	13	185
In more than one year but not more than five years	-	23	23
	<u>172</u>	<u>36</u>	<u>208</u>

Diamond Resorts (Holdings) Limited

Notes forming part of the financial statements for the year ended 31 December 2008 (continued)

18 Creditors: amounts falling due after more than one year (continued)

Group	Loans and overdrafts 2007 £'000	Finance leases 2007 £'000	Total 2007 £'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>

19 Provisions for liabilities and charges

	Note	At 1 January 2008 £'000	Additions £'000	Amounts used £'000	At 31 December 2008 £'000
Sales and marketing	(1)	2,355	2,411	(2,323)	2,443
Overseas taxes	(2)	2,598	-	(83)	2,515
Maintenance and repairs	(3)	1,275	-	-	1,275
Litigation	(4)	902	65	(367)	600
UK taxes	(5)	186	-	-	186
		<u>7,316</u>	<u>2,476</u>	<u>(2,773)</u>	<u>7,019</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 2008 the estimated cost of awards and vouchers which will be redeemed over the following two years is £2,339,000. In addition, a provision of £104,000 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.
- (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 2008 (continued)**

20 Deferred taxation

The movement on the deferred tax liability during the year was as follows:

	£'000
At 1 January 2008	474
Movement for the year	(210)
At 31 December 2008	<u>264</u>

The deferred tax liability consists of the following:

	2008 £'000	2007 £'000
Other timing differences	<u>264</u>	<u>474</u>

The company has an unrecognised deferred tax asset of £3,033,000 (2007: £2,478,000) representing unutilised tax losses carried forward. The group has an unrecognised deferred tax asset of £11,351,000 (2007: £9,017,000 for the same category)

21 Share capital

	2008 £'000	2007 £'000
<i>Authorised</i>		
55,000,000 Ordinary shares of £1 each	<u>55,000</u>	<u>55,000</u>
<i>Allotted, called up and fully paid</i>		
48,999,450 Ordinary shares of £1 each	<u>49,000</u>	<u>49,000</u>

Diamond Resorts (Holdings) Limited

Notes forming part of the financial statements
for the year ended 31 December 2008 (*continued*)

22 Profit and loss account and reserves

Group	Merger reserve 2008 £'000	Capital reserve 2008 £'000	Profit and loss reserve 2008 £'000
At 1 January 2008	(54,209)	500	(9,938)
Loss for the financial year	-	-	(1,114)
Foreign exchange differences	-	-	(169)
At 31 December 2008	<u>(54,209)</u>	<u>500</u>	<u>(11,221)</u>

Company	2008 £'000
At 1 January 2008	60,635
Loss for the financial year	2,382
At 31 December 2008	<u>63,017</u>

Diamond Resorts (Holdings) Limited

Notes forming part of the financial statements
for the year ended 31 December 2008 (*continued*)

23 Reconciliation of movements in equity shareholders' deficit

	Group 2008 £'000	Group 2007 £'000	Company 2008 £'000	Company 2007 £'000
Loss for the financial year	(1,114)	(6,785)	(2,382)	(3,148)
Foreign exchange differences	(169)	941	-	-
Net movement in shareholders' funds	<u>(1,283)</u>	<u>(5,844)</u>	<u>(2,382)</u>	<u>(3,148)</u>
Opening shareholders' deficit	(14,647)	(8,803)	(11,635)	(8,487)
Closing shareholders' deficit	<u><u>(15,930)</u></u>	<u><u>(14,647)</u></u>	<u><u>(14,017)</u></u>	<u><u>(11,635)</u></u>

24 Commitments under operating leases

As at 31 December 2008, the group had annual commitments under non-cancellable operating leases as set out below:

	Land and buildings 2008 £'000	Land and buildings 2007 £'000	Other 2008 £'000	Other 2007 £'000
Within one year	16	89	4	10
In two to five years	460	389	51	50
After five years	44	44	-	-
	<u>520</u>	<u>522</u>	<u>55</u>	<u>60</u>

25 Related party transactions

The company has entered into credit facility agreements with its parent undertaking, Diamond Resorts Corporation. The balance owed at 31 December 2008 was £54,147,000 (2007: £56,938,000). In 2008 the company paid Diamond Resorts Corporation £8,00,000 in respect of this facility.

The company has taken advantage of the exemption included in FRS 8 and has not disclosed transactions with other members within the group headed by Diamond Resorts (Holdings) Limited.

