

Diamond Resorts (Holdings) Limited

Report and Financial Statements

Year Ended

31 December 2013

Company Number 5071128

FRIDAY



A3H921E0

A28

26/09/2014

#402

COMPANIES HOUSE

Diamond Resorts (Holdings) Limited

Report and financial statements for the year ended 31 December 2013

Contents

Page:

1	Strategic report
5	Report of the directors
7	Independent auditor's report
9	Consolidated profit and loss account
10	Consolidated statement of total recognised gains and losses
11	Consolidated balance sheet
12	Company balance sheet
13	Consolidated cash flow statement
14	Notes forming part of the financial statements

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

Strategic report for the year ended 31 December 2013

The directors present their strategic report together with the audited financial statements for the year ended 31 December 2013.

Principal activity

The principal activity of the company is that of a group holding company. The group's activities include the development, maintenance, rental 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, Bulgaria, 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 £1.4m (2012: £8.0m loss). The directors do not recommend the payment of a dividend (2012: £Nil).

Group operating loss before taxation reduced by £7.0m compared with the prior year. The main factors were as follows:

- (1) £10.4m profit was generated from a much enhanced sales and marketing operation in the UK and the Spanish territories. This increase was principally attributable to the sales of the fractional holiday ownership product (see note 1).
- (2) £2.0m decrease in legal and professional fees as the corporate restructuring project is now winding down.
- (3) £1.2m higher profit was generated from the disposal of unsold stock and reduced asset value write downs. These positive factors were partly offset by the following:
- (4) Net running costs of unoccupied resort accommodation, (after rental revenues) increased by £1.0m, the majority of this uplift was due to lower membership numbers and inflationary pressure on resort costs.
- (5) Losses were higher in the Mediterranean sales and marketing business, (acquired in October 2012) as these increased by £6.1m. A majority of this loss is related to post acquisition revenue recognition policy. As a result, revenues for cold line sales (new customers buying discover diamond membership (DDM) and "preview" holiday packs) of £3.5m made during 2013 will only be recognised when the customer either takes their first holiday, (preview) or over the four year life of the product (DDM), this will be between 2014 to 2017. However, under UK accounting standards the direct selling expenses incurred to achieve these revenues have been charged to the current period profit and loss account as this service has been absorbed by the company.

Membership numbers declined again, although at an acceptable level as 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 extremely happy with the revenues that have yielded from the fractional holiday ownership product; this was launched late in the preceding year. However, the performance of the Mediterranean selling and marketing operation has been disappointing since acquisition and this will be monitored closely as its further integration into the group continues.

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 the directors completed the second phase of a corporate restructuring project, involving a series of cross border mergers. This second phase has resulted in a reorganisation of the legal and operational structure in the UK and Austria. 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. During the forthcoming year the Mediterranean sales and marketing operation will begin to market and sell the Discover Diamond Membership entry product (Cold line), and also the full points holiday ownership (Warm line) product. It will be the first opportunity for the group to launch these products to UK, Scandinavian and German nationals holidaying in these destinations, particularly as they may not have encountered the Diamond brand when taking holidays elsewhere in Europe or the United States.

Diamond Resorts (Holdings) Limited

Strategic report for the year ended 31 December 2013 (*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 or memberships upgraded to fractional ownership

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 9 and shows turnover for the year of £55.4m (2012: £34.2m) and a loss after tax of £1.4m (2012: loss of £8.0m).

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 increased by 62%, contributing factors were as follows:

- (1) The Mediterranean based sales and marketing operation (Aegean Blue) was only acquired in the final quarter of 2012 (see note 36) and thus there were a further six months of the selling season available this year (the operation closes down during the autumn-winter season). As a result, there were additional timeshare sales of £5.0m this year that can be recognised under accounting standards (sales to upgrade existing holiday pack owners to full timeshare membership).
- (2) Sales of holiday ownership were £16.2m higher this year at the existing sites elsewhere in Europe. The majority of this uplift can be attributed to the success of converting existing holiday ownership members to the fractional timeshare product (see note 1), that was launched in December 2012. Accordingly, there was a rise in volumes per guest to £2,723 this year, (2012: £1,024 per guest) on sales of holiday ownership. Marketing tour-flow targeted at selling fractional ownership was 1.6% higher across continental Europe compared to points membership tour-flow in the prior year (excluding Aegean Blue).

