

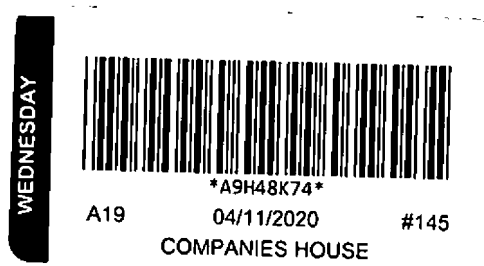
Diamond Resorts (Holdings) Limited

Report and Financial Statements

Year Ended

31 December 2019

Company Number 05071128



Diamond Resorts (Holdings) Limited

**Report and financial statements
for the year ended 31 December 2019**

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Director

S Crook

Secretary and registered office

S Crook, Citrus House, Caton Road, Lancaster, Lancashire, LA1 3UA

Company number

5071128

Auditors

RSM UK Audit LLP, Bluebell House, Brian Johnson Way, Preston, Lancashire, PR2 5PE.

Diamond Resorts (Holdings) Limited

Strategic report for the year ended 31 December 2019

The director presents the strategic report together with the audited financial statements for the year ended 31 December 2019.

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.

Review of the business

The consolidated loss for the year after taxation amounted to £0.6m (2018 - £2.7m loss). The director does not recommend the payment of a dividend (2018 - £Nil).

The group result before taxation improved by £1.9m (2019 - £0.2m profit, 2018 - £1.7m loss). The main factors being as follows:

Positive:

- The group recognised a diminution in the value of its stock of timeshare weeks in the Mediterranean region in the prior year. As a result, the cost of sales expense to recognise the proportion of usage rights that had elapsed or been returned to third parties is £1.4m lower (see note 5).
- There was a reduction of £0.7m in the amortisation of fixed assets, the majority of which related to the Mediterranean region (see note 5).
- £0.6m decrease in staff redundancy related expenditure from the restructuring of the sales & marketing operations implemented in the preceding years, particularly in the UK and Spanish regions. This resulted in a curtailment of operations at many selling sites and marketing call centres from late 2017 due to the prohibitive costs of generating tour-flows and the low volumes being achieved from those prospects.
- The net carrying expense of unoccupied resort accommodation in the holiday ownership system (unsold space cost less rental income) reduced by £0.9m; with the majority of the group's increased monetary exposure being offset by savings in the cost of non-utilised timeshare resort space that has been returned to third party developers in the Mediterranean region.
- During the year the group received proceeds of £0.6m from its share of surplus assets on the sale of the liquidated, (previously third party managed) owners club at Stouts Hill, Stroud, UK. The group previously held surplus timeshare weeks (non-points stock) at this resort. The profit recorded was £0.5m (see note 4).
- The change in the impact from foreign exchange translation gains and losses, (predominantly against the US Dollar currency) led to a £0.7m decrease in expense.

Negative:

- To partly offset the above; there was a £2.5m reduction in the combined revenues from sales of holiday ownership and promotional products. A proportion of this decrease was expected from the aforementioned restructuring of sales & marketing and the curtailment and general decline in selling promotional products in proceeding years. Revenues from such promotional products are released in accordance with product life-span and usage, this can be between 1 to 4 years following original sale completion. As a result, this revenue pipeline is now running down (please see discussion of turnover on page 2).

Membership numbers continued to slightly decline as per expectation, with the reduced sales and marketing operation concentrating on selling to the existing membership base. Although the expense from this increase in unoccupied space from a reduced membership has risen, there has been a return of unoccupied resort accommodation in the Mediterranean to compensate financially.

The director and other key management personnel are content with the re-sizing of group operations and the impact on revenue streams and operating expenses achieved from such. They are pleased with the revenues from the rental of resort accommodation in an extremely competitive marketplace. However, sales of holiday ownership in the Canary Islands were below expectation in the first half of the year and corrective action was taken, resulting in a change of sales agent in that region.

Diamond Resorts (Holdings) Limited

**Strategic report
for the year ended 31 December 2019 (continued)**

Key Performance Indicators

The director considers key performance indicators (KPIs) to be:

- Volume per guest (calculated as: holiday ownership net written 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
- The balance of unsold European Collection points and the points equivalent of unsold stock of timeshare weeks in trust

Reference to such KPIs can be found in the discussion of performance below.

Turnover decreased by 8%:

- (1) Sales of full holiday ownership and shorter term timeshare products were a combined £2.5m lower this year.

Following a restructuring of sales & marketing operations implemented in late 2017; the group now operates one internal selling site at a resort in the UK, with all other sales locations based elsewhere in the UK, Spanish territories and Portugal operated by third party sales agencies. These partners trade under contractual agreements to mitigate group financial exposure and provide certainty over margins achieved.

Sales of shorter term promotional products were halted at that time and only in the latter part of the current year has this resumed, the impact on revenues being non-material. As a result of the revenue recognition policy mentioned on page 1, the income stream from promotional product usage and contract expiry has reduced by £1.5m this year.

Sales of the full holiday ownership (points) product reduced by £1.0m with the mix of sales transactions during the year being 80% generated by agencies, (2018 – 69% from agencies). The average points in a purchase transaction is comparable this year but the price per point has been lowered to assist with the conversion of prospects. As a result, there was a reduction in total group holiday ownership volumes per guest to £797 this year (2018 - £1,040 - revised), marketing tour-flow targeted at selling holiday ownership across Europe achieved 5,476 tours, (2018 - 4,787 tours - revised).

