

Diamond Resorts (Holdings) Limited

Company Number: 5071128

Report and Financial Statements

Year Ended

31 December 2012

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Diamond Resorts (Holdings) Limited

Annual report and financial statements for the year ended 31 December 2012

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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 2012

The directors present their report together with the audited financial statements for the year ended 31 December 2012

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, Ireland, Greece and Cyprus. There are no plans to alter the activities of the group.

Results and dividends

The consolidated loss for the year after taxation amounted to £8.0m (2011: £3.1m loss). The directors do not recommend the payment of a dividend (2011: £nil).

Group operating loss before taxation increased by £4.9m compared with the prior year. Contributory factors were as follows: (1) £1.2m loss due to the seasonal nature of the newly acquired sales and marketing business in Greece and Cyprus, Aegean Blue Holdings Limited, (for details of the acquisition see note 33, page 31). This business has a selling season that operates between April and October and the group has incurred fixed overheads but low revenues in quarter four. (2) In the prior year the group received interest of £0.9m from HMRC concerning prior overpaid taxation, (see note 7, page 18). (3) Legal and professional fees were higher by £1.4m largely due to the corporate restructuring project, please see comments below. (4) The running costs of unoccupied resort accommodation increased by £1.0m, the majority of this uplift was due to lower membership numbers and inflationary pressure on resort costs.

Membership numbers declined again during the period, although at a reduced level, however the sales and marketing operation continued to concentrate on selling to the existing membership base (warm line), with only a low level of new entrants joining the holiday ownership system (cold line). The Directors are pleased with the initial revenues that have yielded from the launch of a new fractional points ownership product, both in the latter part of the reported period and also after the balance sheet date.

As reported previously, 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 Directors to continue to increase the portfolio of affiliate resort and international destinations at no cost to members. During the year and in the early part of the forthcoming year the directors completed the first and second phases of a corporate restructuring project, involving a series of cross border mergers. This has resulted in 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.

In addition, subsidiary undertakings of the company are also still investigating strategies to widen the client base to new nationalities and to acquire new resort management opportunities. Pursuant to this strategy, on 5 October 2012 the group completed the acquisition of the Cypriot and Greek based sales and marketing business, Aegean Blue Holdings Limited. This acquisition has created a new sales operation in the Mediterranean and also a new holiday ownership client base, particularly with regard to Scandinavian and German nationals.

Diamond Resorts (Holdings) Limited

Report of the directors for the year ended 31 December 2012 (continued)

Key Performance Indicators

The directors consider key performance indicators (KPIs) 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 and the average daily rate charged to rental partners
- The number of European Collection points sold

Reference to such KPIs 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 8 and shows turnover for the year of £34.2m (2011 restated £33.1m) and a loss after tax of £8.0m (2011 loss of £3.1m)

As a result of continued economic challenges, European wide austerity measures and inflationary pressures on customers' living expenses the group again 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 is comparable with the prior period, material contributing factors were as follows

(1) There was an increase in the sales of timeshare points, which were £2.7m higher during the period. The Directors are pleased considering the tough economic conditions. The new acquisition Aegean Blue Holdings Limited contributed timeshare sales of £1.8m and existing sites elsewhere made up the £0.9m difference. Accordingly, there was a rise in volumes per guest to £1,024 this year, (2011 £930 per guest) on sales of points. Marketing Tour-flow targeted at selling timeshare points was 4.6% higher across continental Europe (excluding Aegean Blue). (2) However, there has been a £1.6m decrease in the combined revenues generated from the group management of timeshare clubs, the points trust and commercial trading at member resorts. The majority of this decline was due to the aforementioned fall in member numbers resulting in lower management and administrative fees charged.

Cost of sales increased by 11%, mainly due to a sales promotion offered to existing members as the group discounted the regular price per point to both generate higher revenues and also to reduce unsold points. As a result, the number of European Collection points sold increased by 3.2m points to 16.1m (2011 12.9m), accordingly the cost of points stock sold increased by £0.5m.

Distribution costs increased by 10%, the majority of which is due to the following reasons: (1) £1.0m 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; (2) £1.5m costs relating to the new Aegean Blue business.

Administration expenses increased by 15% due to the following key reasons: (1) Legal and professional fees were higher by £1.4m due to the aforementioned corporate restructuring project. The group engaged advice and guidance on the complex local country filing requirements and court representations required to achieve the successful EU cross border merger; (2) £1.1m costs relating to the new Aegean Blue business.

Diamond Resorts (Holdings) Limited
Report of the directors
for the year ended 31 December 2012 (continued)

Review of the business and future developments (continued)

Other operating income was 4% higher compared with the previous year due to the following reasons (1) £0.2m fall in 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. A reduced number of apartments were available for sale this year. (2) £0.5m reduction in income was realised from the relationship with preferred rental partners. Although these rental partners occupied a comparable level of total resort room space compared with the previous year, allocated from the developer's portion, at 17%, (2011 17% of space), equating to 170,000 room nights, (2011 160,000 room nights). There was a fall in the average daily rate charged to partners, (2012 £38, 2011 £45 per night). A decision was taken to maintain resort occupancy from this revenue stream due to the increased unsold space. This income partly reduces the developer's liability for unsold inventory and its associated accommodation expense. (3) Offsetting the above two factors and creating the combined revenue uplift was a charge of £0.9m in the previous year relating to the loss on disposal of surplus timeshare stock in Germany and the Balearic Islands.

