

Diamond Resorts (Holdings) Limited

Company Number: 5071128

Report and Financial Statements

Year Ended

31 December 2009



BDO

Diamond Resorts (Holdings) Limited

Annual report and financial statements for the year ended 31 December 2009

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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 2009

The directors present their report together with the audited financial statements for the year ended 31 December 2009

Principal activity

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

Results and dividends

The consolidated loss for the year after taxation amounted to £4.2m (2008: £1.1m). The directors do not recommend the payment of a dividend (2008: £nil).

During the year the group continued to focus upon the integration of the Diamond Resorts International brand tenets of simplicity, choice and comfort. As a result, additional member benefit products and experience packages were launched, utilising points ownership as the currency with which to access such holiday services.

Group turnover benefited from increased marketing activity in the UK following the investment in the cold line selling process (selling to new prospects), completed in the previous year. In addition, the change in emphasis with regard to warm line selling mentioned last year (selling to onsite guests), bore fruit during the period with increased efficiencies and revenues from this business activity. However, a consequence of this increased level of marketing activity was higher distribution costs, such as more onsite warm line expenditure and fees paid to external tour generators. Direct selling expenditure also increased as a consequence of higher timeshare revenues.

Another revenue benefit during the period was a change in the allocation of administration costs recharged to members' clubs and the points club (European Collection). Previously a majority of such costs had been suffered by the group on members' clubs' behalf. However, during the period the group incurred new expenses relating to the rental of the Irish Resort, also incurred on members' behalf.

During 2009 there has been a much lower benefit from resort disposals. As outlined in note 4, 2008 recorded £4.2m compared to £0.5m in 2009, mainly reflecting the profit arising on the disposal of Carlton Court in London.

Despite the improvement in trading performance, membership numbers declined during the period and there was a net return of inventory to the group. 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 steps taken to enable the transfer of points ownership to non members and ongoing product development will improve this situation.

Key Performance Indicators

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

- (1) Volume per guest (calculated as timeshare revenue / qualified (acceptable) marketing tours)
- (2) Marketing tours (selling prospects toured at resort locations)
- (3) Resort room occupancy rates
- (4) Room nights rented
- (5) 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.

Diamond Resorts (Holdings) Limited

Report of the directors for the year ended 31 December 2009 (continued)

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 £50 million (2008 £41 million) and a loss after tax of £4.2 million (2008 £1.1 million)

Turnover has increased by 22%, mainly due to two factors

(1) There was an improvement in the sales of timeshare points, which were £3.5m higher during the period. The Directors are pleased with this trend and believe that the enhanced brand, holiday experience and increased variety of holiday products and services on offer to members positively impacted sales to the existing membership and contributed to significantly higher volumes per guest (VPG) of £1,060 this year, (2008 £750 per guest) on completed business. Marketing Tour-flow targeted at selling timeshare points across Europe fell by 14% this year, mainly in Tenerife but the much higher VPG more than compensated for this. The number of European Collection points sold increased by 35%, (2009 16.3 million, 2008 12.1 million). Contributing to this large increase was the impact of selling at a discounted price per point due to the tough trading conditions and a decision to control the level of unsold points in the European Collection.

(2) Income from administration and management service fees charged to owners clubs and the points club (European Collection) increased by £6m. This was mainly due to a change in the allocation of expenses suffered by group resort management companies on members clubs' behalf. This increase was required to completely offset such operating expenditure.

Distribution costs increased by 38% due to the following reasons: (1) Increased timeshare sales has resulted in higher commissions to sales representatives. (2) The decision to change the legal status of sales representatives from independent contractors to employees has created additional payroll expenditure, such as minimum wage top ups and social security costs. (3) Marketing activity has increased with higher expenditure incurred in programs such as, outside personal contact, tour operator, concierge and UK fly-buy and mini-vacation.

Administration expenses increased by 13% due to the following reasons: (1) New operating lease costs and expenses at the Ireland resort. (2) Write down of non points stock in Germany and the UK. (3) Increase in exchange losses on foreign currency transactions. (4) Increase in repair and refurbishment costs at hotels. It must be noted that historically the group incurred administration expenditure on members' behalf with no corresponding income to offset.