Diamond Resorts (Holdings) Limited

Notes forming part of the financial statements
for the year ended 31 December 2008 (*continued*)

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

	2008 £000	2007 £000
Group operating profit/(loss)	660	(3,809)
(Profit)/loss on disposal of tangible fixed assets	(326)	2
Depreciation and amortisation of fixed assets	865	1,803
Decrease in stocks	3,056	882
Increase in debtors	(19,529)	(3,193)
Increase in creditors	16,449	7,923
Decrease in provisions	(297)	(397)
Impairment of goodwill	586	-
Other non cash movements	(1,165)	(1,463)
	<hr/>	<hr/>
Net cash inflow from operating activities	299	1,748
	<hr/>	<hr/>

27 Reconciliation of net cash flow to movement in net debt

	2008 £000	2007 £000
(Decrease)/increase in cash in the year	(7,518)	1,851
Cash inflow/(outflow) from change in liquid resources	131	(80)
Cash inflow/(outflow) from (increase)/decrease in debt	8,000	(4)
	<hr/>	<hr/>
Change in net debt resulting from cash flows	613	1,767
Currency and other non cash movements	(4,751)	(7,800)
	<hr/>	<hr/>
Movement in net debt in the year	(4,138)	(6,033)
Net debt at start of year	(17,574)	(11,541)
	<hr/>	<hr/>
Net debt at end of year	(21,712)	(17,574)
	<hr/>	<hr/>

Diamond Resorts (Holdings) Limited

Notes forming part of the financial statements
for the year ended 31 December 2008 (continued)

28 Analysis of debt

	As at 1 January 2008 £'000	Cash flow £'000	Other non cash changes £'000	Foreign exchange £'000	As at 31 December 2008 £'000
Cash at bank and in hand	39,273	(7,553)	-	310	32,030
Bank loans and overdrafts repayable on demand	(207)	35	-	-	(172)
Net cash	39,066	(7,518)		310	31,858
Liquid resources	334	131	-	-	465
Obligations under finance lease	(36)	-	-	-	(36)
Loan from parent company	(56,938)	8,000	(5,061)	-	(53,999)
At 31 December 2008	(17,574)	613	(5,061)	310	(21,712)

29 Capital commitments

There were no capital commitments at 31 December 2008 or 31 December 2007.

30 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 19).
- (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.

31 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 10600 West Charleston Blvd, Las Vegas, Nevada 89135-1014, 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 2008 (continued)

32 Subsidiary undertakings

The company had the following significant subsidiary undertakings as at 31 December 2008. 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 Excursions SL	Spain	Ordinary	100%
Diamond Resorts 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 2008 (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%
Cotiempo 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	100%
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 Canaries Management SL	Spain	Ordinary	100%
Diamond Resorts Menorca Management SL	Spain	Ordinary	100%
Inplace Limited	England	Ordinary	100%
Provision of finance and travel services			
Diamond Resorts 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 2008 (continued)

32 Subsidiary undertakings (continued)

Clubs *

Diamond Resorts European Collection	European Based Points Club
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
Royal Oasis Club at Pueblo Quinta	Spain

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

33 Acquisitions

The company has made two acquisitions during the year as summarised below:

Analysis of net outflow of cash in respect of acquisitions

Cash consideration:	£'000
Inplace Limited	471
LCI Travel	283
Cash acquired	(123)
	<hr/>
	631
	<hr/>

(a) LCI Travel

On 29 July 2008 the Group completed the purchase of the business of a telemarketing and distributor sales business trading under the name of LCI Travel for a total consideration of £850,000 (£283,000 cash, £567,000 deferred.) An impairment of £586,000 was recognised immediately on the goodwill acquired with this acquisition.

Diamond Resorts (Holdings) Limited

Notes forming part of the financial statements
for the year ended 31 December 2008 (*continued*)

33 Acquisitions (*continued*)

(b) Inplace Limited

On 12 February 2008 the Group completed the acquisition of Inplace Limited for a consideration of £471,000. Total goodwill arising on the acquisition is £537,000. The assets and liabilities of Inplace Limited at fair value were:

	Book value	Fair value adjustments	Fair value
	£'000	£'000	£'000
Tangible fixed assets	254	(237)	17
Debtors	65	-	65
Cash	123	-	123
Creditors falling due within one year	(271)	-	(271)
	<u>171</u>	<u>(237)</u>	<u>(66)</u>
Cash consideration (including costs)			(471)
Goodwill arising on the acquisition			<u>(537)</u>

34 Comparative figures

During the year the group has reclassified certain comparative figures within the profit and loss account to ensure the presentation reflects the nature of each item and is consistent with the current year.

35 Financial commitments

The company is party to a cross guarantee, registered 24 April 2008, which secures the revolving credit facility provided by Diamond Resorts Corporation, a fellow member of the group headed by Diamond Resorts Holdings LLC, at the balance sheet date, to the subsidiary companies. The amount outstanding at the year end was £53,999,000 (2007: £56,937,000). The debenture provides a fixed and floating charge over the undertaking and all the assets of the company.