The directors are again disappointed with the group's operating result but believe that it is understandable in view of the wider economic environment and the constraints on up-front investment on long term holidays. In addition, the difficulty that the potential purchasers of timeshare may experience with regard to obtaining adequate external finance to fund their acquisition. On a positive note, the Directors were pleased with a rise in the level of European Collection points members utilising their membership this year, (2012 40%, 2011 35% of available room space), and believe that this is indicative of the enhanced range of member benefits and quality of holiday experience available in the club.

The group will continue to change the portfolio of membership benefit products and services, increasing flexibility by member type 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. The expansion of the group's Italian resort, Palazzo Catalani, will be completed shortly, increasing available space at this premium destination. In the forthcoming year the directors expect to conclude the remaining elements of the corporate restructuring project. This is regarding a reorganisation of the legal and accounting 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.

As mentioned in the results section on page 1, a new fractional holiday ownership product was launched towards the end of the current period, this product allows the purchaser to acquire a share in a specific unit of holiday accommodation but with the added benefit of full points membership. This fractional product has a finite life of 15 years, after which the accommodation will be marketed for sale by First National Trustee Company and after disposal each fractional member will receive a share of the net proceeds generated. The Directors are very pleased with the sales revenues realised up to the signing of these financial statements. The group is also still investigating further strategies to widen the client base to new nationalities and to acquire new resort management opportunities following the Aegean acquisition.

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.

Diamond Resorts (Holdings) Limited
Report of the directors
for the year ended 31 December 2012 (continued)

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 2012 the number of days' purchases within creditors was 29 (2011: 29).

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 of the financial statements 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.

Diamond Resorts (Holdings) Limited
Report of the directors
for the year ended 31 December 2012 (*continued*)

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



Date 29th November 2013

Diamond Resorts (Holdings) Limited

Report of the independent auditors for the year ended 31 December 2012

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 2012 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 Financial Reporting Council's (FRC'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 Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

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 2012 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.

Diamond Resorts (Holdings) Limited

Report of the independent auditors for the year ended 31 December 2012 (*continued*)

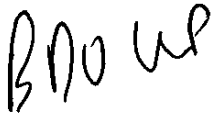
Opinion on other matters prescribed by the Companies Act 2006

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



Philip Storer (senior statutory auditor)
For and on behalf of BDO LLP, statutory auditor
Manchester
United Kingdom
Date 29/11/13

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 2012

	Note	2012 £'000	2011 £'000 Restated*
Turnover	2	34,220	33,144
Cost of sales		(5,984)	(5,405)
Gross profit		<u>28,236</u>	<u>27,739</u>
Distribution costs		(22,505)	(20,497)
Administration expenses		(20,498)	(17,772)
Other operating income	4	<u>7,419</u>	<u>7,137</u>
Operating loss	3	(7,348)	(3,393)
Interest receivable	7	784	1,653
Interest payable	8	(1,749)	(1,901)
Loss on ordinary activities before taxation		<u>(8,313)</u>	<u>(3,641)</u>
Tax on loss on ordinary activities	9	356	529
Loss on ordinary activities after taxation		<u>(7,957)</u>	<u>(3,112)</u>

The results disclosed above all relate to continuing operations

* The restatement in relation to the year ended 31 December 2011 is explained in note 1

The notes on pages 13 to 33 form part of these financial statements

Diamond Resorts (Holdings) Limited

Consolidated statement of total recognised gains and losses for the year ended 31 December 2012

	Note	2012 £'000	2011 £'000
Loss for the financial year		(7,957)	(3,112)
Exchange differences on retranslation of foreign undertakings		(445)	(58)
Total recognised losses for the year		<u>(8,402)</u>	<u>(3,170)</u>

The notes on pages 13 to 33 form part of these financial statements

Diamond Resorts (Holdings) Limited

Consolidated balance sheet as at 31 December 2012

Company Number 5071128

	Note	2012 £'000	2012 £'000	2011 £'000	2011 £'000
Fixed assets					
Intangible assets	11		4,607		1,257
Tangible assets	12		2,997		3,166
			7,604		4,423
Current assets					
Stocks	14	29,764		20,198	
Debtors					
Amounts falling due within one year	15	50,934		60,795	
Amounts falling due after one year	15	710		1,398	
Cash at bank and in hand	16	38,954		40,101	
		120,362		122,492	
Creditors: amounts falling due within one year	17	(89,832)		(87,803)	
Net current assets			30,530		34,689
Total assets less current liabilities			38,134		39,112
Creditors : amounts falling due after more than one year	18		(69,626)		(60,882)
Provisions for liabilities and charges	19		(3,132)		(4,452)
Net liabilities			(34,624)		(26,222)
Capital and reserves					
Called up share capital	21		49,000		49,000
Profit and loss account	22		(29,915)		(21,513)
Capital reserve	22		500		500
Merger reserve	22		(54,209)		(54,209)
Equity shareholders' deficit	23		(34,624)		(26,222)