A positive element within the result was additional revenues of £2.4m gained from the enhanced relationship with preferred rental partners. These rental partners occupied a further 4% of total resort room space this year, allocated from the developer's portion, (2009 11% of space, equating to 105,000 room nights, 2008 7% of space, equating to 67,000 room nights). This income partly offsets the cost of marketing and any drive to increase the selling of points to ensure a higher membership base in the European Collection.

As expected last year, the trading result did not show an improvement during the period as consideration should be taken of the exceptional benefit last year gained from the sale of the London hotel property. This realised a profit of £4 million ((included in other operating income)). The directors are, however, satisfied with the result with regard to the extremely tough trading conditions and the difficulty that purchasers of timeshare may experience with regard to obtaining adequate external finance to fund their acquisition.

Looking forward, Sterling has recovered slightly against the Euro and the forthcoming year should not see an onerous increase in the cost of timeshare club annual maintenance fees for UK resident club members for this reason. This, unfortunately, was the experience suffered during the current period under review. As a result, occupancy rates across member resorts fell by 5 percentage points this year, (2009 71%, 2008 76%). It must be noted, however, that any local increase to the rate of value added tax could have a future impact on fees.

The company will continue to roll out new membership benefit products and services and will attempt to more flexibly utilise accommodation space to service members' needs and also control the carrying costs of unoccupied resort accommodation. Further investment in the selling process will continue and by the end of the forthcoming year it is expected that a new multimedia experience will be available at key sales locations to promote the global holiday club and the benefits of points membership and related products.

Diamond Resorts (Holdings) Limited
Report of the directors
for the year ended 31 December 2009 (continued)

Principal risks and uncertainties

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

The 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 Holdings LLC to provide support as necessary to fund the company and group's operations for the foreseeable future. It should be noted, however, that the company is party to a cross guarantee, registered 24 April 2009, in favour of Diamond Resorts Corporation. The debenture provides a fixed and floating charge over the undertaking and all assets of the company 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 2009 the number of days' purchases within creditors was 26 (2008: 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

Diamond Resorts (Holdings) Limited
Report of the directors
for the year ended 31 December 2009 (continued)

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



Date 20th July 2010

Diamond Resorts (Holdings) Limited

Report of the Independent auditors for the year ended 31 December 2009

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 2009 which comprise the consolidated profit and loss account, the consolidated and company balance sheets, the consolidated cash flow statement, the consolidated statement of total recognised gains and losses 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 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

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements.

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 2009 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 2009 (continued)

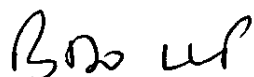
Opinion on other matters prescribed by the Companies Act 2006

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



Eric Solomons (senior statutory auditor)
For and on behalf of BDO LLP, statutory auditor
Manchester
United Kingdom
Date 21 July 2010

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 2009

	Note	2009 £'000	2008 £'000
Turnover	2	49,734	41,305
Cost of sales		(7,961)	(7,968)
Gross profit		<u>41,773</u>	<u>33,337</u>
Distribution costs		(21,814)	(15,862)
Administration expenses		(28,177)	(24,897)
Other operating income	4	<u>6,137</u>	<u>8,082</u>
Operating (loss)/profit	3	(2,081)	660
Interest receivable	7	509	1,541
Interest payable	8	(2,264)	(3,050)
Loss on ordinary activities before taxation		<u>(3,836)</u>	<u>(849)</u>
Tax on loss on ordinary activities	9	(338)	(265)
Loss on ordinary activities after taxation		<u><u>(4,174)</u></u>	<u><u>(1,114)</u></u>

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 2009

	Note	2009 £'000	2008 £'000
Loss for the financial year		(4,174)	(1,114)
Exchange differences on retranslation of foreign undertakings		(80)	(169)
Total recognised losses for the year		<u>(4,254)</u>	<u>(1,283)</u>