- (2) Revenues derived from hotel and timeshare resorts managed or owned by the group fell by £0.8m, with the impact of reduced membership numbers being largely offset by a rise in management and administration fees charged per member, in majority this has been the result of the rise in underlying resort expense. Members of the European Collection holiday ownership occupied 332,000 room nights during the year (2018 – 355,000 room nights). This equated to 35% of available accommodation across the portfolio of resorts (2018 - 36% of available accommodation). Members of traditional timeshare resorts occupied 55,000 room nights during the year (2018 – 57,000 room nights). This equated to 6% of available accommodation (2018 – 6% of available accommodation).
- (3) Income earned from the relationship with preferred rental partners was comparable with the prior year, (decrease of £0.4m). These rental partners occupied an identical level of total resort room space as allocated from the developer's portion, at 36% this year (2018 - 36% of space), equating to 347,000 room nights (2018 - 357,000 room nights). The average daily rate charged to guests was also comparable (2019 - £63 per night, 2018 - £62 per night). This income partly reduces the developer's liability for unsold inventory and its associated accommodation expense. The rental market continues to be competitive and the group utilises strategies to track location specific pricing trends and to offer dynamic room rates to online travel partners.

Diamond Resorts (Holdings) Limited

Strategic report
for the year ended 31 December 2019 (continued)

Key Performance Indicators (continued)

Cost of sales decreased by 56%:

This change was principally driven by the aforementioned £1.4m usage rights decrease discussed in the review of the business on page 1. Additional savings resulted from the cost of points sold diminishing by £0.2m, although the total number of European Collection points sold was comparable at 5.1m points (2018 – 5.1m). In addition, the cost of consumable supplies & resort services reduced by £0.3m in line with certain owner service fees that had either been withdrawn or now provided free of charge (both to owners and the developer).

Distribution costs decreased by 4%:

This was in majority due to a £1.3m fall in the total carrying costs of unsold timeshare stock and the associated management operation tasked with utilising the available resort accommodation. Although there has been additional expense from the aforementioned slight decline in membership, together with higher resort fees incurred this year, this was more than offset by a scaling back of operations in the Mediterranean. This latter impact resulted from the group giving up or returning its right to use timeshare and hotel accommodation owned or managed by third party developers in that region. The group had recognised no value in either the current or prior year statement of financial position relating to these rights.

Administration expenses decreased by 13%:

- (1) £0.7m reduction in amortization (see note 5).
- (2) During the year the value of GBP sterling strengthened against the US Dollar currency. This situation was a reverse of the prior year, when the sterling rate fell, and accordingly the group booked a translation gain on a loan balance denominated in that currency (see note 25(2)). The impact of this foreign exchange issue was a £0.7m decrease in expense.
- (3) £0.4m decreased staff redundancy expenditure incurred within administrative support functions as the aforementioned restructuring was completed in the prior year.
- (4) £0.3m reduced employee overhead in continental EU. The majority of this saving was due to foreign currency translation as GBP sterling was stronger against the Euro currency.

Other operating income increased by 36% (see note 4):

As discussed in the review of the business on page 1, the group recorded a profit of £0.5m on the sale of surplus non-points stock in the UK.

Timeshare points in trust (see note 14):

During the year the number of unsold points in the Diamond Resorts European Collection (the points trust) has increased by 19.1m to 193.3m (2018 - 174.2m). This net increase is due to the decline in membership and the subsequent rise in unsold points that have been returned to the group over and above sales in the year. The majority of these returns have low initial cost to the group and the weighted average cost per point within stock has not increased due to them. However, the cost of servicing this additional unsold space may be significant in future years as a distribution cost. Points are attributable to the portfolio of properties placed into the points trust directly and also to timeshare weeks owned by the group for this specific ultimate purpose. All such properties are converted to a points-equivalent based upon the standard and type of accommodation. The cost of these unsold points at 31 December is £18.6m (2018 - £17.2m).

Future developments

The group will continue to pursue opportunities to dispose of developer owned surplus unsold timeshare stock and will monitor existing contractual agreements and club and member offerings with regard to financial suitability and benefit to the membership. The former strategy will reduce the carrying costs of unoccupied resort accommodation. In addition, it is the desire of the director and other key management personnel to maintain the variety of affiliate resort and international destinations.

Diamond Resorts (Holdings) Limited

Strategic report for the year ended 31 December 2019 (continued)

Financial risks and uncertainties

The market for timeshare and hotel 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, marketing and rental activities, the latter operation targeted to offset the majority of the carrying costs of unsold resort accommodation held within group stock. To help the business mitigate this risk and take corrective action, close attention is directed towards the two key performance indicators "volume per guest" and "average daily rate" (see page 2).

At the time of the signing of these financial statements the group, as a result of being in the hospitality sector, is enveloped by the health pandemic relating to the coronavirus (COVID-19). There has been significant disruption and curtailment since March 2020 on group operations; on its business partners, employees, membership offerings and customers. Further details concerning this are discussed in the post balance sheet events section below.