The financial statements were approved by the Board and authorised for issue on 29th November 2013

S Crook
Director



The notes on pages 13 to 33 form part of these financial statements

Diamond Resorts (Holdings) Limited

Company balance sheet as at 31 December 2012

Company Number 5071128

	Note	2012 £'000	2012 £'000	2011 £'000	2011 £'000
Fixed assets					
Investments	13		10,894		35,327
Current assets					
Debtors	15	12,898		9,726	
		<u>12,898</u>		<u>9,726</u>	
Creditors: amounts falling due within one year	17	(3,758)		(3,758)	
Net current assets			<u>9,140</u>		<u>5,968</u>
Total assets less current liabilities			<u>20,034</u>		<u>41,295</u>
Creditors : amounts falling due after more than one year	18		(65,365)		(60,870)
Net liabilities			<u>(45,331)</u>		<u>(19,575)</u>
Capital and reserves					
Called up share capital	21		49,000		49,000
Profit and loss account	22		(94,331)		(68,575)
Equity shareholders' deficit	23		<u>(45,331)</u>		<u>(19,575)</u>

The financial statements were approved by the Board and authorised for issue on 29th November
2013

S Crook
Director

Susan Crook

The notes on pages 13 to 33 form part of these financial statements

Diamond Resorts (Holdings) Limited

Consolidated cash flow statement for the year ended 31 December 2012

	Note	2012 £'000	2012 £'000	2011 £'000	2011 £'000
Net cash outflow from operating activities	26		(2,461)		(1,184)
Returns on investments and servicing of finance					
Interest paid		(52)		(20)	
Interest received		754		1,620	
Interest on finance leases		(1)		(1)	
Net cash inflow from returns on investments and servicing of finance			701		1,599
Taxation			(1,508)		684
Capital expenditure and financial investment					
Purchase of tangible fixed assets		(180)		(523)	
Sale of tangible fixed assets		1		2	
Net cash outflow from capital expenditure and financial investment			(179)		(521)
Acquisitions	33		2,454		-
Cash (outflow)/inflow before financing			(993)		578
Management of liquid resources					
Increase in short term deposits			(18)		(93)
Financing					
Capital element of hire purchase contracts			(8)		(10)
Decrease in cash	27		(1,019)		475

The notes on pages 13 to 33 form part of these financial statements

Diamond Resorts (Holdings) Limited

Notes forming part of the financial statements for the year ended 31 December 2012

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

Changes to prior year comparatives

The consolidated profit and loss account has been amended to ensure consistency with the current period and thus certain revenues and expenses have been reclassified within the statement to correctly reflect the underlying nature of the transactions. These changes were as follows: (1) Turnover and administration expenses have decreased by £1,391,000 to eliminate hotel and resort expenses against revenue. This is where the group is providing management services to the Diamond Resorts European Collection (the points club) and is not acting in principal. (2) Income of £303,000 is transferred from other operating income to turnover, this also relates to the management of hotels leased to the points club. (3) Expenses of £601,000 have been transferred from distribution costs to cost of sales. These expenses relate to preview and incentive stay accommodation that has been provided to purchasers of points and was previously classified as a cost of surplus room space.

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 2012. 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.

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.

Diamond Resorts (Holdings) Limited

Notes forming part of the financial statements for the year ended 31 December 2012 (*continued*)

1 Accounting policies (*continued*)

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. Land is not depreciated.

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

Diamond Resorts (Holdings) Limited

Notes forming part of the financial statements for the year ended 31 December 2012 (*continued*)

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.

Diamond Resorts (Holdings) Limited

Notes forming part of the financial statements for the year ended 31 December 2012 (*continued*)

1 Accounting policies (*continued*)

Timeshare 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.

Diamond Resorts (Holdings) Limited

**Notes forming part of the financial statements
for the year ended 31 December 2012 (continued)**

3 Operating loss

The operating loss is stated after charging/(crediting)	2012 £'000	2011 £'000
Depreciation		
- owned assets	544	496
- assets held under finance leases and hire purchase contracts	4	2
Impairment of assets		
- impairment of non points trading stock	-	646
- impairment of unsold timeshare stock	374	-
- impairment of purchased goodwill	415	-
Auditors' remuneration		
- audit services (all charged to subsidiary entities)	291	285
Amortisation of intangible fixed assets	136	145
Operating lease rentals		
- land and buildings	970	840
- other	76	77
Loss on disposal of tangible fixed assets	8	114
Loss on disposal of unsold timeshare stock	-	871
Profit on disposal of other assets in Mainland Spain	(287)	(437)
	<u> </u>	<u> </u>