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

Diamond Resorts (Holdings) Limited

Consolidated balance sheet as at 31 December 2009

Company Number 5071128

	Note	2009	2009	2008	2008
		£'000	£'000	£'000	£'000
Fixed assets					
Intangible assets	11		1,558		1,783
Tangible assets	12		3,729		4,238
Investments	13		32		32
			<u>5,319</u>		<u>6,053</u>
Current assets					
Stocks	14	24,446		26,429	
Debtors					
Amounts falling due within one year	15	63,711		59,392	
Amounts falling due after more than one year	15	369		2,941	
Cash at bank and in hand	16	29,722		32,030	
		<u>118,248</u>		<u>120,792</u>	
Creditors: amounts falling due within one year	17	<u>(84,506)</u>		<u>(81,734)</u>	
Net current assets			33,742		39,058
Total assets less current liabilities			<u>39,061</u>		<u>45,111</u>
Creditors : amounts falling due after more than one year	18		(52,725)		(54,022)
Provisions for liabilities and charges	19		(6,520)		(7,019)
Net liabilities			<u>(20,184)</u>		<u>(15,930)</u>
Capital and reserves					
Called up share capital	21		49,000		49,000
Profit and loss account	22		(15,475)		(11,221)
Capital reserve	22		500		500
Merger reserve	22		(54,209)		(54,209)
Equity shareholders' deficit	23		<u>(20,184)</u>		<u>(15,930)</u>

The financial statements were approved by the Board and authorised for issue on

S Crook
Director

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

Diamond Resorts (Holdings) Limited

Company balance sheet as at 31 December 2009

Company Number 5071128

	Note	2009	2009	2008	2008
		£'000	£'000	£'000	£'000
Fixed assets					
Investments	13		35,327		35,327
Current assets					
Debtors	15	5,185		9,956	
		<u>5,185</u>		<u>9,956</u>	
Creditors: amounts falling due within one year	17	(3,835)		(5,301)	
Net current assets			1,350		4,655
Total assets less current liabilities			<u>36,677</u>		<u>39,982</u>
Creditors : amounts falling due after more than one year	18		(52,712)		(53,999)
Net liabilities			<u>(16,035)</u>		<u>(14,017)</u>
Capital and reserves					
Called up share capital	21		49,000		49,000
Profit and loss account	22		(65,035)		(63,017)
Equity shareholders' deficit	23		<u>(16,035)</u>		<u>(14,017)</u>

The financial statements were approved by the Board and authorised for issue on 20th July 2010

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 2009

	Note	2009 £'000	2009 £'000	2008 £'000	2008 £'000
Net cash inflow from operating activities	26		4,344		299
Returns on investments and servicing of finance					
Interest paid		(46)		(9)	
Interest received		509		1,541	
Interest on finance leases		(1)		(6)	
Net cash inflow from returns on investments and servicing of finance			462		1,526
Taxation			(430)		73
Capital expenditure and financial investment					
Purchase of tangible fixed assets		(425)		(1,018)	
Sale of tangible fixed assets		39		364	
Net cash outflow from capital expenditure and financial investment			(386)		(654)
Acquisitions and disposals			-		(631)
Cash inflow before financing			3,990		613
Management of liquid resources					
Increase/(decrease) of short term deposits			33		(131)
Financing					
Capital element of hire purchase contracts		(13)		-	
Decrease in borrowings from parent company		(6,000)		(8,000)	
Net cash outflow from financing			(6,013)		(8,000)
Decrease in cash	27		(1,990)		(7,518)

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 2009

1 Accounting policies

Basis of preparation

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

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

Basis of consolidation

The group financial statements consolidate the accounts of Diamond Resorts (Holdings) Limited and all of its subsidiary undertakings (see note 32) drawn up to 31 December 2009. 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 accommodation in holiday resorts owned by the group), and other non-points trading stock (comprising land and buildings not put into trust, but which may be available for members to use), and facilities not currently used as club resorts and awaiting refurbishment or sale. All these sales are recognised when they become contractually complete, which includes receiving all of the purchase consideration.