Cost of sales decreased by 15%, the majority of this was due to the change in group strategy this year, whereby upgrade revenues are being generated from the conversion of existing members from points holiday ownership to the new fractional holiday ownership. As a result, the number of European Collection points sold has decreased considerably by 10.5m points to 5.6m (2012: 16.1m), accordingly the cost of points stock sold decreased by £1.2m.

Distribution costs increased by 81%, the majority of which is due to the following reasons:

- (1) £3.6m 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) £7.2m costs relating to the Mediterranean based Aegean Blue business (the sales and marketing operation there was open for seven months this year compared to one month post acquisition last year).
- (3) £7.5m increase in indirect and direct selling and marketing costs related to the uplift in fractional holiday ownership sales, the majority of which was either for staff salary and commission or tour related expenditure.

Administration expenses were comparable with the prior year:

- (1) Legal and professional fees were lower by £2.0m due to the winding down of the aforementioned corporate restructuring project. The group previously engaged advice and guidance on the complex local country filing requirements and court representations required to achieve the successful EU cross border merger.

Diamond Resorts (Holdings) Limited

Strategic report for the year ended 31 December 2013 (*continued*)

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

Administration expenses (*continued*)

(2) Expenses relating to the Aegean Blue business increased by £3.0m, (twelve months of overhead this year compared to three months post acquisition last year).

(3) Asset value write downs were £0.6m lower this year.

Other operating income was 46% higher compared with the previous year due to the following reasons:

(1) £0.5m rise in commission revenues received from the providers of external finance to purchasers of holiday ownership.

(2) £2.6m increase in income was realised from the relationship with preferred rental partners. These rental partners occupied a higher level of total resort room space compared with the previous year, this is allocated from the developer's portion, being 22% this year, (2012:17% of space), equating to 216,000 room nights, (2012:170,000 room nights). There was also a rise in the average daily rate charged to partners, (2013: £43, 2012: £38 per night). The rental market has been more robust this year with a lower level of discounting required. This income partly reduces the developer's liability for unsold inventory and its associated accommodation expense.

(3) There was a gain of £0.4m on the disposal of surplus timeshare stock in the Balearic Islands.

The directors are delighted with the group's improved operating result, especially with regard to the current economic challenges and the competitive nature of the holiday industry, coupled with the continued difficulty that the potential purchasers of timeshare may experience with regard to obtaining adequate external finance to fund their acquisition. The Directors were also pleased with the level of holiday ownership members utilising their membership this year as this was comparable. The Directors believe that this is indicative of the evolving 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 was completed during the year, increasing available space at this premium destination with the desired aim to showcase the best of the Diamond portfolio. In the forthcoming year the directors hope 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, the revenues generated from the new fractional holiday ownership product have enhanced group turnover to record levels. The group is also still investigating further strategies to widen the client base to new nationalities and to acquire new resort management opportunities. Further integration of the Mediterranean based operation will continue during the forthcoming year with a roll-out of group designed operational and administrative systems to those locations.

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 International Inc. 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.

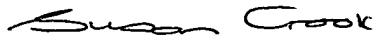
Diamond Resorts (Holdings) Limited

Strategic report
for the year ended 31 December 2013 (*continued*)

Approval

This strategic report was approved by order of the Board on 12th September 2014

S Crook
Secretary



Diamond Resorts (Holdings) Limited

Report of the directors for the year ended 31 December 2013

The directors present their report together with the audited financial statements for the year ended 31 December 2013.

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

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.

Dividends

The directors do not recommend the payment of a dividend.

Financial risk management

Information on the group's financial risk management objectives and policies and information on exposure to price, credit, liquidity and cashflow risk is included in the strategic report.

Statement of directors' responsibilities

The directors are responsible for preparing the strategic report, 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.

Diamond Resorts (Holdings) Limited

Report of the directors for the year ended 31 December 2013 (*continued*)

Statement of directors' responsibilities (*continued*)

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 12th September 2014

Diamond Resorts (Holdings) Limited

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 2013 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 FRC'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 2013 and of the group's loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

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

Diamond Resorts (Holdings) Limited

Independent auditor's report (*continued*)

Matters on which we are required to report by exception

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

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

BDO WP

Philip Storer (senior statutory auditor)
For and on behalf of BDO LLP, statutory auditor
Manchester
United Kingdom

Date 18/09/14

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 2013

	Note	2013 £'000	2012 £'000
Turnover	2	55,424	34,220
Cost of sales		(5,093)	(5,984)
Gross profit		50,331	28,236
Distribution costs		(40,841)	(22,505)
Administration expenses		(20,675)	(20,498)
Other operating income	4	10,824	7,419
Operating loss	3	(361)	(7,348)
Interest receivable	7	865	784
Interest payable	8	(768)	(1,749)
Loss on ordinary activities before taxation		(264)	(8,313)
Tax on loss on ordinary activities	9	(1,129)	356
Loss on ordinary activities after taxation		(1,393)	(7,957)

The results disclosed above all relate to continuing operations.