4 Other operating income

	2012 £'000	2011 £'000 Restated
Commission and fees received	557	454
Rental income	6,513	7,018
Income from resort clubs	35	61
Sundry income	27	38
Profit on disposal of other assets in Mainland Spain	287	437
Loss on disposal of unsold timeshare stock	-	(871)
	<u>7,419</u>	<u>7,137</u>

5 Employees

	Group		Company	
	2012 £'000	2011 £'000	2012 £'000	2011 £'000
<i>Staff costs for the year were as follows</i>				
Wages and salaries	12,336	11,678	-	-
Social security costs	1,877	1,775	-	-
Pension costs	23	22	-	-
	<u>14,236</u>	<u>13,475</u>	<u>-</u>	<u>-</u>

Diamond Resorts (Holdings) Limited

Notes forming part of the financial statements
for the year ended 31 December 2012 (*continued*)

5 Employees (*continued*)

	Group		Company	
	2012 £'000	2011 £'000	2012 £'000	2011 £'000
<i>The average number of employees during the year was</i>				
Sales and marketing	220	188	-	-
Finance and administration	199	186	-	-
	<u>419</u>	<u>374</u>	<u>-</u>	<u>-</u>

6 Directors' remuneration

	2012 £'000	2011 £'000
<i>Remuneration in respect of directors was as follows</i>		
Emoluments and benefits in kind	154	122
	<u>154</u>	<u>122</u>

During the year the company did not contribute to private pension plans of any directors (2011 no directors)

7 Interest receivable

	2012 £'000	2011 £'000
Other interest	52	40
Bank interest	19	49
Maintenance fee finance interest	713	694
Interest on overpaid corporation tax	-	870
	<u>784</u>	<u>1,653</u>

8 Interest payable

	2012 £'000	2011 £'000 Restated
Interest payable to group undertakings	1,696	1,879
Finance leases and hire purchase contracts	1	3
Other interest payable	52	19
	<u>1,749</u>	<u>1,901</u>

Diamond Resorts (Holdings) Limited

**Notes forming part of the financial statements
for the year ended 31 December 2012 (continued)**

9 Tax on loss on ordinary activities

	2012 £'000	2011 £'000
The tax credit represents		
- UK corporation tax at 25.68% (2011: 26.5%)	-	-
- Overseas	708	1,351
- Adjustment in respect of prior years	(1,064)	(1,662)
	<u>(356)</u>	<u>(311)</u>
Deferred tax (Note 20)	-	(218)
	<u>(356)</u>	<u>(529)</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

	2012 £'000	2011 £'000
Loss on ordinary activities before taxation	(8,313)	(3,641)
Loss on ordinary activities before taxation multiplied by standard rate of corporation tax in the UK of 25.68% (2011: 26.5%)	(2,135)	(965)
Effect of		
Expenses not allowed as tax deductions	149	438
Difference in tax rates on overseas earnings	123	348
Trade losses utilised	(121)	(156)
Losses carried forward not recognised as deferred tax asset	3,034	1,799
Other timing differences	(342)	(113)
Adjustment in respect of prior years	(1,064)	(1,662)
Current tax credit for the year	<u>(356)</u>	<u>(311)</u>

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 £25,756,000 (2011: £1,712,000). See note 22.

Diamond Resorts (Holdings) Limited

Notes forming part of the financial statements
for the year ended 31 December 2012 (continued)

11 Intangible fixed assets

Group	Purchased goodwill £'000	Management contracts £'000	Total £'000
<i>Cost</i>			
At 1 January 2012	2,790	145	2,935
Addition	3,806	-	3,806
Foreign exchange	97	(3)	94
At 31 December 2012	<u>6,693</u>	<u>142</u>	<u>6,835</u>
<i>Amortisation</i>			
At 1 January 2012	1,621	57	1,678
Impairment	415	-	415
Provided in the year	128	8	136
Foreign exchange	-	(1)	(1)
At 31 December 2012	<u>2,164</u>	<u>64</u>	<u>2,228</u>
<i>Net book value</i>			
At 31 December 2012	<u>4,529</u>	<u>78</u>	<u>4,607</u>
At 31 December 2011	<u>1,169</u>	<u>88</u>	<u>1,257</u>

The goodwill brought forward relates to the purchase of IGR Mougins SARL and Vilar do Golf LDA and to the acquisition of a golf club management company, Broome Park Golf Club Limited. Goodwill is being amortised over 20 years, being the directors' best estimate of their useful economic lives. In accordance with the recently issued financial reporting framework in standard FRS 102, amortisation will be complete on these assets by 31 December 2019.

The goodwill added during the year relates to the acquisition of the Cypriot and Greek based sales and marketing company, Aegean Blue Holdings Limited. Goodwill will be amortised over 7 years, being the directors' best estimate of its useful economic life.

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

The impairment during the period related to the golf club management company, Broome Park Golf Club Limited.