Negotiations regarding future trading arrangements between UK and the EU (Brexit process)

Additional risks and uncertainties not presently known to key management, or deemed to be less material at the date of this strategic report, may also have an adverse effect on the company and group. These include risks resulting from the UK's decision to leave the EU which could adversely affect the economic environment and impact liquidity and credit. The director views the potential impact of Brexit as an integral part of its principal risks rather than a stand-alone risk. However, there is still a measure of uncertainty about the outcome of negotiations regarding future arrangements between the UK and the EU, and the period for which existing transitional arrangements and EU laws for member states will continue to apply to the UK.

The director feels that any potential exposure to the group will be reduced due to its trade in services rather than goods, with key areas of relevancy being; (a) foreign currency risk (see note 24), (b) tax rulings passed down by the ECJ; such as VAT on holiday ownership points, (see discussion on page 28), and (c) the recruitment and retention of staff between the UK and EU member states.

The director and other members of key management will continue to assess the risks to the business as the Brexit process evolves further and will implement any appropriate actions.

Going Concern

As a result of the aforementioned trading disruption faced by the company and group with regard to the Covid-19 pandemic; particular attention should be drawn to the accounting policy relating to the basis of going concern, (see page 23).

Post balance sheet events

Other than the coronavirus pandemic discussed below, there are no matters to report as post balance sheet events.

Coronavirus (Covid-19) Impact on the business

Trading in the period subsequent to the year-end has been materially adversely impacted by COVID-19. Following periods of widespread travel restriction and the curtailment of holiday related air travel in the territories in which the company and group operates, revenues were significantly reduced. After the closure of all of our resort and hotel destinations during the majority of quarter 2 and only a partial re-opening during quarter 3, in accordance with country specific government advice and customer demand, total revenues in the six months to 30 September 2020 are estimated to be down by £12.7m, this can be analysed by turnover type as follows:

Diamond Resorts (Holdings) Limited

Strategic report
for the year ended 31 December 2019 (continued)

Post balance sheet events (continued)

Coronavirus (Covid-19) Impact on the business (continued)

	Six months to Sep-2020 £'000
Sales of holiday ownership	(2,600)
Rental revenues	(7,300)
Resort management and admin. fees	(2,800)
Total	(12,700)

The COVID-19 situation is still changing, and while we were able to reopen entirely in the UK and at specific resorts in continental Europe, our internal scenario planning currently assumes that Diamond resort destinations outside the UK, together with the majority of resort based commercial activities and sales agencies will remain either closed, or operating at low levels of occupancy, until the Spring of 2021. Demand recovery is then expected to be slow as social distancing restrictions are gradually relaxed.

Decisive action to protect the business and preserve cash

The company and group has a well-developed set of contingency plans. As the global pandemic progressed throughout February 2020, and then rapidly escalated in March 2020, the business deployed its contingency plans in full response to COVID-19. Following the series of Government announcements on social distancing in the week commencing 16 March 2020 and also the further announcements and guidance from the UK Prime Minister on 23 March 2020, the business implemented a range of operational actions to prioritise the safety and well-being of members, resort guests and staff, including:

- The temporary closure of all food & beverage and other commercial operations based at Diamond resort locations,
- The temporary closure of guest accommodations in the majority of Diamond resort destinations, with specific properties remaining open to provide accommodation for first responders and medical personnel,
- The temporary closure of administrative offices and a switch to home-working for the majority of Diamond team members.

A further discussion of operational actions and safety and well-being post COVID-19 can be found in the statement of director's duties from page 11.

We are an operationally leveraged business which benefits us in the good times, but in times like these will result in a material adverse impact on revenue streams. We have therefore taken immediate action to reduce cash outflows during 2020:

- All discretionary P&L spend has been either cut-back or temporarily suspended, including resort refurbishment plans, marketing, non-essential training, staff travel and recruitment,
- When appropriate and in accordance with operational demand, we have placed employees on temporary furlough with the government support packages available in the territories in which we operate,
- Capital expenditure will only be incurred for essential resort maintenance and to maintain core IT programmes and infrastructure,
- A widespread pay freeze has been implemented for salaried staff.

Our owners clubs and resort hospitality properties will also benefit from the UK Government's decision to stop the payment of business rates for a 12 month period.

Diamond Resorts (Holdings) Limited

Strategic report for the year ended 31 December 2019 *(continued)*

Post balance sheet events *(continued)*

Coronavirus (Covid-19)

Decisive action to protect the business and preserve cash (continued)

Whilst our reaction to COVID-19 has been robust, our actions have been taken with a view to the long-term impact on the business. We believe it is important to act responsibly in times of crisis and treat our stakeholders fairly. Examples of these actions include:

- Providing full cash refunds to our rental customers for all cancelled bookings due to COVID-19 restrictions,
- Continuing to pay our suppliers, many of which are small or medium sized businesses, in a timely manner,
- Supporting the community and national effort by making rooms available to first responders and medical personnel,
- Enabling future reservation space and maintenance fee credits to holiday ownership and traditional timeshare members that have been unable to make bookings or occupy Diamond resort accommodation due to shut downs.

Reopening safely

We tentatively reopened a selection of our resorts during quarter 2 when the Government advice across Europe allowed us to do so. Our internal scenario planning assumes low levels of member and rental guest occupancy in our Continental European zone due to air travel restrictions. When safe and practical to do so, we are able to reopen each of our resorts quickly, in what will be a phased reopening to help match supply against levels of demand.

