Diamond Resorts (Holdings) Limited

Company Number: 5071128

Report and Financial Statements

Year Ended

31 December 2011

Diamond Resorts (Holdings) Limited

Annual report and financial statements
for the year ended 31 December 2011

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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 LLP
3 Hardman Street
Spinningfields
Manchester
M3 3AT

Diamond Resorts (Holdings) Limited

Report of the directors
for the year ended 31 December 2011

The directors present their report together with the audited financial statements for the year ended 31 December 2011

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 The group has trading activities outside the UK, through companies and branches in Spain, Portugal, France, Germany, Italy, Austria, Malta and Ireland There are no plans to alter the activities of the group

Results and dividends

The consolidated loss for the year after taxation amounted to £3 1m (2010 £2 7m loss) The directors do not recommend the payment of a dividend (2010 £nil)

Group turnover decreased by £4m during the period, the majority of this deficit being due to lower sales of holiday ownership to onsite guests (warm line selling) in the key selling regions, these being the Canary Islands and the UK Marketing activity was lower (resulting in a reduced number of selling prospect tours), partly due to reduced expenditure on lead generation In addition, administration fees and commercial revenues from onsite guests, third party organisations and members also fell, due to a combination of, resort disposals, reduced membership and lower rent from franchisees

Group operating loss before taxation was maintained at a comparable level with the prior year The fall in turnover was largely offset by the growth in revenues from preferred rental partners (see note 4, page 16) and interest income (new financing revenues from members and also interest from HMRC concerning prior overpaid taxation, (see note 7, page 17))

Group taxation showed a net refund position again this year, resulting from additional prior period adjustments recognised following the receipt of tax refunds in the UK from HMRC These relate to a long standing claim for overpaid corporation tax linked to fundamental error corrections and subsequent profit and loss account restatements recognised in the financial statements for the year ended 31 December 2004 Refunds received this year being £1 9m (2010 £2 0m)

Membership numbers declined again during the period and the sales and marketing operation also continues to struggle with regard to the selling of timeshare related products to new prospects (cold line) The directors are mindful of this situation and are confident that continuing steps taken to reduce developer room space (unsold timeshare stock and its related carrying costs) and ongoing product development will eventually improve the operating result As mentioned last year as post balance sheet events, the group signed contracts to sell resort properties in Germany and the Balearic Islands, subject to legal title transfer on the eventual receipt of all proceeds These resorts are treated in these financial statements as having been disposed of due to the substance of the transactions and the transfer of economic benefits The group recorded a loss of £0.9m on this disposal

Key Performance Indicators

The directors consider key performance indicators (KPI's) to be

- Volume per guest (calculated as, timeshare revenue / qualified (acceptable) marketing tours)
- Marketing tours (selling prospects toured at resort locations)
- Resort room occupancy rates
- Room nights rented
- The number of European Collection points sold

Reference to such KPI's can be found in the discussion of performance in the following review of the business

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 £34 2m (2010 £38 2m) and a loss after tax of £3 1m (2010 loss of £2 7m)

As a result of the continued economic downturn and inflationary pressures on customers' living expenses the group made membership retention a key business focus again during the year The group hopes to achieve this goal through successful customer satisfaction and product credibility via delivery of the service program called "The Meaning of Yes®" This is the desired customer service experience when dealing with members through the organisation's front of house, back office and support functions

Turnover has decreased by 10%, mainly due to the following reasons
There was a reduction in the sales of timeshare points, which were £2 7m lower during the period The Directors believe that this disappointing result was again indicative of the tough economic conditions and reductions in the discretionary spend of customers Accordingly, there was a fall in volumes per guest to £930 this year, (2010 £940 per guest) on sales of points Marketing Tour-flow targeted at selling timeshare points was a key contributor to this deficit, with a 14 5% fall across Europe, (5% lower in the UK but much higher in continental Europe with 17-18% falls in Mainland Spain and the Canary Islands) Reduced spending on lead generation and the future pipeline, together with a reorganisation of the telemarketing activity, (transfer of the operation from UK to Mainland Spain) were contributory issues As a result of these factors, the number of European Collection points sold decreased by 12%, (2011 12 9m, 2010 14 6m)