The notes on pages 14 to 36 form part of these financial statements.

Diamond Resorts (Holdings) Limited

Consolidated statement of total recognised gains and losses for the year ended 31 December 2013

	2013 £'000	2012 £'000
Loss for the financial year	(1,393)	(7,957)
Exchange differences on retranslation of foreign undertakings	257	(445)
	<hr/>	<hr/>
Total recognised losses for the year	(1,136)	(8,402)
	<hr/>	<hr/>

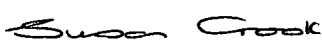
The notes on pages 14 to 36 form part of these financial statements.

Diamond Resorts (Holdings) Limited

Consolidated balance sheet as at 31 December 2013

Company number 5071128	Note	2013 £'000	2013 £'000	2012 £'000	2012 £'000
Fixed assets					
Intangible assets	11		4,040		4,607
Tangible assets	12		2,833		2,997
			6,873		7,604
Current assets					
Stocks	14	34,064		29,764	
Debtors:					
Amounts falling due within one year	15	47,023		50,934	
Amounts falling due after one year	15	581		710	
Cash at bank and in hand	16	50,443		38,954	
		132,111		120,362	
Creditors: amounts falling due within one year	17	(98,993)		(89,832)	
Net current assets			33,118		30,530
Total assets less current liabilities			39,991		38,134
Creditors: amounts falling due after more than one year	18		(72,279)		(69,626)
Provisions for liabilities and charges	19		(3,472)		(3,132)
Net liabilities			(35,760)		(34,624)
Capital and reserves					
Called up share capital	21		49,000		49,000
Profit and loss account	22		(31,051)		(29,915)
Capital reserve	22		500		500
Merger reserve	22		(54,209)		(54,209)
Equity shareholders' deficit	23		(35,760)		(34,624)

The financial statements were approved by the Board and authorised for issue on 12th September 2014

S Crook 
Director


The notes on pages 14 to 36 form part of these financial statements.

Diamond Resorts (Holdings) Limited

Company balance sheet as at 31 December 2013

Company number 5071128	Note	2013 £'000	2013 £'000	2012 £'000 Restated*	2012 £'000 Restated*
Fixed assets					
Investments	13		4,833		4,833
Current assets					
Debtors	15	6,271		4,055	
Creditors: amounts falling due within one year	17	(3,660)		(3,758)	
Net current assets			2,611		297
Total assets less current liabilities			7,444		5,130
Creditors : amounts falling due after more than one year	18		(67,377)		(65,365)
Net liabilities			(59,933)		(60,235)
Capital and reserves					
Called up share capital	21		49,000		49,000
Profit and loss account	22		(108,933)		(109,235)
Equity shareholders' deficit	23		(59,933)		(60,235)

The financial statements were approved by the Board and authorised for issue on 12th September 2014

S Crook 
Director

*The restatement in relation to the year ended 31 December 2012 is explained in note 1.

The notes on pages 14 to 36 form part of these financial statements.

Diamond Resorts (Holdings) Limited

Consolidated cash flow statement for the year ended 31 December 2013

	Note	2013 £'000	2013 £'000	2012 £'000	2012 £'000
Net cash inflow/(outflow) from operating activities	26		12,510		(2,461)
Returns on investments and servicing of finance					
Interest paid		-		(52)	
Interest received		865		754	
Interest on finance leases		(1)		(1)	
Net cash inflow from returns on investments and servicing of finance			864		701
Taxation			(1,123)		(1,508)
Capital expenditure and financial investment					
Purchase of tangible fixed assets		(668)		(180)	
Sale of tangible fixed assets		-		1	
Net cash outflow from capital expenditure and financial investment			(668)		(179)
Acquisitions	33		-		2,454
Cash outflow before financing			11,583		(993)
Management of liquid resources					
Increase in short term deposits			(77)		(18)
Financing					
Capital element of hire purchase contracts			(3)		(8)
Increase/(Decrease) in cash	27		11,503		(1,019)

The notes on pages 14 to 36 form part of these financial statements.