Diamond Resorts (Holdings) Limited

Notes forming part of the financial statements
for the year ended 31 December 2012 (*continued*)

12 Tangible fixed assets

Group	Assets under Construction £'000	Freehold land and buildings £'000	Fixtures and fittings £'000	Motor vehicles £'000	Total £'000
<i>Cost or valuation</i>					
At 1 January 2012	30	3,025	4,433	316	7,804
Additions	1	28	151	-	180
Acquisition of subsidiary undertaking	-	115	114	9	238
Disposals	-	-	(37)	(24)	(61)
Transfers between categories	(16)	-	16	-	-
Foreign exchange	-	(49)	(27)	(4)	(80)
At 31 December 2012	15	3,119	4,650	297	8,081
<i>Depreciation</i>					
At 1 January 2012	-	1,330	3,057	251	4,638
Provided in the year	-	198	316	34	548
Disposals	-	-	(36)	(16)	(52)
Foreign exchange	-	(23)	(23)	(4)	(50)
At 31 December 2012	-	1,505	3,314	265	5,084
<i>Net book value</i>					
At 31 December 2012	15	1,614	1,336	32	2,997
At 31 December 2011	30	1,695	1,376	65	3,166

The net book value of assets held under finance leases at 31 December 2012 amounted to £12,000 (2011 £16,000) Depreciation charged on these assets in the year amounted to £4,000 (2011 £2,000)

Freehold land and buildings include the cost of improvements to the UK head office and Greek sales centres held under an operating lease or rental agreement The net book value of these assets amounted to £173,000 (2011 £49,000) Depreciation charged on these assets in the year amounted to £20,000 (2011 £17,000) Depreciation is charged on these assets over the shorter of their estimated useful lives or the remaining term of the operating lease or rental agreement, up to a maximum of 12 years

Diamond Resorts (Holdings) Limited

Notes forming part of the financial statements
for the year ended 31 December 2012 (*continued*)

13 Investments

	Group £'000	Company £'000
<i>Cost</i>		
At 1 January 2012 and 31 December 2012	-	88,000
<i>Accumulated impairment charge</i>		
At 1 January 2012	-	52,673
Impairment	-	24,433
At 31 December 2012	-	77,106
<i>Net book value</i>		
At 31 December 2012	-	10,894
At 31 December 2011	-	35,327

Significant subsidiary undertakings as at 31 December 2012 are shown in note 31

14 Stocks

	Group 2012 £'000	2011 £'000
Timeshare points	18,988	10,979
Other non-points trading stock	8,337	7,877
Work in progress	2,308	1,192
Consumables	131	150
	<u>29,764</u>	<u>20,198</u>

15 Debtors

	Group 2012 £'000	2011 £'000	Company 2012 £'000	2011 £'000
<i>Amounts falling due within one year</i>				
Trade debtors	3,757	3,214	-	-
Club maintenance fee debtors	40,607	52,628	-	-
Other debtors	1,023	2,662	-	-
Amounts owed by group companies	-	-	12,898	9,726
Prepayments and accrued income	5,100	1,877	-	-
Taxation and social security	447	414	-	-
	<u>50,934</u>	<u>60,795</u>	<u>12,898</u>	<u>9,726</u>

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

Amounts falling due after more than one year

Trade debtors	710	661	-	-
Other debtors	-	737	-	-
	<u>710</u>	<u>1,398</u>	<u>-</u>	<u>-</u>

Diamond Resorts (Holdings) Limited

Notes forming part of the financial statements
for the year ended 31 December 2012 (continued)

16 Cash at bank and in hand - group

Cash at bank and in hand includes restricted cash balances of £31,587,000 (2011 £33,780,000) held on behalf of the Resort 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	
	2012 £'000	2011 £'000	2012 £'000	2011 £'000
Bank overdrafts	9	23	-	-
Obligations under finance leases (note 18)	3	8	-	-
Trade creditors	3,480	2,832	-	-
Corporation tax	381	2,245	-	-
Other taxation and social security	3,181	1,975	-	-
Other creditors	1,122	1,077	-	-
Amounts owed on behalf of club members	66,873	71,570	-	-
Amounts owed to group undertakings	-	-	3,758	3,758
Accruals and deferred income	14,783	8,073	-	-
	<u>89,832</u>	<u>87,803</u>	<u>3,758</u>	<u>3,758</u>

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

18 Creditors: amounts falling due after more than one year

	Group		Company	
	2012 £'000	2011 £'000	2012 £'000	2011 £'000
Loan from parent company	65,365	60,870	65,365	60,870
Loan from fellow group company	4,253	-	-	-
Obligations under finance leases	8	12	-	-
	<u>69,626</u>	<u>60,882</u>	<u>65,365</u>	<u>60,870</u>

Details of the loan from parent company and fellow group company based in the United States of America 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 2012 £'000	Finance leases 2012 £'000	Total 2012 £'000
In one year or less, or on demand	9	3	12
In more than one year but not more than five years	69,618	8	69,626
	<u>69,627</u>	<u>11</u>	<u>69,638</u>

Diamond Resorts (Holdings) Limited

Notes forming part of the financial statements
for the year ended 31 December 2012 (*continued*)