Distribution costs decreased by 5% due to the following reasons (1) £0 7m increase in carrying costs of unsold timeshare stock due to the aforementioned reduction in membership numbers and the related contribution that they make to the running costs of group managed resorts and hotels This uplift was more than compensated by, (2) £1 9m decrease in direct and indirect selling and marketing expense This is a result of decreased timeshare sales leading to lower commissions and other overheads incurred by the sales team and also a decision to reduce onsite tour costs and also lead generation expenses on the future pipeline of marketing prospects

Administration expenses reduced by 1% due to the following reasons (1) £0 5m additional net expense this year relating to the adjustment of long standing provisions, the majority of which relates to overseas indirect taxation This expense was offset by the following, (2) £0 4m lower impairments of non points trading stock (3) £0 2m lower expenditure incurred on the refurbishment of commercial resort facilities

Other operating income reduced by 8%, the majority of which was due to the following reasons (1) £1 4m lower profits realised from the disposal of developer owned surplus unsold timeshare stock that had been removed from the European Collection and /or underlying timeshare trust with the agreement of First National Trustee Company (2) £0 3m lower fees collected from club members due to the aforementioned fall in membership (3) £1 1m of additional income was realised from the relationship with preferred rental partners These rental partners occupied a further 3% of total resort room space this year, allocated from the developer's portion, (2011 17%, 2010 14% of space), equating to 160,000 room nights This income partly reduces the developer's liability for unsold inventory and its associated accommodation expense

The directors are disappointed with the group's operating result but believe that it is understandable in view of the continuingly tough economic conditions and the constraints on surplus capital together with the difficulty that the potential purchasers of timeshare may experience with regard to obtaining adequate external finance to fund their acquisition

Looking forward, Sterling remains stable against the Euro but the forthcoming year will continue to see a rise in the cost of continental and domestic travel due to inflationary and procurement pressures on commodity, fuel and energy prices In addition, the forthcoming rise in Air Passenger Duty levied on British holiday makers will not help this situation As a result, future occupancy rates across member resorts are not expected to be significantly different to current levels, (2011 73%, 2010 72%)

Review of the business and future developments

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Review of the business and future developments *(continued)*

As reported in the prior year, the group will continue to roll out new membership benefit products and services and will continue to pursue opportunities to dispose of developer owned surplus unsold timeshare stock The latter strategy will reduce the carrying costs of unoccupied resort accommodation In addition, it is a desire of the group to increase the portfolio of affiliate resort and international destinations at no cost to members In the forthcoming year the directors expect to complete the first and second phases of a corporate restructuring project currently underway This is regarding a reorganisation of the legal and operational structure throughout continental Europe The aim of the project is to make group trading more efficient and to remove complexity to better meet present and future needs The group is also still investigating strategies to widen the client base to new nationalities and to acquire new resort management opportunities

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 net liability position reported in the consolidated and company balance sheet has arisen from borrowings obtained from the US parent company, the subsidiary of a US group headed by Diamond Resorts Holdings LLC The company and European group has no significant external bank creditors The company and group are funded by, and have an undertaking from, Diamond Resorts Corporation to provide support as necessary to fund the company and group's operations for the foreseeable future It should be noted, however, that the group is party to a cross guarantee, created 2 February 2007, in favour of Diamond Resorts Corporation The debenture provides a fixed and floating charge over the undertaking and all assets of the group due to the existence of external debt at US group level

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 2011 the number of days' purchases within creditors was 29 (2010 26)

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 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
S J Hulme

Statement of directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year Under that law the directors have elected to prepare the group and company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and company and of the profit or loss of the group for that period

In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and 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 2006 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 LLP offer themselves for reappointment as auditors in accordance with section 485 of the Companies Act 2006

By order of the Board

S Crook
Secretary Susan Crook

Date 5th June 2012

Diamond Resorts (Holdings) Limited

Report of the independent auditors
for the year ended 31 December 2011

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DIAMOND RESORTS (HOLDINGS) LIMITED

We have audited the financial statements of Diamond Resorts Holdings Limited for the year ended 31 December 2011 which comprise the consolidated profit and loss account, the consolidated statement of total recognised gains and losses, the consolidated and company balance sheets, the consolidated cash flow statement and the related notes The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed

Respective responsibilities of directors and auditors

As explained more fully in the statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www frc org uk/apb/scope/private cfm

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the group's and the parent company's affairs as at 31 December 2011 and of the group's loss for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us, or
- the parent company financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

BDO LLP

Eric Solomons (senior statutory auditor)
For and on behalf of BDO LLP, statutory auditor
Manchester
United Kingdom
Date 18 June 2012

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127)

Diamond Resorts (Holdings) Limited

Consolidated profit and loss account
for the year ended 31 December 2011

	Note	2011 £'000	2010 £'000 Restated
Turnover	2	34,232	38,245
Cost of sales		(4,804)	(6,422)
Gross profit		29,428	31,823
Distribution costs		(21,098)	(22,328)
Administration expenses		(19,163)	(19,381)
Other operating income	4	7,440	8,083
Operating loss	3	(3,393)	(1,803)
Interest receivable	7	1,653	75
Interest payable	8	(1,901)	(2,100)
Loss on ordinary activities before taxation		(3,641)	(3,828)
Tax on loss on ordinary activities	9	529	1,124
Loss on ordinary activities after taxation		(3,112)	(2,704)

The results disclosed above all relate to continuing operations

The notes on pages 12 to 30 form part of these financial statements

Diamond Resorts (Holdings) Limited

Consolidated statement of total recognised gains and losses
for the year ended 31 December 2011

	Note	2011 £'000	2010 £'000
Loss for the financial year		(3,112)	(2,704)
Exchange differences on retranslation of foreign undertakings		(58)	(164)
Total recognised losses for the year		(3,170)	(2,868)

The notes on pages 12 to 30 form part of these financial statements

Diamond Resorts (Holdings) Limited

Consolidated balance sheet
as at 31 December 2011

Company Number 5071128

	Note	2011 £'000	2011 £'000	2010 £'000 Restated	2010 £'000 Restated
Fixed assets					
Intangible assets	11		1,257		1,412
Tangible assets	12		3,166		3,462
Investments	13		-		32
			4,423		4,906
Current assets					
Stocks	14	20,198		20,813	
Debtors					
Amounts falling due within one year	15	60,795		59,352	
Amounts falling due after more than one year	15	1,398		503	
Cash at bank and in hand	16	40,101		39,636	
		122,492		120,304	
Creditors amounts falling due within one year	17	(87,803)		(86,809)	
Net current assets			34,689		33,495
Total assets less current liabilities			39,112		38,401
Creditors · amounts falling due after more than one year	18		(60,882)		(56,137)
Provisions for liabilities and charges	19		(4,452)		(5,316)
Net liabilities			(26,222)		(23,052)
Capital and reserves					
Called up share capital	21		49,000		49,000
Profit and loss account	22		(21,513)		(18,343)
Capital reserve	22		500		500
Merger reserve	22		(54,209)		(54,209)
Equity shareholders' deficit	23		(26,222)		(23,052)

The financial statements were approved by the Board and authorised for issue on 5th June 2012

S Crook
Director

Susan Crook

The notes on pages 12 to 30 form part of these financial statements

Diamond Resorts (Holdings) Limited

Company balance sheet
as at 31 December 2011

Company Number 5071128

	Note	2011 £'000	2011 £'000	2010 £'000	2010 £'000
Fixed assets					
Investments	13		35,327		35,327
Current assets					
Debtors	15	9,726		6,764	
		9,726		6,764	
Creditors amounts falling due within one year	17	(3,758)		(3,821)	
Net current assets			5,968		2,943
Total assets less current liabilities			41,295		38,270
Creditors : amounts falling due after more than one year	18		(60,870)		(56,133)
Net liabilities			(19,575)		(17,863)
Capital and reserves					
Called up share capital	21		49,000		49,000
Profit and loss account	22		(68,575)		(66,863)
Equity shareholders' deficit	23		(19,575)		(17,863)

The financial statements were approved by the Board and authorised for issue on 5th June 2012