Our experience in operating accommodation for health professionals earlier in the pandemic and our already robust resort cleaning and hygiene standards gave us a head start in implementing workable solutions for social distancing and enhanced measures. These include signage and protocols, health screening and illness response procedures, correct use and regular changing of PPE equipment and enhanced cleaning standards during guest room changeover. Our operating model and right of management will ensure that these new standards and ways of working can be rigorously enforced across our portfolio of resorts.

Our operational focus prior to, and during, the reopening phase includes increased engagement with our members and guests, and the active management of our supply chain to ensure we are able to provide a near-full customer offering. We have introduced a wider range of cancellation and/or reservation options, giving our members and guests greater confidence when they book. Overall, we believe our timeshare-based and typically 'holiday-home' type of accommodation will give us an attractive post-lockdown proposition in a safety-conscious environment, where trust will be key.

Liquidity and long-term strategy

Given that we are not currently able to assess the full and eventual impact of COVID-19 deep into 2021, we entered into discussions with our USA parent undertaking; and based upon our forecast of working capital requirements going forwards, we obtained their commitment to support the business with periodic cash inflows as required during this time, (see discussion of going concern in note 1).

Diamond's vertically integrated model, which combines the development, ownership and management of resort based commercial and guest accommodation has enabled the company and group to deliver a consistently strong customer experience. We believe that this operating model is the optimum approach with which to capitalise on the enhanced structural opportunities that are expected to exist post COVID-19. Particularly, through the disciplined execution of an appropriate cost-base to reflect the new normal, utilising the global procurement of our US parent and an efficiency programme that will ensure this reflects demand. We will carry this out whilst endeavouring to act responsibly through our commitment to local communities.

Diamond Resorts (Holdings) Limited

Strategic report
for the year ended 31 December 2019 (continued)

Financial Instruments

- (1) Credit risk - The group is at risk from its customers defaulting in making payments for memberships and services that have been supplied to them. The majority of the group's customers are based within the UK and are of an older demographic and therefore regional changes or economic hardships present a risk to the group. To minimise this risk the group has a policy of only dealing with purchasers of holiday ownership that can obtain external finance and have thus demonstrated creditworthiness or can provide sufficient collateral. In addition, the group provides a short term financing facility to customers that wish to pay annual membership fees under an instalment plan.
- (2) Liquidity risk - The director has ultimate responsibility for liquidity risk management in maintaining adequate reserves, banking facilities and reserve borrowing facilities. This is carried out by continuously monitoring forecast and actual cash flows and through close observation of financial assets and liabilities.
- (3) Cash flow risk - The net liability position reported in the consolidated and company statement of financial position has arisen from borrowings obtained from fellow group undertakings in the United States of America (see note 25), these being subsidiaries of a US group headed by Dakota Holdings, Inc.

Diamond Resorts (Holdings) Limited and the European group has no significant external bank creditors. The company and group are funded by, and have an undertaking from the immediate parent undertaking, 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, registered 24 April 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 USA group level. The USA group have successfully obtained credit facilities and credit conduits to finance consumer loans that are provided to customers in the USA and to fund working capital and other corporate purposes worldwide.

Approval

This strategic report was approved by order of the Board on 30 October 2020



S Crook
Director

Diamond Resorts (Holdings) Limited, Citrus House, Caton Road, Lancaster, Lancashire, LA1 3UA

Date 30 October 2020

Diamond Resorts (Holdings) Limited

Report of the director for the year ended 31 December 2019

The director presents the report together with the audited financial statements for the year ended 31 December 2019.

Director

The director who held office during the year and to the date of approval of the financial statements is shown below. The director served throughout the year unless otherwise indicated.

S Crook

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 director does not recommend the payment of a dividend (2018 – no dividend).

Financial risk management

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

Director's liabilities

The company has granted an indemnity to the director against liability in respect of proceedings brought by third parties, subject to the conditions set out in section 234 of the Companies Act 2006. Such qualifying third party indemnity provision remains in force as at the date of approving the director's report.

Statement of director's duties

The director of the Company, as for all UK companies, must act in accordance with a set of general duties. These duties are detailed in section 172 of the UK Companies Act 2006 which is summarised as follows:

'A director of a company must act in the way they consider, in good faith, would be most likely to promote the success of the company for the benefit of its stakeholders as a whole and, in doing so have regard (amongst other matters) to:

- The likely consequences of any decisions in the long-term;
- The interests of the company's employees;
- The need to foster the company's business relationships with suppliers, customers and others;
- The impact of the company's operations on the community and environment;
- The desirability of the company maintaining a reputation for high standards of business conduct; and
- The need to act fairly as between stakeholders of the company'.

Diamond Resorts (Holdings) Limited

Report of the director for the year ended 31 December 2019 (continued)

Statement of directors' duties (continued)

As part of their induction, a director is briefed on their duties and they can access professional advice on these, either from the Company Secretary or relevant officers of the global parent undertaking (see note 9) or, if they judge it necessary, from an independent adviser. The duties of the director are partly fulfilled through a governance framework that delegates day-to-day decision-making to employees of the company, especially those considered to be key management personnel with responsibility over the business activities in which the group operates.