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

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
	<u>60,893</u>	<u>20</u>	<u>60,913</u>

19 Provisions for liabilities and charges

	Note	At 1 January 2012 £'000	Additions £'000	Amounts used £'000	At 31 December 2012 £'000
Sales and marketing	(1)	1,188	1,709	(2,460)	437
Overseas taxes	(2)	1,517	-	(520)	997
Maintenance and repairs	(3)	1,312	3	(10)	1,305
Litigation	(4)	6	-	(6)	-
UK taxes	(5)	136	1	-	137
Vacant Properties	(6)	293	60	(97)	256
		<u>4,452</u>	<u>1,773</u>	<u>(3,093)</u>	<u>3,132</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.
- (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 £30,000 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 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.

Diamond Resorts (Holdings) Limited

Notes forming part of the financial statements
for the year ended 31 December 2012 (*continued*)

20 Deferred taxation

The company has an unrecognised deferred tax asset of £3.7m (2011: £3.9m) representing unutilised tax losses carried forward. The group has an unrecognised deferred tax asset of £19.5m (2011: £19m) for the same category. These assets have not been recognised due to the uncertain timing of future tax recoverability.

21 Share capital

	2012 £'000	2011 £'000
<i>Allotted, called up and fully paid</i>		
48,999,450 Ordinary shares of £1 each	49,000	49,000

22 Profit and loss account and reserves

Group	Merger reserve 2012 £'000	Capital reserve 2012 £'000	Profit and loss reserve 2012 £'000
At 1 January 2012	(54,209)	500	(21,513)
Loss for the financial year	-	-	(7,957)
Foreign exchange differences	-	-	(445)
At 31 December 2012	(54,209)	500	(29,915)

Company	2012 £'000
At 1 January 2012	(68,575)
Loss for the financial year	(25,756)
At 31 December 2012	(94,331)

23 Reconciliation of movements in shareholders' deficit

	Group 2012 £'000	Group 2011 £'000	Company 2012 £'000	Company 2011 £'000
Loss for the financial year	(7,957)	(3,112)	(25,756)	(1,712)
Foreign exchange differences	(445)	(58)	-	-
Net movement in shareholders' funds	(8,402)	(3,170)	(25,756)	(1,712)
Opening shareholders' deficit	(26,222)	(23,052)	(19,575)	(17,863)
Closing shareholders' deficit	(34,624)	(26,222)	(45,331)	(19,575)

Diamond Resorts (Holdings) Limited

**Notes forming part of the financial statements
for the year ended 31 December 2012 (continued)**

24 Commitments under operating leases

As at 31 December 2012, the group had annual commitments under non-cancellable operating leases as set out below

	Land and buildings		Other	
	2012	2011	2012	2011
	£'000	£'000	£'000	£'000
Within one year	9	-	33	9
In two to five years	418	338	58	67
After five years	640	632	-	-
	<u>1,067</u>	<u>970</u>	<u>91</u>	<u>76</u>

25 Related party transactions

- (1) The company has entered into credit facility agreements with its parent undertaking, Diamond Resorts Corporation. The balance owed at 31 December 2012 was £65,365,000 (2011 £60,870,000)

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.

- (2) A subsidiary undertaking of the company, Diamond Resorts AB Acquisition Company Limited, entered into a loan and credit agreement on 1 October 2012 with AB Blue Acquisition LLC, a USA registered company and fellow wholly owned member of Diamond Resorts Holdings LLC for a principal loan of £4,046,000.

Under this credit agreement the outstanding principal and interest unpaid shall be due and repayable by no later than 30 June 2015. The percentage rate of interest chargeable on the loan is 18% per annum. The balance owed at 31 December 2012 was £4,253,000.

- (3) On 5 October 2012 the Group completed the acquisition of the Cypriot and Greek based sales and marketing business, Aegean Blue Holdings Limited. As part of the total consideration the Group agreed to pay an additional purchase price in accordance with an agreed Earn out Deed. Payments under this agreement will be made to the Earn out Sellers dependent upon the financial performance of the acquired business over a period of five financial years up to 31 December 2017. The Earn out Sellers are and shall continue to be involved in the business and provide benefit to the Group. The Directors' fair valuation of these payments at the above acquisition date was £2,294,000.

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

Diamond Resorts (Holdings) Limited

Notes forming part of the financial statements
for the year ended 31 December 2012 *(continued)*

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

	2012 £000	2011 £000
Group operating loss	(7,348)	(3,393)
Loss on disposal of tangible fixed assets	6	113
Depreciation and amortisation of fixed assets	684	643
(Increase)/Decrease in stocks	(7,447)	782
Decrease/(Increase) in debtors	13,298	(2,245)
(Decrease)/Increase in creditors	(520)	3,672
Decrease in provisions	(1,321)	(863)
Other non cash movements	187	107
	<u>(2,461)</u>	<u>(1,184)</u>
Net cash outflow from operating activities	<u>(2,461)</u>	<u>(1,184)</u>

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.