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

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

Other operating income

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

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

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

Tangible fixed assets and depreciation

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

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

Intangible fixed assets

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

Diamond Resorts (Holdings) Limited

Notes forming part of the financial statements
for the year ended 31 December 2009 (continued)

1 Accounting policies (continued)

Investments

Investments are stated at cost less amounts written off

Goodwill

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

Impairment of fixed assets and goodwill

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

Stock

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

Cost is determined for each component of stock as follows:

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

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

Deferred taxation

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

Deferred tax balances are not discounted.

Diamond Resorts (Holdings) Limited

Notes forming part of the financial statements for the year ended 31 December 2009 (continued)

Accounting policies (continued)

Contributions to pension schemes

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

Leased assets

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

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

Club accounting

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

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

Foreign currency

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

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

2 Turnover

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

Diamond Resorts (Holdings) Limited

Notes forming part of the financial statements
for the year ended 31 December 2009 *(continued)*

3 Operating (loss)/profit

The operating result is stated after charging/(crediting)	2009	2008
	£'000	£'000
Depreciation		
- owned assets	741	515
- assets held under finance leases and hire purchase contracts	5	4
Impairment of assets		
- impairment of intangibles	-	586
- impairment of non points trading stock	1,959	164
Auditors' remuneration		
- audit services	200	260
Amortisation of intangible fixed assets	225	346
Operating lease rentals		
- land and buildings	1,164	522
- other	55	60
Profit on sale of inventory	(492)	(4,156)
Profit on sale of UK freehold building	-	(326)
	<u> </u>	<u> </u>

Diamond Resorts (Holdings) Limited

Notes forming part of the financial statements
for the year ended 31 December 2009 *(continued)*

4 Other operating income

	2009 £'000	2008 £'000
Commission and fees received	625	721
Rental income	4,329	1,972
Income from resort clubs	554	794
Sundry income	137	113
Profit on disposal of tangible asset (former UK sales centre)	-	326
Profit on disposal of other asset (unsold timeshare stock at La Quinta)	118	130
Profit on disposal of Carlton Court (unsold timeshare stock in London)	374	4,026
	<u>6,137</u>	<u>8,082</u>

5 Employees

	Group		Company	
	2009 £'000	2008 £'000	2009 £'000	2008 £'000
<i>Staff costs for the year were as follows</i>				
Wages and salaries	13,459	11,670	-	-
Social security costs	2,442	1,720	-	-
Pension costs	9	12	-	-
	<u>15,910</u>	<u>13,402</u>	<u>-</u>	<u>-</u>

	Group		Company	
	2009 £'000	2008 £'000	2009 £'000	2008 £'000
<i>The average number of employees during the year was</i>				
Sales and marketing	288	167	-	-
Travel and reservations	-	22	-	-
Finance and administration	185	188	-	-
	<u>473</u>	<u>377</u>	<u>-</u>	<u>-</u>

Diamond Resorts (Holdings) Limited

Notes forming part of the financial statements
for the year ended 31 December 2009 (*continued*)

6 Directors' remuneration

	2009 £'000	2008 £'000
<i>Remuneration in respect of directors was as follows</i>		
Emoluments and benefits in kind	102	102
	<u>102</u>	<u>102</u>
	<u>102</u>	<u>102</u>
 <i>Remuneration in respect of the highest paid director was as follows</i>		
Emoluments and benefits in kind	102	102
	<u>102</u>	<u>102</u>
	<u>102</u>	<u>102</u>

During the year the company did not contribute to private pension plans of any directors (2008 no directors)

7 Interest receivable

	2009 £'000	2008 £'000
Other interest	482	286
Bank interest receivable	27	1,255
	<u>509</u>	<u>1,541</u>
	<u>509</u>	<u>1,541</u>

8 Interest payable

	2009 £'000	2008 £'000
Interest payable to group undertakings	2,217	3,044
Finance leases and hire purchase contracts	1	6
Other Interest payable	46	-
	<u>2,264</u>	<u>3,050</u>
	<u>2,264</u>	<u>3,050</u>