Diamond Resorts (Holdings) Limited

Notes forming part of the financial statements for the year ended 31 December 2013

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 International Inc to provide sufficient financial support for the foreseeable future to enable liabilities, both external and within the group, to be met as they fall due.

Restatement of prior year company balance sheet – omission of corporate restructuring step

An agreement approved by the board of directors on 3rd December 2012 was not included in the previously issued financial statements.

Under this agreement the company entered into an assignment deed with Diamond Resorts (Group Holdings) PLC ("DRGH") and Diamond Resorts (Europe) Limited ("DREL"). Resulting from this agreement the liability of part of an inter-company payable balance owed by the company by DRGH in the amount of £8,843,000 would be assigned to DREL with full title guarantee.

In addition, the company also entered into a subscription and offset agreement with DRGH. Pursuant to this would be the subscription of 1 ordinary share by the company of £1.00 each in the capital of DRGH for consideration of £8,843,000, such cash consideration to be added to the amount of inter-company loan owed by the company to DRGH.

Resulting from the change in investments discussed above, it became necessary to write down the carrying value of investments to the value of net assets in DRGH. Accordingly there was a write down of £14,904,000 and a charge to the profit and loss account in the company balance sheet only. There was no change to the consolidated financial statements at group level as these transactions are inter-company related and are offset between group undertakings.

The above transactions resulted in the following amendments to the prior year balance sheet of the company only:

	£'000
Fixed assets	
Investments in subsidiaries	(6,061)
Current assets	
Amounts owed by group undertakings	(8,843)
	<hr/>
Net assets	(14,904)
	<hr/>
Capital and reserves	
Profit and loss account	(14,904)
	<hr/>

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 2013. The consolidation of subsidiaries has been accounted for using the merger method of accounting.

Diamond Resorts (Holdings) Limited

Notes forming part of the financial statements
for the year ended 31 December 2013 (*continued*)

1 Accounting policies (*continued*)

Turnover

Turnover 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.

Fractional holiday ownership points

Also included within turnover are sales of a points related product that allows the purchaser to acquire a share in a specific unit of holiday accommodation but with the added benefit of full holiday ownership 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 majority of revenues from this product are conversion fees payable by existing members of the Diamond Resorts European Collection.

Other operating income

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

Rental of surplus holiday accommodation not utilised by the group's sales and marketing operation is also included as well as any profits made on the sale of surplus holiday ownership stock removed from timeshare trust and held as current assets.

Tangible fixed assets and depreciation

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

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

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

Diamond Resorts (Holdings) Limited

Notes forming part of the financial statements for the year ended 31 December 2013 (*continued*)

1 Accounting policies (*continued*)

Goodwill

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

Stock

Stocks are valued at the lower of cost and net realisable value.
Cost is determined for each component of stock as follows:

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

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

Deferred taxation

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

Deferred tax is measured using rates of tax that have been enacted or substantively enacted by the balance sheet date.

Deferred tax balances are not discounted.

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.

Diamond Resorts (Holdings) Limited

Notes forming part of the financial statements for the year ended 31 December 2013 (*continued*)

1 Accounting policies (*continued*)

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.

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.

Diamond Resorts (Holdings) Limited

Notes forming part of the financial statements
for the year ended 31 December 2013 (*continued*)

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 and also fees receivable on the conversion of ownerships to the fractional points product, together with commissions on related activities and resort management fees charged at a cost plus agreed percentage. An analysis of turnover by geographical location and business segment has not been presented as the directors considered such a disclosure to be seriously prejudicial to the interest of the group.

3 Operating loss

The operating loss is stated after charging/(crediting):	2013 £'000	2012 £'000
Depreciation:		
- owned assets	881	544
- assets held under finance leases and hire purchase contracts	3	4
Impairment of assets:		
- impairment of unsold timeshare stock	-	374
- impairment of purchased goodwill	-	415
Auditors' remuneration:		
- audit services (all charged to subsidiary entities)	327	208
Amortisation of intangible fixed assets	663	136
Operating lease rentals:		
- land and buildings	1,067	970
- other	91	76
Loss on disposal of tangible fixed assets	41	8
Profit on disposal of other assets in Mainland Spain	(239)	(287)
Profit on disposal of non points stock in the Balearic Islands	(411)	-
	<hr/>	<hr/>