S Crook
Director

Susan Crook

The notes on pages 12 to 30 form part of these financial statements

Diamond Resorts (Holdings) Limited

Consolidated cash flow statement
for the year ended 31 December 2011

	Note	2011 £'000	2011 £'000	2010 £'000	2010 £'000
Net cash (outflow)/inflow from operating activities	26		(1,184)		9,451
Returns on investments and servicing of finance					
Interest paid		(20)		(86)	
Interest received		1,620		76	
Interest on finance leases		(1)		(2)	
Net cash inflow/(outflow) from returns on investments and servicing of finance			1,599		(12)
Taxation			684		3,272
Capital expenditure and financial investment					
Purchase of tangible fixed assets		(523)		(728)	
Sale of tangible fixed assets		2		14	
Net cash outflow from capital expenditure and financial investment			(521)		(714)
Cash inflow before financing			578		11,997
Management of liquid resources					
(Decrease)/Increase in short term deposits			(93)		23
Financing					
Capital element of hire purchase contracts		(10)		(9)	
Decrease in borrowings from parent company		-		(2,000)	
Net cash outflow from financing			(10)		(2,009)
Increase in cash	27		475		10,011

The notes on pages 12 to 30 form part of these financial statements

Diamond Resorts (Holdings) Limited

Notes forming part of the financial statements for the year ended 31 December 2011

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

Accounting policy change – resort management activities (hotel properties)

The group owns hotel properties in the UK and overseas and gives members the right to occupy this accommodation through leasing arrangements As a result, all operating expenditure related to these properties is recharged to the members Previously, these amounts had been shown gross in the profit and loss account in turnover and administrative expenses respectively In order to better reflect the economic substance of the arrangement and to ensure consistency with the club accounting, as described later in note 1, the directors now consider it more appropriate to net off the income and expenditure in the profit and loss account Any surplus or deficit is recognised in the balance sheet The classifications are consistent with the current year

The impact of this adjustment on the 31 December 2010 comparative figures is a reduction to both turnover and administration expenses of £10,939,000 There has been no impact on either net assets or the loss on ordinary activities

Changes to prior year comparatives

The group trades across several different tax jurisdictions and had previously shown tax input and output balances separately within either debtors or creditors The directors now consider it more appropriate to recognise these balances as a net receivable or payable based upon each jurisdiction

In addition, a bad debt balance on maintenance fees was shown within sales and marketing provisions. The directors now consider it more appropriate to recognise this against the club receivable balance

The impact of these adjustments on the 31 December 2010 comparative figures is a reduction to both assets and total liabilities of £1,405,000 There has been no impact on net assets

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 2011 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 right to use accommodation in holiday resorts owned by the group and other non-points trading stock, comprising accommodation not put into trust, but which may be available for members to use and also 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

1 Accounting policies *(continued)*

Turnover (continued)

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 as well as any profits made on the sale of surplus holiday ownership stock removed from timeshare trust and 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

Assets under construction consist of the costs incurred on capital projects not completed at the financial year end These costs are directly attributable to bringing the asset into working condition for its intended use Such items are not depreciated until the asset is placed into service

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 any provision for impairment

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 when an impairment indicator has been identified

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

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

1 Accounting policies *(continued)*

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

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

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

Cash flow Statement – Liquid resources

The group considers short term deposits that are readily convertible to known amounts of cash and which are subject to an insignificant risk in changes in value as liquid resources Such deposits are held to secure credit card merchant services, hotel or tourism licences in Continental Europe

1 Accounting policies *(continued)*

Club accounting

A Timeshare club consists of holiday accommodation and related facilities at resorts that have been deeded into or leased to a trust for the benefit of members of the club This membership can be in the form of fixed or floating week ownership at specific resorts or in the form of holiday ownership points that can be used to access space across a portfolio of resorts

Club balances are included within consolidated group financial statements due to the group's ability to access and manage club membership revenues, club properties, resort infrastructure and to settle local club expenditures on clubs' behalf through its local management operations As a result, the group is deemed to exercise significant control over club operations and decision-making achieved via representation at club committee level, voting rights relating to proportion of resort membership and the working relationship with the external trustees

A distinction is drawn between assets and liabilities of the group and assets and liabilities of the clubs The former comprise 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 any 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