Diamond Resorts (Holdings) Limited

**Notes forming part of the financial statements
for the year ended 31 December 2009 (continued)**

9 Tax on loss on ordinary activities

	2009 £'000	2008 £'000
The tax charge represents		
- UK corporation tax at 28% (2008 28.5%)	-	-
- Overseas	574	383
- Adjustment in respect of prior years	(216)	92
	<u>358</u>	<u>475</u>
Deferred tax (Note 20)	(20)	(210)
	<u>338</u>	<u>265</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

	2009 £'000	2008 £'000
Loss on ordinary activities before taxation	(3,836)	(849)
Loss on ordinary activities before taxation multiplied by standard rate of corporation tax in the UK of 28% (2008 28.5%)	<u>(1,074)</u>	<u>(242)</u>
Effect of		
Depreciation for the year in excess of capital allowances	114	113
Difference in tax rates on overseas earnings	(96)	175
Trade losses utilised	85	(927)
Losses carried forward not recognised as deferred tax asset	1,466	1,304
Other timing differences	79	144
Adjustment in respect of prior years	(216)	(92)
Current tax charge for the year	<u>358</u>	<u>475</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 £2,018,000 (2008 £2,382,000). See note 22.

Diamond Resorts (Holdings) Limited

Notes forming part of the financial statements
for the year ended 31 December 2009 *(continued)*

11 Intangible fixed assets

Group	Purchased goodwill £'000	Patents and rights £'000	Total £'000
<i>Cost</i>			
At 1 January 2009	3,054	189	3,243
Additions	-	-	-
Disposal	-	(64)	(64)
At 31 December 2009	<u>3,054</u>	<u>125</u>	<u>3,179</u>
<i>Amortisation</i>			
At 1 January 2009	1,396	64	1,460
Provided in the year	209	16	225
Disposal	-	(64)	(64)
At 31 December 2009	<u>1,605</u>	<u>16</u>	<u>1,621</u>
<i>Net book value</i>			
At 31 December 2009	<u>1,449</u>	<u>109</u>	<u>1,558</u>
At 31 December 2008	<u>1,658</u>	<u>125</u>	<u>1,783</u>

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 disposal of Patents and rights during the year related to the Book me a cruise internet domain name. This was sold for cash consideration of £25,000.

Diamond Resorts (Holdings) Limited

Notes forming part of the financial statements
for the year ended 31 December 2009 (continued)

12 Tangible fixed assets

Group	Freehold land and buildings £'000	Fixtures and fittings £'000	Motor vehicles £'000	Total £'000
<i>Cost or valuation</i>				
At 1 January 2009 (as restated)	5,136	10,466	442	16,044
Additions	66	367	24	457
Transfers between categories	23	(23)	-	-
Disposals	-	(517)	(42)	(559)
Foreign exchange	(204)	(265)	(50)	(519)
At 31 December 2009	<u>5,021</u>	<u>10,028</u>	<u>374</u>	<u>15,423</u>
<i>Depreciation</i>				
At 1 January 2009 (as restated)	2,812	8,652	342	11,806
Provided in the year	201	503	42	746
Transfers between categories	-	-	-	-
Disposals	-	(517)	(42)	(559)
Foreign exchange	(43)	(226)	(30)	(299)
At 31 December 2009	<u>2,970</u>	<u>8,412</u>	<u>312</u>	<u>11,694</u>
<i>Net book value</i>				
At 31 December 2009	<u>2,051</u>	<u>1,616</u>	<u>62</u>	<u>3,729</u>
At 31 December 2008 (as restated)	<u>2,324</u>	<u>1,814</u>	<u>100</u>	<u>4,238</u>

The net book value of assets held under finance leases at 31 December 2009 amounted to £39,000 (2008 £7,000) Depreciation charged on these assets in the year amounted to £5,000 (2008 £4,000)

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 £128,000 (2008 £152,000) Depreciation charged on these assets in the year amounted to £26,000 (2008 £24,000) 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

Diamond Resorts (Holdings) Limited

Notes forming part of the financial statements
for the year ended 31 December 2009 (continued)

13 Investments

	Group £'000	Company £'000
<i>Cost</i>		
At 1 January 2009 and 31 December 2009	32	88,000
<i>Accumulated impairment charge</i>		
At 1 January 2009 and 31 December 2009	-	52,829
<i>Net book value</i>		
At 1 January 2009 and 31 December 2009	32	35,327