4 Other operating income

	2013 £'000	2012 £'000
Commission and fees received	1,025	557
Rental income	9,110	6,513
Income from resort clubs	51	35
Sundry income	-	27
Profit on disposal of other assets in Mainland Spain	227	287
Profit on disposal of non points stock in the Balearic Islands	411	-
	<hr/>	<hr/>
	10,824	7,419
	<hr/>	<hr/>

Diamond Resorts (Holdings) Limited

Notes forming part of the financial statements
for the year ended 31 December 2013 (*continued*)

5 Employees

	Group 2013 £'000	Group 2012 £'000	Company 2013 £'000	Company 2012 £'000
Staff costs for the year were as follows:				
Wages and salaries	20,962	12,336	-	-
Social security costs	2,801	1,877	-	-
Pension costs	24	23	-	-
	<u>23,787</u>	<u>14,236</u>	<u>-</u>	<u>-</u>

The average number of employees during the year was:

Sales and marketing	381	220	-	-
Finance and administration	228	199	-	-
	<u>609</u>	<u>419</u>	<u>-</u>	<u>-</u>

6 Directors' remuneration

	2013 £'000	2012 £'000
<i>Remuneration in respect of directors was as follows:</i>		
Emoluments and benefits in kind	<u>160</u>	<u>154</u>

During the year the company did not contribute to private pension plans of any directors (2012 - no directors).

7 Interest receivable

	2013 £'000	2012 £'000
Other interest	67	52
Bank interest	44	19
Maintenance fee finance interest	754	713
	<u>865</u>	<u>784</u>

Diamond Resorts (Holdings) Limited

Notes forming part of the financial statements
for the year ended 31 December 2013 *(continued)*

8 Interest payable

	2013 £'000	2012 £'000
Interest payable to group undertakings	767	1,696
Finance leases and hire purchase contracts	1	1
Other interest payable	-	52
	<u>768</u>	<u>1,749</u>

9 Tax on loss on ordinary activities

	2013 £'000	2012 £'000
The tax credit represents:		
- UK corporation tax at 23.3% (2012 - 25.7%)	-	-
- Overseas	1,195	708
- Adjustment in respect of prior years	(66)	(1,064)
	<u>1,129</u>	<u>(356)</u>
Deferred tax (Note 20)	-	-
	<u>1,129</u>	<u>(356)</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:

	2013 £'000	2012 £'000
Loss on ordinary activities before taxation	(264)	(8,313)
Loss on ordinary activities before taxation multiplied by standard rate of corporation tax in the UK of 23.3% (2012 - 25.7%)	(62)	(2,135)
Effect of:		
Expenses not allowed as tax deductions	15	149
Difference in tax rates on overseas earnings	966	123
Trade losses utilised	(268)	(121)
Losses carried forward not recognised as deferred tax asset	621	3,034
Other timing differences	(77)	(342)
Adjustment in respect of prior years	(66)	(1,064)
Current tax charge/ (credit) for the year	<u>1,129</u>	<u>(356)</u>

Diamond Resorts (Holdings) Limited

Notes forming part of the financial statements
for the year ended 31 December 2013 (*continued*)

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 profit for the financial year was £302,000 (2012 restated: £40,660,000 loss). See note 23.

11 Intangible fixed assets

Group	Purchased goodwill £'000	Management contracts £'000	Total £'000
<i>Cost</i>			
At 1 January 2013	6,693	142	6,835
Foreign exchange	90	6	96
	<hr/>	<hr/>	<hr/>
At 31 December 2013	6,783	148	6,931
	<hr/>	<hr/>	<hr/>
<i>Amortisation</i>			
At 1 January 2013	2,164	64	2,228
Provided in the year	656	7	663
	<hr/>	<hr/>	<hr/>
At 31 December 2013	2,820	71	2,891
	<hr/>	<hr/>	<hr/>
<i>Net book value</i>			
At 31 December 2013	3,963	77	4,040
	<hr/>	<hr/>	<hr/>
At 31 December 2012	4,529	78	4,607
	<hr/>	<hr/>	<hr/>

The goodwill brought forward relates to the purchase of IGR Mougins SARL, Vilar do Golf LDA and to the acquisition of the Cypriot and Greek based sales and marketing company, Aegean Blue Holdings Limited.

IGR Mougins SARL and Vilar do Golf LDA goodwill is being amortised over 20 years, Aegean Blue Holdings Limited goodwill is being amortised over 7 years, being the directors' best estimate of their useful economic lives.