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:

	2012 £000	2011 £000
Net cash outflow available for use by the group	(268)	(1,505)
Net cash (outflow)/inflow held on behalf of the club members	(2,193)	321
	<u>(2,461)</u>	<u>(1,184)</u>
Net cash outflow from operating activities	<u>(2,461)</u>	<u>(1,184)</u>

27 Reconciliation of net cash flow to movement in net debt

	2012 £000	2011 £000
(Decrease)/Increase in cash in the year	(1,019)	475
Cash inflow from change in liquid resources	18	93
Cash inflow from change in debt	8	10
	<u>(993)</u>	<u>578</u>
Change in net debt resulting from cash flows	(993)	578
Finance lease additions	-	(17)
Currency and other non cash movements	(8,862)	(4,764)
	<u>(9,855)</u>	<u>(4,203)</u>
Movement in net debt in the year	(9,855)	(4,203)
Net debt at start of year	(20,546)	(16,343)
	<u>(30,401)</u>	<u>(20,546)</u>
Net debt at end of year	<u>(30,401)</u>	<u>(20,546)</u>

Diamond Resorts (Holdings) Limited

**Notes forming part of the financial statements
for the year ended 31 December 2012 (continued)**

28 Analysis of debt

	As at 1 January 2012 £'000	Cash flow £'000	Other non cash changes £'000	Foreign exchange £'000	As at 31 December 2012 £'000
Cash at bank and in hand	40,101	(1,033)	-	(114)	38,954
Bank loans and overdrafts repayable on demand	(23)	14	-	-	(9)
Net cash	<u>40,078</u>	<u>(1,019)</u>	<u>-</u>	<u>(114)</u>	<u>38,945</u>
Liquid resources	266	18	-	-	284
Obligations under finance lease	(20)	8	-	-	(12)
Loan from parent company	(60,870)	-	(8,748)	-	(69,618)
At 31 December 2012	<u>(20,546)</u>	<u>(993)</u>	<u>(8,748)</u>	<u>(114)</u>	<u>(30,401)</u>

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 (2011: £450,000)

30 Ultimate parent undertaking

At the balance sheet date the directors regarded Diamond Resorts International Inc, 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 International Inc, 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 2012 (continued)

31 Subsidiary undertakings

The group headed by the company had the following significant subsidiary undertakings as at 31 December 2012. 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%
Collie Inversion Inmobiliario Santa Cruz SL	Spain	Ordinary	100%
Labrador Inversiones Inmobiliarias Costa del Sol SL	Spain	Ordinary	57.5%
Diamond Resorts Excursions SL	Spain	Ordinary	100%
Diamond Resorts Portugal Clube de Férias Lda	Portugal	Ordinary	100%
Aegean Blue Holdings Limited	Cyprus	Ordinary	100%
Diamond Resorts Vacations Touristic EPE	Greece	Ordinary	100%
Diamond Resorts Mediterranean Holdings Limited	Cyprus	Ordinary	100%
Management of timeshare resorts			
Diamond Resorts Mediterranean PLC	Cyprus	Ordinary	100%
Vacation Club Partnerships Limited	England	Ordinary	100%
Vilar do Golf Empreendimentos Turísticos Lda	Portugal	Ordinary	100%
Diamond Resorts Italia SRL	Italy	Ordinary	100%
IGR Mougins SARL *	France	Ordinary	100%
Golf club management			
Diamond Resorts Broome Park Golf Limited	England	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		

Diamond Resorts (Holdings) Limited

Notes forming part of the financial statements
for the year ended 31 December 2012 (continued)

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 Post balance sheet events

(1) Group restructure

The following significant subsidiary undertakings were included in a group restructure and after conclusion of court approval were dissolved and merged into Diamond Resorts (Europe) Limited by 31 March 2013. This process was the culmination of a series of cross border mergers under the Companies (Cross Border Mergers) Regulations 2007 and in accordance with a steps plan agreed by the Directors.

Name of subsidiary	Country of incorporation	Class held	Proportion held
Development and/or sale of holiday ownership			
Diamond Resorts Sales Italy SRL	Italy	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%
Thurnham Vacation Club Management Limited	England	Ordinary	100%
Alpine Apartment Hotel LmbH	Austria	Ordinary	100%
Provision of finance and travel services			
Diamond Resorts Travel Limited	England	Ordinary	100%
Diamond Resorts Holidays Limited	England	Ordinary	100%

(2) Initial Public Offering – ultimate parent undertaking

On 11 January 2013 a new ultimate parent undertaking for Diamond's global operations was incorporated in the United States of America with the sole purpose of changing the organisation structure prior to an initial public offering. The equity interests of each member of Diamond LLC were contributed to this new holding company in exchange for shares in the corporation. As a result, the group now considers Diamond Resorts International Incorporated (see note 30) as the ultimate parent undertaking. The Initial public offering was successfully completed on 19 July 2013 and the corporation sold 14 million shares at a price of \$14 per share. These shares will be traded on the New York Stock Exchange. Diamond resorts said in a regulatory filing that it plans to use the net proceeds remaining from the \$196m offering to help pay down debt and fund working capital and other general corporate purposes.