The company and group is committed to compliance with the spirit of the UK Corporate Governance Code (the 'Code'), although generally the Code is adopted by UK listed companies operating for profit and which pay dividends to shareholders. Despite this difference, the director is of the view that, generally, the principles of good governance as set out in the Code apply to the company and group.

The following paragraphs summarise how the director fulfils her duties:

Risk Management

We provide resort-based holiday experiences and relaxation-critical services to our clients, often in health and safety regulated environments that continue to evolve. As a result, our business and our risk environment has become more complex. It is therefore vital that we effectively identify, evaluate, manage and mitigate the risks we face, and that we continue to adapt our approach to risk management.

The group operates and is committed to a 'Diamond Standard of Clean' at all of its resort destinations, adapting to the 'new normal' to protect the health & safety of our members, owners, guests and team members. Additional precautions have been implemented; closely monitoring guidelines recommended by public health agencies, and after consultation with in-house and outside experts to expand existing protocols,

For discussion of our financial risks and uncertainties, please see the strategic report.

Our People

The company is committed to being a responsible business. Our behaviour is aligned with the expectations of our people, clients, ultimate investors, communities and society as a whole. People are at the heart of our holiday and resort-related services. For our business to succeed we need to manage our people's performance and develop and bring through talent while ensuring we operate as efficiently as possible. We must also ensure we share common values that inform and guide our behaviour so we achieve our goals in the right way.

Diamond Resorts champions a number of people initiatives within our UK, EU, and Global operations. Our internal mentorship programme enables us to identify and cultivate individuals to ensure their retention and development within the workforce. We work with external operators to provide an apprentice framework, ensuring the development and upskilling of our team members and resulting in a range of business qualifications. Employee recognition programmes, such as the Chairman's Award, enable us to recognise and celebrate talent and achievement from our various geographical regions, and at varying levels of seniority, across the business, career longevity and tenure is celebrated through our anniversary award scheme.

The overall wellbeing of our Team Members is important to us. Given the spread of our geographical locations, interpersonal connections are encouraged both virtually, through forums such as twitter, and physically. We have developed structured schemes such as 'Connect and Celebrate' within our Resort Operations, and hold Social Events across the year. We also provide a team member getaway programme, enabling Team Members to stay at a Diamond owned Resort at a reduced and fixed rate.

In addition, for 2020 we have introduced a new Employee Assistance Programme. This service provides an online forum to encourage team members to be aware of their own physical and mental wellbeing, as well as offering more specific counselling and telephone advice services across a range of topics.

Diamond Resorts (Holdings) Limited

Report of the director for the year ended 31 December 2019 (continued)

Statement of directors' duties (continued)

Business Relationships

Our strategy prioritises client retention and the organic growth of our resort rental offering, driven by up-selling services and club memberships to existing clients and bringing new guests into group owned or managed resort destinations. To do this, we need to develop and maintain strong relationships. We value all of our suppliers and have mutually beneficial contracts with our key suppliers.

Within Diamond, there have been many actions to support a closer and improved relationship with suppliers across all the business units, such as: Improving and refining supplier management information systems; Introducing dedicated managers for resort rental agencies and partners; Entering long term agreements with key suppliers; Introducing regular business reviews with key suppliers; and Formation of a dedicated department for corporate and resort management spending to make procurement more effective and efficient, with the aim of ensuring that the quality of the Diamond brand is maintained across all resort destinations and at the right price.

Sales centres are located at key Diamond resort locations across Europe. Members will be invited to attend an update meeting while staying at the resort which is entirely optional. Members who choose to attend the meetings will receive a personal update on their membership including help with any issues they are experiencing. Clients will also have the opportunity to enhance their membership if required.

The sales function in Europe is predominantly operated by two sales agencies. The agencies operate in eight locations in the following countries, Spain, the Canary Islands, Portugal and the UK. The Director of Sales Operations for Europe manages that relationship and is responsible for product promotion, legislative compliance and customer service. The sales agencies exclusively promote Diamond European Collection points. The sales agencies are also registered with the Financial Conduct Authority to broker consumer credit using Diamond's consumer credit brokerage licence. All sales agencies operate to a prescribed code of conduct and receive compliance training from Diamond on all aspects of the sales operation including the brokerage of consumer credit. Consumer contracts and credit agreements are processed by a contracts team based in Lancaster, England, which is entirely staffed by group employees. This team is also responsible for the independent verification of the product sale and any linked consumer credit. The team also provide after sales service to purchasing members.

Day to day servicing of members needs are attended to by the Diamond customer service team which operates 24/7 globally. Members can access assistance by email, key social media channels and by telephone.

Due to the impact of COVID-19, such as the restrictions on travel and the curtailment of resort stays, it was decided that members are to be offered a two year extension to the deadline by which their 2020 saved points will need to be used, coupled with a partial credit in respect of maintenance fees paid in return for a partial redemption of unused points. As an alternative option, members can also convert their points (including unused 2019 points) into a 'DestinationXchange' Tier Credit to use for up to 5 years for future travel. Diamond will also continue to provide all Club members with the ability to cancel reservations at any Diamond Resorts managed property up to 15 days before their scheduled arrival without any loss of points (as at September 1, 2020).

Community and Environment

The company's approach is to use our position of strength to create positive change for the people and communities with which we interact. We want to leverage our expertise and enable colleagues to support the communities around us.