3 Operating loss

The operating loss is stated after charging/(crediting)	2011 £'000	2010 £'000
Depreciation		
- owned assets	496	943
- assets held under finance leases and hire purchase contracts	2	5
Impairment of assets		
- impairment of non points trading stock	646	1,246
Auditors' remuneration		
- audit services (all charged to subsidiary entities)	285	262
Amortisation of intangible fixed assets	145	141
Operating lease rentals		
- land and buildings	840	1,165
- other	77	78
Loss on disposal of unsold timeshare stock	871	-
Profit on disposal of other assets in Mainland Spain	(437)	(945)

4 Other operating income

	2011 £'000	2010 £'000
Commission and fees received	454	686
Rental income	7,253	6,124
Income from resort clubs	121	232
Sundry income	46	96
Profit on disposal of other assets in Mainland Spain	437	945
Loss on disposal of unsold timeshare stock	(871)	-
	7,440	8,083

5 Employees

	Group		Company	
	2011 £'000	2010 £'000 Restated	2011 £'000	2010 £'000
Staff costs for the year were as follows				
Wages and salaries	11,678	11,731	-	-
Social security costs	1,775	1,850	-	-
Pension costs	22	17	-	-
	13,475	13,598	-	-

5 Employees *(continued)*

	Group		Company	
	2011	**2010**	**2011**	**2010**
	£'000	**£'000**	**£'000**	**£'000**
The average number of employees during the year was.				
Sales and marketing	188	242	-	-
Finance and administration	186	190	-	-
	374	432	-	-

6 Directors' remuneration

	2011	**2010**
	£'000	**£'000**
Remuneration in respect of directors was as follows		
Emoluments and benefits in kind	122	122
	122	122

During the year the company did not contribute to private pension plans of any directors (2010 no directors)

7 Interest receivable

	2011	**2010**
	£'000	**£'000**
Other interest	40	54
Bank interest	49	21
Maintenance fee finance interest	694	-
Interest from HMRC on overpaid corporation tax	870	-
	1,653	75

8 Interest payable

	2011	**2010**
	£'000	**£'000**
Interest payable to group undertakings	1,879	1,957
Finance leases and hire purchase contracts	12	2
Other interest payable	10	141
	1,901	2,100

9 Tax on loss on ordinary activities

	2011 £'000	2010 £'000
The tax credit represents		
- UK corporation tax at 26 5% (2010 28%)	-	-
- Overseas	1,351	963
- Adjustment in respect of prior years	(1,662)	(2,061)
	(311)	(1,098)
Deferred tax (Note 20)	(218)	(26)
	(529)	(1,124)

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

	2011 £'000	2010 £'000
Loss on ordinary activities before taxation	(3,641)	(3,828)
Loss on ordinary activities before taxation multiplied by standard rate of corporation tax in the UK of 26 5 % (2010 28%)	(965)	(1,072)
Effect of		
Expenses not allowed as tax deductions	438	693
Depreciation for the year in excess of capital allowances	65	175
Difference in tax rates on overseas earnings	348	50
Trade losses utilised	(156)	(107)
Losses carried forward not recognised as deferred tax asset	1,799	1,259
Other timing differences	(178)	(35)
Adjustment in respect of prior years	(1,662)	(2,061)
Current tax credit for the year	(311)	(1,098)

10 Loss for the financial year

The company has taken advantage of section 408 of the Companies Act 2006 and has not included its own profit and loss account in these financial statements The company's loss for the financial year was £1,712,000 (2010 £1,828,000) See note 22

11 Intangible fixed assets

Group	Purchased goodwill £'000	Management contracts £'000	Total £'000
Cost			
At 1 January 2011 (Restated)	3,054	155	3,209
Impairment	(264)	-	(264)
Foreign exchange	-	(10)	(10)
At 31 December 2011	2,790	145	2,935
Amortisation			
At 1 January 2011 (Restated)	1,745	52	1,797
Impairment	(264)	-	(264)
Provided in the year	140	5	145
At 31 December 2011	1,621	57	1,678
Net book value			
At 31 December 2011	1,169	88	1,257
At 31 December 2010	1,309	103	1,412

The goodwill brought forward relates to the purchase of IGR Mougins SARL and Vilar do Golf LDA and to the acquisition of the telemarketing and distributor sales business, LCI Travel Goodwill relating to IGR Mougins SARL and Vilar do Golf LDA is being amortised over 20 years, being the directors' best estimate of their useful economic lives Goodwill relating to LCI Travel was amortised over 2 years