Diamond Resorts (Holdings) Limited

Notes forming part of the financial statements
for the year ended 31 December 2012 (*continued*)

33 Acquisition

On 5 October 2012 the Group completed the acquisition of the Cypriot and Greek based sales and marketing business, Aegean Blue Holdings Limited for a consideration of £6,340,000. Total goodwill arising on the acquisition is £3,806,000. The assets and liabilities of Aegean Blue Holdings Limited at fair value are

	Book value £'000	Fair value adjustments £'000	Fair value £'000
Tangible fixed assets	243	(5)	238
Stocks	3,980	(1,862)	2,118
Trade debtors	1,395	1,104	2,499
Prepayments and accrued income	2,320	(1,761)	559
Deferred corporation tax	1,161	(1,161)	-
Other debtors	56	-	56
Cash at bank and in hand	2,454	-	2,454
Trade creditors	(1,973)	(709)	(2,682)
Other taxation and social security creditors	(353)	-	(353)
Other creditors	-	(18)	(18)
Accruals and deferred income	(7,886)	5,549	(2,337)
 Net assets acquired	 <u>1,397</u>	 <u>1,137</u>	 <u>2,534</u>
 Goodwill arising on the acquisition			 3,806
Total Consideration			<u><u>6,340</u></u>
			 £'000
<u>Supported by</u>			
Loan from fellow group member, AB Blue Acquisition LLC (note 25)			4,046
Accrued business acquisition costs, Earn Out Deed (note 25)			2,294
Total Consideration			<u><u>6,340</u></u>

Details of the fair value adjustments are as follows

Stocks

Unsold timeshare weeks in trust are valued locally under lease accounting at their unamortised purchase cost. The group considers the fair value of stock to be the present value of estimated future net revenues, thus generated from the sellable elements of the portfolio acquired. This resulted in a write down of £1.86m.

Trade debtors

The local accounting policy is to apply a specific cancellation provision percentage against the entire population of timeshare sales contracts with a receivable balance. This differed from the group approach whereby a sales recognition criterion is used, dependent upon the level of cash collected in each contract at the balance sheet date. There was a resulting increase of £1.1m.

Prepayments and accrued income

A promotional product is sold in the Greek subsidiaries, this is called "Trial Membership". This membership package comprises an initial holiday in one of the Aegean Blue resorts, plus further holidays provided by the external exchange company RCI.

Diamond Resorts (Holdings) Limited

Notes forming part of the financial statements for the year ended 31 December 2012 (continued)

33 Acquisition (continued)

Prepayments and accrued income (continued)

The local and group accounting policy considers this product to be similar in nature to a tour operator's margin scheme and the direct selling commissions are deferred until the member has travelled, this usually occurs in the following financial year. However, on acquisition the group considers such expenses to be a prior period discharged cost of the business and they have accordingly been released to before acquisition reserves. This resulted in a decrease of £1.76m.

Deferred corporation tax

Deferred tax assets are recognised in the group when it is more likely than not that they will be recovered. The directors consider there to be enough doubt over the recoverability of the book value asset in the Aegean Blue group. This is especially relevant with regard to the time limit imposed locally on crystallisation of this asset against future profitability in the Cypriot group. This resulted in a write off amount of £1.16m.

Trade creditors

It was discovered that the opening list and book value of unpaid invoices relating to third party, (developer owned) resort accommodation rentals was not complete. As a result, there was an increase of £0.7m in this liability balance.

Accruals and deferred income

As already discussed in the prepayments section, (please see above) there is a promotional product called "Trial membership" being sold in the Greek territories. In accordance with the policy to defer all directly linked transactions there is also a deferral of all sales revenues until the future date of member travel has occurred. However, on acquisition the group also considers such revenues to be a prior period trading event and they have been released to before acquisition reserves. This resulted in a decrease of £5.55m.

Analysis of cash inflow in respect of acquisitions

	£'000
Cash acquired in Aegean Blue Holdings Limited	2,454
	<u>2,454</u>

The results of Aegean Blue Holdings Limited prior to its acquisition, (adjusted to comply with group accounting policies) are as follows:

Profit and loss account

	Current period up to acquisition (9 months) £'000
Turnover	8,879
Operating loss	<u>(196)</u>
Net Interest	40
Loss on ordinary activities before taxation	<u>(156)</u>
Taxation on loss from ordinary activities	-
Loss for the period	<u>(156)</u>

Diamond Resorts (Holdings) Limited

**Notes forming part of the financial statements
for the year ended 31 December 2012 (*continued*)**

34 Capital commitments

There were no capital commitments at 31 December 2012 or 31 December 2011

35 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 International Inc, at the balance sheet date, to the subsidiary companies. The amount outstanding at the year end was £65,365,000 (2011: £60,870,000). The debenture provides a fixed and floating charge over the undertaking and all the assets of the company.