Significant subsidiary undertakings as at 31 December 2009 are shown in note 32

14 Stocks

	Group	
	2009 £'000	2008 £'000
Timeshare points	13,304	13,269
Other non-points trading stock	10,056	11,964
Work in progress	866	934
Consumables	220	262
	<u>24,446</u>	<u>26,429</u>

15 Debtors

	Group		Company	
	2009 £'000	2008 £'000	2009 £'000	2008 £'000
<i>Amounts falling due within one year</i>				
Trade debtors	4,071	367	-	-
Club maintenance fee debtors	51,441	52,552	-	-
Other debtors	2,329	3,737	-	-
Amounts owed by group companies	-	-	5,185	9,956
Prepayments and accrued income	2,411	1,181	-	-
Taxation and social security	1,459	1,555	-	-
Corporation tax receivable	2,000	-	-	-
	<u>63,711</u>	<u>59,392</u>	<u>5,185</u>	<u>9,956</u>
<i>Amounts falling due after more than one year</i>				
Trade debtors	369	522	-	-
Corporation tax receivable	-	2,419	-	-
	<u>369</u>	<u>2,941</u>	<u>-</u>	<u>-</u>

Diamond Resorts (Holdings) Limited

Notes forming part of the financial statements
for the year ended 31 December 2009 (*continued*)

16 Cash at bank and in hand - group

Cash at bank and in hand includes restricted cash balances of £25,078,000 (2008 £22,822,000) 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	
	2009 £'000	2008 £'000	2009 £'000	2008 £'000
Bank overdrafts	44	172	-	-
Obligations under finance leases (note 18)	9	13	-	-
Trade creditors	1,836	1,702	-	-
Corporation tax	1,941	2,452	-	-
Other taxation and social security	1,848	1,694	-	-
Other creditors	1,063	1,479	-	-
Amounts owed on behalf of club members	67,121	64,826	-	-
Amounts owed to group undertakings	-	-	3,835	5,301
Accruals and deferred income	10,644	9,396	-	-
	<u>84,506</u>	<u>81,734</u>	<u>3,835</u>	<u>5,301</u>

18 Creditors: amounts falling due after more than one year

	Group		Company	
	2009 £'000	2008 £'000	2009 £'000	2008 £'000
Loan from parent company	52,712	53,999	52,712	53,999
Obligations under finance leases	13	23	-	-
	<u>52,725</u>	<u>54,022</u>	<u>52,712</u>	<u>53,999</u>

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 2009 £'000	Finance leases 2009 £'000	Total 2009 £'000
In one year or less, or on demand	44	9	53
In more than one year but not more than five years	-	13	13
	<u>44</u>	<u>22</u>	<u>66</u>

Diamond Resorts (Holdings) Limited

Notes forming part of the financial statements
for the year ended 31 December 2009 (*continued*)

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

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

19 Provisions for liabilities and charges

	Note	At 1 January 2009 £'000	Additions £'000	Amounts used £'000	At 31 December 2009 £'000
Sales and marketing	(1)	2,443	1,781	(2,233)	1,991
Overseas taxes	(2)	2,515	-	(179)	2,336
Maintenance and repairs	(3)	1,275	-	-	1,275
Litigation	(4)	600	-	-	600
UK taxes	(5)	186	95	(63)	218
Vacant Properties	(6)	-	100	-	100
		<u>7,019</u>	<u>1,976</u>	<u>(2,475)</u>	<u>6,520</u>