The impairment during the period related to the telemarketing and distributor business previously acquired from LCI Travel The directors now consider the economic life of this business and any identifiable revenue streams to have been fully utilised

12 Tangible fixed assets

Group	**Assets under Construction £'000**	**Freehold land and buildings £'000**	**Fixtures and fittings £'000**	**Motor vehicles £'000**	**Total £'000**
Cost or valuation					
At 1 January 2011	169	2,967	6,560	366	10,062
Additions	194	101	225	28	548
Disposals	(54)	(1)	(2,375)	(71)	(2,501)
Transfers between categories	(279)	197	82	-	-
Transfers to points stock	-	(168)	-	-	(168)
Foreign exchange	-	(71)	(59)	(7)	(137)
At 31 December 2011	30	3,025	4,433	316	7,804
Depreciation					
At 1 January 2011	-	1,178	5,127	295	6,600
Provided in the year	-	180	291	27	498
Disposals	-	(1)	(2,319)	(65)	(2,385)
Foreign exchange	-	(27)	(42)	(6)	(75)
At 31 December 2011	-	1,330	3,057	251	4,638
Net book value					
At 31 December 2011	30	1,695	1,376	65	3,166
At 31 December 2010	169	1,789	1,433	71	3,462

The net book value of assets held under finance leases at 31 December 2011 amounted to £16,000 (2010 £32,000) Depreciation charged on these assets in the year amounted to £2,000 (2010 £5,000)

Freehold land and buildings include the cost of improvements to the UK head office held under an operating lease The net book value of these assets amounted to £49,000 (2010 £66,000) Depreciation charged on these assets in the year amounted to £17,000 (2010 £40,000) Depreciation is charged on these assets over the shorter of their estimated useful lives or the remaining term of the operating lease, up to a maximum of 12 years

13 Investments

	Group £'000	Company £'000
Cost		
At 1 January 2011	32	88,000
Disposal	(32)	-
At 31 December 2011	-	88,000
Accumulated impairment charge		
At 1 January 2011 and 31 December 2011	-	52,673
Net book value		
At 31 December 2011	-	35,327
At 31 December 2010	32	35,327

Significant subsidiary undertakings as at 31 December 2011 are shown in note 31

14 Stocks

	Group	
	2011 £'000	2010 £'000
Timeshare points	10,979	9,947
Other non-points trading stock	7,877	10,109
Work in progress	1,192	591
Consumables	150	166
	20,198	20,813

15 Debtors

	Group		Company	
	2011 £'000	2010 £'000 Restated	2011 £'000	2010 £'000
Amounts falling due within one year				
Trade debtors	3,214	3,022	-	-
Club maintenance fee debtors	52,628	51,241	-	-
Other debtors	2,662	2,165	-	-
Amounts owed by group companies	-	-	9,726	6,764
Prepayments and accrued income	1,877	2,039	-	-
Taxation and social security	414	885	-	-
	60,795	59,352	9,726	6,764

The amounts due on Club maintenance fee debtors are payable on demand

	Group 2011 £'000	Group 2010 £'000	Company 2011 £'000	Company 2010 £'000
Amounts falling due after more than one year				
Trade debtors	661	503	-	-
Other debtors	737	-	-	-
	1,398	503	-	-

16 Cash at bank and in hand - group

Cash at bank and in hand includes restricted cash balances of £33,780,000 (2010 £33,459,000) 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	
	2011 £'000	2010 £'000 Restated	2011 £'000	2010 £'000
Bank overdrafts	23	6	-	-
Obligations under finance leases (note 18)	8	9	-	-
Trade creditors	2,832	1,773	-	-
Corporation tax	2,245	2,090	-	-
Other taxation and social security	1,975	455	-	-
Other creditors	1,077	974	-	-
Amounts owed on behalf of club members	71,570	72,312	-	-
Amounts owed to group undertakings	-	-	3,758	3,821
Accruals and deferred income	8,073	9,190	-	-
	87,803	86,809	3,758	3,821