Diamond Resorts recognises the importance of reducing its impact on the environment and has implemented community initiatives in support of environmental improvement and sustainable development.

The company and the group has, and continues to develop, a simple set of operational standards in the form of a sustainability commitment, which takes care to minimise impact whilst ensuring the guest experience is not compromised. In the coming years, it is our intention to adopt a more coordinated approach to ensuring a sustainable future.

Diamond Resorts (Holdings) Limited

Report of the director for the year ended 31 December 2019 (continued)

Statement of directors' duties (continued)

Community and Environment (continued)

Worldwide, Diamond has provided 10,000 free rooms directly to first responders and medical personnel working on the frontlines of COVID-19 (as at August 2020). In addition, a global initiative has been launched after many Diamond members voiced interest in supporting these efforts. Members of the club can gift 3,000 of their points to provide frontline workers with a comfortable place to stay (as at June 2020). Members can gift their points through the online area of DiamondResorts.com. and Diamond Resorts will match every point gifted.

Stakeholders (including Members of holiday ownership and resort timeshare clubs)

The director is committed to openly engaging with the stakeholders of the company. As an organisation, we recognise the importance of a continuing effective dialogue, whether with our parent undertaking (see note 9), resort-based commercial partners or with the membership that we service. It is important to us that stakeholders understand our strategy and objectives, so these must be explained clearly, feedback listened to and any issues or questions raised and then properly considered.

We send regular emails to the membership base on a variety of topics, including but not limited to: New member benefits, changes to member benefits, changes to processes (e.g. the cancellation policy due to covid-19), amendments to rules of the club, pre-arrival emails for resort bookings, mid-stay feedback emails and post-stay surveys asking for feedback.

Members can contact us via social media and we have a dedicated team who handle this channel. In addition, we have a dedicated page on DiamondResorts.com called 'what's new' in which we post important advisory news relating to the membership.

In the coming year we plan to hold a range of webinars for EU members on a variety of educational topics linked to the operation of the membership.

We send out AGM notices via email and give members an opportunity to ask any questions prior to the AGM. These are then collated, answered and can be issued at the AGM. These questions and answers are also posted to the member's area on DiamondResorts.com.

We provide each club member with a full directory of membership, or online access to such. This document contains detailed information on how the club and membership works, including but not limited to: contact information, how to manage points ownership, make reservations, exchange points, access member benefits & offers, check-in at resorts, access the club community and also a full listing of the points values at the portfolio of Diamond resort destinations.

Statement of director's responsibilities

The director is responsible for preparing the strategic report, the director's report and the financial statements in accordance with applicable law and regulations.

Company law requires the director to prepare financial statements for each financial year. Under that law the director has elected to prepare the group and company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law). Under company law, the director must not approve the financial statements unless she is 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.

Diamond Resorts (Holdings) Limited

Report of the director for the year ended 31 December 2019 (continued)

Statement of director's responsibilities (continued)

In preparing these financial statements, the director is 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, comprising FRS 102, 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 director is 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. She is 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. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The director has referred to certain matters required to be disclosed in the report of the director in the strategic report as she considers these to be of strategic importance. These matters include information in respect of principal risks and uncertainties, going concern and post balance sheet events.

Auditors

The current director has taken all the steps that she ought to have taken to make herself 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 director is not aware of any relevant audit information of which the auditors are unaware.

RSM UK Audit LLP offer themselves for reappointment as auditors in accordance with section 487 of the Companies Act 2006.

By order of the Board



**S Crook
Director**

Diamond Resorts (Holdings) Limited, Citrus House, Caton Road, Lancaster, Lancashire, LA1 3UA

Date *30 October 2020*

Diamond Resorts (Holdings) Limited

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

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Diamond Resorts (Holdings) Limited (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 December 2019 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Changes in Equity, the Company Statement of Financial Position, the Company Statement of Changes in Equity and the Consolidated Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2019 and of the group's loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice;
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group and parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the director's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the director has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The director is responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Diamond Resorts (Holdings) Limited

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

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the report of the director for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the report of the director have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and the company and their environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the director's report.

We have nothing to report in respect of the following matters in relation to which 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 director's remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the director's responsibilities statement set out on page 11, the director is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the director determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the director is responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the director either intends to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: <http://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Diamond Resorts (Holdings) Limited

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

Use of our report

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.

RSM UK Audit LLP

Ian Taylor FCA (Senior Statutory Auditor)
For and on behalf of RSM UK Audit LLP, Statutory Auditor
Chartered Accountants
Bluebell House
Brian Johnson Way
Preston
PR2 5PE

Date *31 OCTOBER 2020*

Diamond Resorts (Holdings) Limited

Consolidated statement of comprehensive income for the year ended 31 December 2019

	Note	2019 £'000	2018 £'000
Turnover	3	44,827	48,499
Cost of sales		(1,624)	(3,443)
Gross profit		43,303	45,056
Distribution costs		(26,743)	(27,823)
Administration expenses		(15,088)	(17,374)
Other operating income	4	1,541	1,132
Operating profit	5	3,013	991
Interest receivable	8	20	48
Interest payable	9	(2,837)	(2,691)
Profit/ (loss) on ordinary activities before taxation		196	(1,652)
Tax on profit/ (loss) on ordinary activities	10	(813)	(1,007)
Loss on ordinary activities after taxation		(617)	(2,659)
Other comprehensive loss			
Foreign exchange differences		(190)	(163)
Total comprehensive loss for the year		(807)	(2,822)

The results disclosed above all relate to continuing operations.