- (1) The group provides incentives to potential customers to purchase as part of its marketing activities. These consist primarily of awards or vouchers which can be redeemed for travel and accommodation. At 31 December 2009 the estimated cost of awards and vouchers which will be redeemed over the following two years is £1,906,000. In addition, a provision of £85,000 has been made for sales refunds.
- (2) There is a risk that the group could be required to pay additional overseas indirect taxes. The timing of these payments is uncertain.
- (3) The group has an obligation under a planning agreement with a local council to perform renovations at a UK resort with an estimated cost of £1,275,000. The period during which these renovations are to take place has still to be determined.
- (4) The group is awaiting the outcome of a property dispute. The directors believe that the group will be successful, but an amount of £600,000 has been set aside as a contingency fund which the Directors believe should be sufficient.
- (5) The group made payments to building contractors which may be deemed to have been subject to withholding taxes under the construction industry scheme but for which deductions were not made. Unpaid tax is estimated at £42,000. The remainder of the provision relates to additional UK employee taxes and indirect taxes that the directors feel could be payable.
- (6) The group has recognised future net costs arising from the property at the Salford location that is expected to become vacant. Previously this property had been sub-let but notice to terminate has been received from the tenant.

Diamond Resorts (Holdings) Limited

Notes forming part of the financial statements
for the year ended 31 December 2009 (*continued*)

20 Deferred taxation

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

	£'000
At 1 January 2009	264
Movement for the year	(20)
At 31 December 2009	<u>244</u>

The deferred tax liability consists of the following	2009 £'000	2008 £'000
Other timing differences	<u>244</u>	<u>264</u>

The company has an unrecognised deferred tax asset of £3,808,000 (2008 £3,033,000) representing unutilised tax losses carried forward. The group has an unrecognised deferred tax asset of £16,035,000 (2008 £11,351,000 for the same category). These assets have not been recognised due to the uncertain timing of future tax recoverability.

21 Share capital

	2009 £'000	2008 £'000
<i>Authorised</i>		
55,000,000 Ordinary shares of £1 each	<u>55,000</u>	<u>55,000</u>
<i>Allotted, called up and fully paid</i>		
48,999,450 Ordinary shares of £1 each	<u>49,000</u>	<u>49,000</u>

Diamond Resorts (Holdings) Limited

Notes forming part of the financial statements
for the year ended 31 December 2009 (*continued*)

22 Profit and loss account and reserves

Group	Merger reserve 2009 £'000	Capital reserve 2009 £'000	Profit and loss reserve 2009 £'000
At 1 January 2009	(54,209)	500	(11,221)
Loss for the financial year	-	-	(4,174)
Foreign exchange differences	-	-	(80)
At 31 December 2009	<u>(54,209)</u>	<u>500</u>	<u>(15,475)</u>

Company	2009 £'000
At 1 January 2009	(63,017)
Loss for the financial year	(2,018)
At 31 December 2009	<u>(65,035)</u>

23 Reconciliation of movements in equity shareholders' deficit

	Group 2009 £'000	Group 2008 £'000	Company 2009 £'000	Company 2008 £'000
Loss for the financial year	(4,174)	(1,114)	(2,018)	(2,382)
Foreign exchange differences	(80)	(169)	-	-
Net movement in shareholders' funds	<u>(4,254)</u>	<u>(1,283)</u>	<u>(2,018)</u>	<u>(2,382)</u>
Opening shareholders' deficit	(15,930)	(14,647)	(14,017)	(11,635)
Closing shareholders' deficit	<u>(20,184)</u>	<u>(15,930)</u>	<u>(16,035)</u>	<u>(14,017)</u>

Diamond Resorts (Holdings) Limited

Notes forming part of the financial statements for the year ended 31 December 2009 (*continued*)

24 Commitments under operating leases

As at 31 December 2009, the group had annual commitments under non-cancellable operating leases as set out below

	Land and buildings		Other	
	2009	2008	2009	2008
	£'000	£'000	£'000	£'000
Within one year	-	16	18	4
In two to five years	477	460	24	51
After five years	688	44	-	-
	<u>1,165</u>	<u>520</u>	<u>42</u>	<u>55</u>

25 Related party transactions

The company has entered into credit facility agreements with its parent undertaking, Diamond Resorts Corporation. The balance owed at 31 December 2009 was £52,712,000 (2008 £53,999,000). In 2009 the company paid Diamond Resorts Corporation £6,000,000 in respect of this facility.

Under this revolving credit agreement the outstanding principal and interest unpaid shall be due and repayable on 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 members within the group headed by Diamond Resorts (Holdings) Limited.