The amounts owed on behalf of club members are repayable on demand

18 Creditors amounts falling due after more than one year

	Group		Company	
	2011 £'000	2010 £'000	2011 £'000	2010 £'000
Loan from parent company	60,870	56,133	60,870	56,133
Obligations under finance leases	12	4	-	-
	60,882	56,137	60,870	56,133

Details of the loan from parent company are given in note 25

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

Group

	Loans and overdrafts 2011 £'000	Finance leases 2011 £'000	Total 2011 £'000
In one year or less, or on demand	23	8	31
In more than one year but not more than five years	60,870	12	60,882
	60,893	20	60,913

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

Group

	Loans and overdrafts 2010 £'000	Finance leases 2010 £'000	Total 2010 £'000
In one year or less, or on demand	6	9	15
In more than one year but not more than five years	56,133	4	56,137
	56,139	13	56,152

19 Provisions for liabilities and charges

	Note	At 1 January 2011 £'000 Restated	Additions £'000	Amounts used £'000	At 31 December 2011 £'000
Sales and marketing	(1)	1,474	1,053	(1,339)	1,188
Overseas taxes	(2)	1,487	70	(40)	1,517
Maintenance and repairs	(3)	1,425	127	(240)	1,312
Litigation	(4)	606	-	(600)	6
UK taxes	(5)	184	-	(48)	136
Vacant Properties	(6)	140	153	-	293
		5,316	1,403	(2,267)	4,452

(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

(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 is expected to be within the next ten years In addition, a provision of £37,000 has been made for dilapidations at leasehold offices

(4) The brought forward contingency fund provided on a potential financial exposure has been unwound as the directors now believe any financial outlay to be only a remote possibility

(5) This provision relates to additional UK employee taxes and indirect taxes that the directors feel could be payable

(6) The group has recognised future costs arising from a leased property in Salford that is currently vacant.

20 Deferred taxation

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

	£'000
At 1 January 2011	218
Movement for the year	(218)
At 31 December 2011	-

The deferred tax liability consists of the following	2011 £'000	2010 £'000
Other timing differences	-	218

The company has an unrecognised deferred tax asset of £3 9m (2010 £2 9m) representing unutilised tax losses carried forward The group has an unrecognised deferred tax asset of £19m (2010 £17m) for the same category These assets have not been recognised due to the uncertain timing of future tax recoverability

21 Share capital

	2011 £'000	2010 £'000
Allotted, called up and fully paid		
48,999,450 Ordinary shares of £1 each	49,000	49,000

22 Profit and loss account and reserves

Group	Merger reserve 2011 £'000	Capital reserve 2011 £'000	Profit and loss reserve 2011 £'000
At 1 January 2011	(54,209)	500	(18,343)
Loss for the financial year	-	-	(3,112)
Foreign exchange differences	-	-	(58)
At 31 December 2011	(54,209)	500	(21,513)

Company	2011 £'000
At 1 January 2011	(66,863)
Loss for the financial year	(1,712)
At 31 December 2011	(68,575)

23 Reconciliation of movements in shareholders' deficit

	Group 2011 £'000	Group 2010 £'000	Company 2011 £'000	Company 2010 £'000
Loss for the financial year	(3,112)	(2,704)	(1,712)	(1,828)
Foreign exchange differences	(58)	(164)	-	-
Net movement in shareholders' funds	(3,170)	(2,868)	(1,712)	(1,828)
Opening shareholders' deficit	(23,052)	(20,184)	(17,863)	(16,035)
Closing shareholders' deficit	(26,222)	(23,052)	(19,575)	(17,863)

24 Commitments under operating leases

As at 31 December 2011, the group had annual commitments under non-cancellable operating leases as set out below

	Land and buildings		Other	
	2011	2010	2011	2010
	£'000	£'000	£'000	£'000
Within one year	-	154	9	23
In two to five years	338	58	67	54
After five years	632	628	-	-
	970	840	76	77

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 2011 was £60,870,000 (2010 £56,133,000)

Under this revolving credit agreement the outstanding principal and interest unpaid shall be due and repayable by no later than 16 December 2014 The percentage rate of interest chargeable on the loan is a calculation based upon the LIBOR 5 year US dollar swap rate issued by the US Federal Reserve + 1 5 percentage points