Diamond Resorts (Holdings) Limited

Notes forming part of the financial statements
for the year ended 31 December 2013 (*continued*)

12 Tangible fixed assets

Group	Freehold land and buildings £'000	Fixtures and fittings £'000	Motor vehicles £'000	Total £'000
<i>Cost</i>				
At 1 January 2013	3,119	4,665	297	8,081
Additions	175	540	-	715
Disposals	-	(412)	(8)	(420)
Transfers between categories	(92)	92	-	-
Foreign exchange	105	28	5	138
At 31 December 2013	<u>3,307</u>	<u>4,913</u>	<u>294</u>	<u>8,514</u>
<i>Depreciation</i>				
At 1 January 2013	1,505	3,314	265	5,084
Provided in the year	168	705	11	884
Disposals	-	(371)	-	(371)
Transfers between categories	(79)	79	-	-
Foreign exchange	56	23	5	84
At 31 December 2013	<u>1,650</u>	<u>3,750</u>	<u>281</u>	<u>5,681</u>
<i>Net book value</i>				
At 31 December 2013	<u>1,657</u>	<u>1,163</u>	<u>13</u>	<u>2,833</u>
At 31 December 2012	<u>1,614</u>	<u>1,351</u>	<u>32</u>	<u>2,997</u>

The net book value of assets held under finance leases at 31 December 2013 amounted to £9,000 (2012: £12,000). Depreciation charged on these assets in the year amounted to £3,000 (2012: £4,000).

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 £172,000 (2012: £173,000) Depreciation charged on these assets in the year amounted to £25,000 (2012: £20,000) 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 2013 *(continued)*

13 Investments

	Group £'000	Company £'000
<i>Cost</i>		
At 1 January 2013 and 31 December 2013	-	96,843
<i>Accumulated impairment charge</i>		
At 1 January 2013 and 31 December 2013	-	92,010
<i>Net book value</i>		
At 31 December 2013	-	4,833
At 31 December 2012 (Restated)	-	4,833

Significant subsidiary undertakings as at 31 December 2013 are shown in note 31.

14 Stocks

	Group 2013 £'000	Group 2012 £'000
Timeshare points	22,306	18,988
Other non-points trading stock	11,551	8,337
Work in progress	-	2,308
Consumables	207	131
	<u>34,064</u>	<u>29,764</u>

Diamond Resorts (Holdings) Limited

Notes forming part of the financial statements
for the year ended 31 December 2013 (*continued*)

15 Debtors

	Group 2013 £'000	Group 2012 £'000	Company 2013 £'000 Restated	Company 2012 £'000 Restated
<i>Amounts falling due within one year:</i>				
Trade debtors	3,736	3,757	-	-
Club maintenance fee debtors	37,505	40,607	-	-
Other debtors	2,033	1,023	-	-
Amounts owed by group companies	-	-	6,271	4,055
Prepayments and accrued income	2,598	5,100	-	-
Taxation and social security	1,151	447	-	-
	<u>47,023</u>	<u>50,934</u>	<u>6,271</u>	<u>4,055</u>

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

	Group 2013 £'000	Group 2012 £'000	Company 2013 £'000	Company 2012 £'000
<i>Amounts falling due after more than one year:</i>				
Trade debtors	581	710	-	-
	<u>581</u>	<u>710</u>	<u>-</u>	<u>-</u>

16 Cash at bank and in hand - group

Cash at bank and in hand includes restricted cash balances of £39,259,000 (2012: £31,587,000) held on behalf of the Resort Club members. None of the restricted cash amounts held are available for use by the group.

Diamond Resorts (Holdings) Limited

Notes forming part of the financial statements
for the year ended 31 December 2013 (*continued*)

17 Creditors: amounts falling due within one year

	Group 2013 £'000	Group 2012 £'000	Company 2013 £'000	Company 2012 £'000
Bank overdrafts	8	9	-	-
Obligations under finance leases (note 18)	3	3	-	-
Trade creditors	3,649	3,480	-	-
Corporation tax	387	381	-	-
Other taxation and social security	5,760	3,181	-	-
Other creditors	814	1,122	-	-
Amounts owed on behalf of club members	67,906	66,873	-	-
Amounts owed to group undertakings	-	-	3,660	3,758
Accruals and deferred income	20,466	14,783	-	-
	<u>98,993</u>	<u>89,832</u>	<u>3,660</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 2013 £'000	Group 2012 £'000	Company 2013 £'000	Company 2012 £'000
Loan from parent company	65,365	65,365	65,365	65,365
Amounts owed to parent company	2,012	-	2,012	-
Loan from fellow group company	4,897	4,253	-	-
Obligations under finance leases	5	8	-	-
	<u>72,279</u>	<u>69,626</u>	<u>67,377</u>	<u>65,365</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 2013 £'000	Finance leases 2013 £'000	Total 2013 £'000
In one year or less, or on demand	8	3	11
In more than one year but not more than five years	70,262	5	70,267
	<u>70,270</u>	<u>8</u>	<u>70,278</u>