The notes on pages 23 to 45 form part of these financial statements.

Diamond Resorts (Holdings) Limited

Consolidated statement of financial position as at 31 December 2019

Company number 5071128	Note	2019 £'000	2019 £'000	2018 £'000	2018 £'000
Fixed assets					
Intangible assets	11		18		25
Tangible assets	12		2,248		2,530
			<u>2,266</u>		<u>2,555</u>
Current assets					
Stocks	14	33,378		32,758	
Debtors:					
Amounts falling due within one year	15	50,623		49,743	
Amounts falling due after one year	15	81		136	
Cash at bank and in hand	16	35,592		36,973	
		<u>119,674</u>		<u>119,610</u>	
Creditors: amounts falling due within one year	17	<u>(110,476)</u>		<u>(112,908)</u>	
Net current assets			<u>9,198</u>		<u>6,702</u>
Total assets less current liabilities			<u>11,464</u>		<u>9,255</u>
Creditors: amounts falling due after more than one year	18		<u>(52,479)</u>		<u>(49,674)</u>
Provisions for liabilities and charges	19		<u>(670)</u>		<u>(459)</u>
Net liabilities			<u>(41,685)</u>		<u>(40,878)</u>
Capital and reserves					
Called up share capital	21		49,000		49,000
Profit and loss account	22		(36,976)		(36,169)
Capital reserve	22		500		500
Merger reserve	22		(54,209)		(54,209)
Equity shareholders' deficit			<u>(41,685)</u>		<u>(40,878)</u>

The financial statements were approved by the Board and authorised for issue on 30 October 2020

S Crook 
Director

The notes on pages 23 to 45 form part of these financial statements.

Diamond Resorts (Holdings) Limited

Consolidated statement of changes in equity for the year ended 31 December 2019

	Share capital £'000	Profit and loss account £'000	Capital reserve £'000	Merger reserve £'000	Total equity £'000
At 1 January 2019	49,000	(36,169)	500	(54,209)	(40,878)
Comprehensive loss for the year:					
Loss for the year	-	(617)	-	-	(617)
Foreign exchange differences	-	(190)	-	-	(190)
Total comprehensive loss for the year	-	(807)	-	-	(807)
At 31 December 2019	49,000	(36,976)	500	(54,209)	(41,685)

The notes on pages 23 to 45 form part of these financial statements.

Diamond Resorts (Holdings) Limited

Consolidated statement of changes in equity (continued) for the year ended 31 December 2019

	Share capital £'000	Profit and loss account £'000	Capital reserve £'000	Merger reserve £'000	Total equity £'000
At 1 January 2018	49,000	(33,347)	500	(54,209)	(38,056)
Comprehensive loss for the year:					
Loss for the year	-	(2,659)	-	-	(2,659)
Foreign exchange differences	-	(163)	-	-	(163)
Total comprehensive loss for the year	-	(2,822)	-	-	(2,822)
At 31 December 2018	49,000	(36,169)	500	(54,209)	(40,878)

The notes on pages 23 to 45 form part of these financial statements.

Diamond Resorts (Holdings) Limited

Consolidated statement of cash flows for the year ended 31 December 2019

	2019 £'000	2018 £'000
Net cash outflow from operating activities		
Loss for the financial year	(617)	(2,659)
Adjustments for:		
Depreciation and amortisation of fixed assets	362	1,021
Net interest payable	15	(9)
Taxation expense	813	1,007
Loss on disposal of fixed assets	6	86
Notional interest on discounted Intercompany loans	2,802	2,652
(Increase)/ decrease in trade and other debtors	(1,548)	4,890
Increase in stocks	(1,078)	(986)
Decrease in trade and other creditors	(1,776)	(7,141)
Increase in provisions	212	195
Foreign exchange gains and losses	425	(294)
	<hr/>	<hr/>
Cash used in operations (note 26)	(384)	(1,238)
Interest paid	-	(39)
Taxation paid	(452)	(1,476)
	<hr/>	<hr/>
Net cash used in operating activities	(836)	(2,753)
	<hr/>	<hr/>
Cash flows from investing activities		
Purchases of tangible fixed assets	(230)	(66)
Proceeds from sale of tangible fixed assets	-	12
	<hr/>	<hr/>
Net cash used in investing activities	(230)	(54)
	<hr/>	<hr/>
Cash flows from financing activities		
Interest received	20	48
	<hr/>	<hr/>
Net cash generated from financing activities	20	48
	<hr/>	<hr/>
Net decrease in cash and cash equivalents	(1,046)	(2,759)
Cash and cash equivalents at beginning of year	36,965	39,662
Foreign exchange gains and losses	(342)	62
	<hr/>	<hr/>
Cash and cash equivalents at end of year	35,577	36,965
	<hr/>	<hr/>
Cash and cash equivalents comprise:		
Cash at bank and in hand	35,592	36,973
Bank overdrafts	(15)	(8)
	<hr/>	<hr/>
	35,577	36,965
	<hr/>	<hr/>


The notes on pages 23 to 45 form part of these financial statements.