The company has taken advantage of the exemption included in FRS 8 and has not disclosed transactions with other wholly owned members of the group headed by Diamond Resorts Holdings LLC

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

	2011	2010
	£000	£000
		Restated
Group operating loss	(3,393)	(1,803)
Loss/(Profit) on disposal of tangible fixed assets	113	(5)
Depreciation and amortisation of fixed assets	643	1,089
Decrease in stocks	782	3,633
(Increase)/Decrease in debtors	(2,245)	2,202
Increase in creditors	3,672	5,545
Decrease in provisions	(863)	(1,204)
Other non cash movements	107	(6)
Net cash (outflow)/inflow from operating activities	(1,184)	9,451

The above movement in debtors and creditors includes balances accounted for on behalf of the club members This has resulted in a change to restricted cash balances held on behalf of the club members None of the restricted cash amounts held are available for use by the group

26 Reconciliation of operating loss to net cash outflow from operating activities *(continued)*

The change in net cash inflow from operating activities can be allocated between funds available for use by the group and restricted cash amounts held on behalf of the club members as follows

	2011 £000	2010 £000
Net cash (outflow)/inflow available for use by the group	(1,505)	1,070
Net cash inflow held on behalf of the club members	321	8,381
Net cash (outflow)/inflow from operating activities	(1,184)	9,451

27 Reconciliation of net cash flow to movement in net debt

	2011 £000	2010 £000
Increase in cash in the year	475	10,011
Cash inflow/(outflow) from change in liquid resources	93	(23)
Cash inflow from change in debt	10	2,009
Change in net debt resulting from cash flows	578	11,997
Finance lease additions	(17)	-
Currency and other non cash movements	(4,764)	(5,478)
Movement in net debt in the year	(4,203)	6,519
Net debt at start of year (Restated)	(16,343)	(22,862)
Net debt at end of year	(20,546)	(16,343)

28 Analysis of debt

	As at 1 January 2011 £'000	Cash flow £'000	Other non cash changes £'000	Foreign exchange £'000	As at 31 December 2011 £'000
Cash at bank and in hand	39,636	491	-	(26)	40,101
Bank loans and overdrafts repayable on demand	(6)	(16)	-	(1)	(23)
Net cash	39,630	475	-	(27)	40,078
Liquid resources (Restated)	173	93	-	-	266
Obligations under finance lease	(13)	10	(17)	-	(20)
Loan from parent company	(56,133)	-	(4,737)	-	(60,870)
At 31 December 2011	(16,343)	578	(4,754)	(27)	(20,546)

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 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 (2010 £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 10600 West Charleston Blvd, Las Vegas, Nevada 89135-1014, USA The consolidated accounts of the group can be obtained from the above address

31 Subsidiary undertakings

The group headed by the company had the following significant subsidiary undertakings as at 31 December 2011 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	99 9%
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 5%
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%
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%

31 Subsidiary undertakings *(continued)*

Name of subsidiary	Country of incorporation	Class held	Proportion held
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 Canarias Management SL	Spain	Ordinary	100%
Diamond Resorts Menorca Management SL	Spain	Ordinary	100%
Golf club management			
Diamond Resorts Broome Park Golf Limited *(formerly 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%

Clubs **	Location
Thurnham Owners Club	England
Pine Lake Owners Club	England
Woodford Bridge Country Club	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
Royal Oasis Club at Benal Beach	Spain
Club del Carmen	Spain
White Sands Beach Club	Spain
White Sands Country Club	Spain
Club Cala Blanca	Spain
Los Amigos Beach Club	Spain
Royal Oasis Club at Pueblo Quinta	Spain
Royal Regency	France
Moulin de Connelles	France

31 Subsidiary undertakings *(continued)*

* Shares in this entity are directly owned by a subsidiary of First National Trust Company (Grand Vacation Club Title Limited) and are held on trust for the beneficial interest of points' members This entity is consolidated by virtue of the group's management of day to day operations and its entitlement to commercial revenues generated from the assets of the entity
** These are unincorporated undertakings which are consolidated by virtue of the group's power to exercise control over them

32 Financial commitments

The company is party to a cross guarantee, registered 25 April 2007, 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 £60,870,000 (2010 £56,133,000) The debenture provides a fixed and floating charge over the undertaking and all the assets of the company