Diamond Resorts (Holdings) Limited

Notes forming part of the financial statements
for the year ended 31 December 2013 *(continued)*

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

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>

19 Provisions for liabilities and charges

	Note	At 1 January 2013 £'000	Additions £'000	Amounts used £'000	At 31 December 2013 £'000
Sales and marketing	(1)	437	2,998	(2,302)	1,133
Overseas taxes	(2)	997	-	(208)	789
Maintenance and repairs	(3)	1,305	-	-	1,305
UK taxes	(4)	137	-	(51)	86
Vacant Properties	(5)	256	-	(97)	159
		<u>3,132</u>	<u>2,998</u>	<u>(2,658)</u>	<u>3,472</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) This provision relates to additional UK taxes that the directors feel could be payable.
- (5) 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 2013 (*continued*)

20 Deferred taxation

The company has an unrecognised deferred tax asset of £4.1m (2012 - £3.7m) representing unutilised tax losses carried forward. The group has an unrecognised deferred tax asset of £19.9m (2012 - £19.5m) for the same category. These assets have not been recognised due to the uncertain timing of future tax recoverability.

21 Share capital

	2013 £'000	2012 £'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 2013 £'000	Capital reserve 2013 £'000	Profit and loss reserve 2013 £'000
At 1 January 2013	(54,209)	500	(29,915)
Loss for the financial year	-	-	(1,393)
Foreign exchange differences	-	-	257
	<hr/>	<hr/>	<hr/>
At 31 December 2013	(54,209)	500	(31,051)
	<hr/>	<hr/>	<hr/>
Company			2013 £'000
At 1 January 2013 (Restated)			(109,235)
Profit for the financial year			302
			<hr/>
At 31 December 2013			(108,933)
			<hr/>

Diamond Resorts (Holdings) Limited

Notes forming part of the financial statements
for the year ended 31 December 2013 (*continued*)

23 Reconciliation of movements in shareholders' deficit

	Group 2013 £'000	Group 2012 £'000	Company 2013 £'000	Company 2012 £'000 Restated
(Loss)/Profit for the financial year	(1,393)	(7,957)	302	(40,660)
Foreign exchange differences	257	(445)	-	-
Net movement in shareholders' funds	(1,136)	(8,402)	302	(40,660)
Opening shareholders' deficit	(34,624)	(26,222)	(60,235)	(19,575)
Closing shareholders' deficit	(35,760)	(34,624)	(59,933)	(60,235)

24 Commitments under operating leases

As at 31 December 2013, the group had annual commitments under non-cancellable operating leases as set out below:

	Land and buildings 2013 £'000	Land and buildings 2012 £'000	Other 2013 £'000	Other 2012 £'000
Within one year	50	9	4	33
In two to five years	946	418	95	58
After five years	-	640	-	-
	996	1,067	99	91

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 2013 was £65,365,000 (2012: £65,365,000).

Under this revolving credit agreement the outstanding principal and interest unpaid is due and repayable by no later than 16 December 2014. However, the current agreement is that the principal will not actually be repayable at this date and no interest is to be chargeable on this loan for a period of three years, beginning 1 January 2013.

In addition, the company has a trading account balance with its parent to fund working capital requirements. The balance owed at 31 December 2013 was £2,012,000 (2012: £nil).

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

Under this credit agreement the outstanding principal and interest unpaid shall be due and repayable by no later than 30 June 2015. However, the directors expect an agreement to be reached to extend the repayment period in due course. The percentage rate of interest chargeable on the loan is 18% per annum. The balance owed at 31 December 2013 was £4,897,000 (2012: £4,253,000).

Diamond Resorts (Holdings) Limited

Notes forming part of the financial statements for the year ended 31 December 2013 (continued)

25 Related party transactions (continued)

- (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 of £2,294,000 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 as at 31 December 2013 was £2,394,000 (2012: £2,346,000).

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 International Inc.