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

	2009	2008
	£000	£000
Group operating (loss)/profit	(2,081)	660
Profit on disposal of tangible fixed assets	(39)	(326)
Depreciation and amortisation of fixed assets	971	865
Decrease in stocks	1,983	3,056
Increase in debtors	(970)	(19,529)
Increase in creditors	4,631	16,449
Decrease in provisions	(499)	(297)
Impairment of goodwill	-	586
Other non cash movements	348	(1,165)
	<u>4,344</u>	<u>299</u>
Net cash inflow from operating activities		

Diamond Resorts (Holdings) Limited

Notes forming part of the financial statements
for the year ended 31 December 2009 (*continued*)

27 Reconciliation of net cash flow to movement in net debt

	2009 £000	2008 £000
Decrease in cash in the year	(1,990)	(7,518)
Cash inflow/(outflow) from change in liquid resources	(33)	131
Cash outflow from decrease in debt	6,013	8,000
	<u>3,990</u>	<u>613</u>
Change in net debt resulting from cash flows	(4,904)	(4,751)
Currency and other non cash movements		
	<u>(914)</u>	<u>(4,138)</u>
Movement in net debt in the year	(21,712)	(17,574)
Net debt at start of year	(22,626)	(21,712)
Net debt at end of year	<u>(22,626)</u>	<u>(21,712)</u>

28 Analysis of debt

	As at 1 January 2009 £'000	Cash flow £'000	Other non cash changes £'000	Foreign exchange £'000	As at 31 December 2009 £'000
Cash at bank and in hand	32,030	(2,117)	-	(191)	29,722
Bank loans and overdrafts repayable on demand	(172)	127	-	-	(45)
Net cash	<u>31,858</u>	<u>(1,990)</u>	<u>-</u>	<u>(191)</u>	<u>29,677</u>
Liquid resources	465	(33)	-	-	432
Obligations under finance lease	(36)	13	-	-	(23)
Loan from parent company	(53,999)	6,000	(4,713)	-	(52,712)
At 31 December 2009	<u>(21,712)</u>	<u>3,990</u>	<u>(4,713)</u>	<u>(191)</u>	<u>(22,626)</u>

29 Capital commitments

There were no capital commitments at 31 December 2009 or 31 December 2008

Diamond Resorts (Holdings) Limited

Notes forming part of the financial statements
for the year ended 31 December 2009 (continued)

30 Contingent liabilities

- (1) There is a contingent liability for overseas indirect taxes. It is not practicable to quantify this liability until the group has completed a review of its group structure. A related provision has been made for taxes which are more likely than not to be incurred (note 19)
- (2) The company is aware of tax assessments against overseas resort property owning companies which the company could be required to pay. The company expects that these assessments will be successfully appealed. In the event that the appeal is lost, the total cost of settling these assessments is estimated to be £450,000

31 Ultimate parent undertaking

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

The only group of which Diamond Resorts (Holdings) Limited is a member and for which group accounts are drawn up is that headed by Diamond Resorts Holdings LLC, whose principal place of business is at 10600 West Charleston Blvd, Las Vegas, Nevada 89135-1014, USA. The consolidated accounts of the group can be obtained from the above address

32 Subsidiary undertakings

The group headed by the company had the following significant subsidiary undertakings as at 31 December 2009. 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%

Diamond Resorts (Holdings) Limited

Notes forming part of the financial statements
for the year ended 31 December 2009 (*continued*)

32 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%
Merdat 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%
Inplace Limited	England	Ordinary	100%
Provision of finance and travel services			
DR Financial Services Limited	England	Ordinary	100%
Diamond Resorts Travel Limited	England	Ordinary	100%
Diamond Resorts Holidays Limited	England	Ordinary	100%
Diamond Resorts Voyages SARL	France	Ordinary	100%
Clubs **			
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		

Diamond Resorts (Holdings) Limited

**Notes forming part of the financial statements
for the year ended 31 December 2009 (continued)**

32 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.

33 Financial commitments

The company is party to a cross guarantee, registered 24 April 2009, 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 £52,712,000 (2008 £53,999,000). The debenture provides a fixed and floating charge over the undertaking and all the assets of the company.