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

	2013 £000	2012 £000
Group operating loss	(361)	(7,348)
Loss on disposal of tangible fixed assets	49	6
Depreciation and amortisation of fixed assets	1,547	684
(Increase) in stocks	(4,300)	(7,447)
Decrease in debtors	4,117	13,298
Increase/(Decrease) in creditors	11,118	(333)
Increase/(Decrease) in provisions	340	(1,321)
	<hr/>	<hr/>
Net cash outflow from operating activities	12,510	(2,461)
	<hr/>	<hr/>

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:

	2013 £000	2012 £000
Net cash inflow/(outflow) available for use by the group	4,838	(268)
Net cash inflow/(outflow) held on behalf of the club members	7,672	(2,193)
	<hr/>	<hr/>
Net cash inflow/(outflow) from operating activities	12,510	(2,461)
	<hr/>	<hr/>

Diamond Resorts (Holdings) Limited

Notes forming part of the financial statements
for the year ended 31 December 2013 *(continued)*

27 Reconciliation of net cash flow to movement in net debt

	2013 £000	2012 £000
Increase/(decrease) in cash in the year	11,503	(1,019)
Cash inflow from change in liquid resources	77	18
Cash inflow from change in debt	3	8
	<hr/>	<hr/>
Change in net debt resulting from cash flows	11,583	(993)
Currency and other non cash movements	(657)	(8,862)
	<hr/>	<hr/>
Movement in net debt in the year	10,926	(9,855)
Net debt at start of year	(30,401)	(20,546)
	<hr/>	<hr/>
Net debt at end of year	(19,475)	(30,401)
	<hr/>	<hr/>

28 Analysis of debt

	At 1 January 2013 £'000	Cash flow £'000	Other non cash changes £'000	Foreign exchange £'000	At 31 December 2013 £'000
Cash at bank and in hand	38,954	11,503	-	(14)	50,443
Bank loans and overdrafts repayable on demand	(9)	-	-	1	(8)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Net cash	38,945	11,503	-	(13)	50,435
Liquid resources	284	77	-	-	361
Obligations under finance lease	(12)	3	-	-	(9)
Loan from parent company	(69,618)	-	(644)	-	(72,274)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2013	(30,401)	11,583	(644)	(13)	(19,475)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

Diamond Resorts (Holdings) Limited

**Notes forming part of the financial statements
for the year ended 31 December 2013 (*continued*)**

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 (2012 - £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 2013 (*continued*)

31 Subsidiary undertakings

The group headed by the company had the following significant subsidiary undertakings as at 31 December 2013. To avoid a statement of excessive length, details concerning subsidiaries which are not significant have been omitted.

Name of subsidiary	Country of incorporation	Class held	Proportion held
Intermediate holding company			
Diamond Resorts (Group Holdings) Plc	England	Ordinary	100%
Diamond Resorts AB Acquisition Company Ltd	England	Ordinary	100%
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 Ferias Lda	Portugal	Ordinary	100%
Diamond Resorts Mediterranean Holdings Limited	Cyprus	Ordinary	100%
Diamond Resorts Vacations Touristic EPE	Greece	Ordinary	100%
Financial services			
Diamond Resorts Financial Services Limited	England	Ordinary	100%
Management of timeshare resorts			
Diamond Resorts Mediterranean PLC	Cyprus	Ordinary	100%
Vacation Club Partnerships Limited	England	Ordinary	100%
Vilar do Golf Empreendimentos Turisticos 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**			
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		
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 2013 (*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 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 as at 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			
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%

33 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 2013 (*continued*)

34 Capital commitments

There were no capital commitments at 31 December 2013 or 31 December 2012.

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 (2012: £65,365,000). The debenture provides a fixed and floating charge over the undertaking and all the assets of the company.

36 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 was £3,806,000. The assets and liabilities of Aegean Blue Holdings Limited at fair value were:

	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>6,340</u>
			 £'000
Supported by:			
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>6,340</u>

Diamond Resorts (Holdings) Limited

Notes forming part of the financial statements for the year ended 31 December 2013 (*continued*)

36 Acquisition (*continued*)

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. 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>

Diamond Resorts (Holdings) Limited

Notes forming part of the financial statements
for the year ended 31 December 2013 (*continued*)

36 Acquisition (*continued*)

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

	2012 Pre-acquisition (9 months) £'000
Turnover	8,879
Operating loss	(196)
Net Interest	40
Loss on ordinary activities before taxation	(156)
Taxation on loss from ordinary activities	-
Loss for the period	(156)