Diamond Resorts (Holdings) Limited

Company statement of financial position as at 31 December 2019

<i>Company number 5071128</i>	<i>Note</i>	2019 £'000	2019 £'000	2018 £'000	2018 £'000
Fixed assets					
Investments	13		1,034		1,034
Current assets					
Debtors	15	11,307		10,938	
Creditors: amounts falling due within one year	17	(9,996)		(9,887)	
Net current assets			1,311		1,051
Total assets less current liabilities			2,345		2,085
Creditors: amounts falling due after more than one year	18		(52,479)		(49,674)
Net liabilities			(50,134)		(47,589)
Capital and reserves					
Called up share capital	21		49,000		49,000
Profit and loss account	22		(99,134)		(96,589)
Equity shareholders' deficit			(50,134)		(47,589)

The financial statements were approved by the Board and authorised for issue on 30 October 2020

S Crook 
Director

The company has taken advantage of section 408 Companies Act 2006 and has not included its own statement of comprehensive income in these financial statements. The company's loss for the financial year was £2,545,000 (2018 - loss of £2,872,000).

The notes on pages 23 to 45 form part of these financial statements.

Diamond Resorts (Holdings) Limited

Company statement of changes in equity for the year ended 31 December 2019

	Share capital £'000	Profit and loss account £'000	Total equity £'000
At 1 January 2019	49,000	(96,589)	(47,589)
Comprehensive loss for the year:			
Loss for the year	-	(2,545)	(2,545)
Total comprehensive loss for the year	-	(2,545)	(2,545)
At 31 December 2019	49,000	(99,134)	(50,134)
	Share capital £'000	Profit and loss account £'000	Total equity £'000
At 1 January 2018	49,000	(93,717)	(44,717)
Comprehensive loss for the year:			
Loss for the year	-	(2,872)	(2,872)
Total comprehensive loss for the year	-	(2,872)	(2,872)
At 31 December 2018	49,000	(96,589)	(47,589)

The notes on pages 23 to 45 form part of these financial statements.

Diamond Resorts (Holdings) Limited

Notes forming part of the financial statements for the year ended 31 December 2019

1 Accounting policies

Diamond Resorts (Holdings) Limited is a private company limited by shares and is incorporated in England & Wales under the Companies Act. The address of the registered office is given on the contents page and the nature of the group's operations and its principal activities are set out in the strategic report. The financial statements have been prepared in accordance with FRS 102, the Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires Group management to exercise judgement in applying the Group's accounting policies (see note 2 – *Judgements in applying accounting policies*).

In preparing the separate financial statements, the company has taken advantage of disclosure exemptions available in FRS 102, providing the equivalent disclosures required by this FRS are included in the consolidated financial statements of the group in which the entity is consolidated:

- The requirements of Section 7 - Statement of Cash Flows.
- The requirements of section 11 paragraphs 11.39 to 11.48A - Basic Financial Instruments.
- The requirements of section 12 paragraphs 12.26 to 12.29A - Other Financial Instruments.
- The requirements of Section 33 - Related Party Disclosures, including compensation of key management personnel.

Going Concern

The current economic conditions continue to create uncertainty over (a) the level of demand for the groups products; and (b) the availability of finance for a period of 12 months from the date of signing of the financial statements should additional working capital be required.

Notwithstanding the net liabilities position of £41.7m shown in the statement of financial position, (see page 17) the group and company are able to meet day-to-day working capital requirements through bank balances and through the group loan facility as discussed on page 7. *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 a period of at least 12 months from the date of signing of the financial statements.*

The group and company's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the group is likely to encounter a cash deficit in the next 12 months. Notwithstanding this, on the basis of periodic cash inflows in accordance with a letter of support from Diamond Resorts Corporation, the group and company should be able to meet its obligations when they fall due for a period of at least 12 months from the date these financial statements are approved and the director is not aware of any uncertainties which could have a material impact on the company and the group as a going concern.

Accordingly, after making enquiries, the director has a reasonable expectation that the group and company has adequate resources to continue in operational existence for a period of at least 12 months from the date of signing of the financial statements. The group and company therefore continues to adopt the going concern basis in preparing its financial statements.

The following principal accounting policies have been applied:

Basis of consolidation

The group financial statements consolidate the accounts of Diamond Resorts (Holdings) Limited and all of its subsidiary undertakings (see note 29) drawn up to 31 December 2019. The consolidation of subsidiaries has been accounted for using the equity method of accounting.

Financial assets

Financial assets, other than investments, are initially measured at transaction price (including transaction costs) and subsequently held at cost, less any impairment.

Diamond Resorts (Holdings) Limited

Notes forming part of the financial statements
for the year ended 31 December 2019 (continued)

1 Accounting policies (continued)

Financial liabilities and equity

Financial liabilities and equity are classified according to the substance of the financial instrument's contractual obligations, rather than the financial instrument's legal form. Financial liabilities are initially measured at transaction price (including transaction costs) and subsequently held at amortised cost.

Holiday pay

A liability is recognised to the extent of any unused holiday pay entitlement which has accrued as at the date of the statement of financial position and carried forward to future periods. This is measured at the undiscounted salary cost of the future holiday entitlement so accrued as at this date.

Turnover

Turnover primarily consists of three income streams;

- (1) 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 Diamond 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.
- (2) Rental revenues derived from surplus holiday accommodation not utilised by the group are recognised over the period of reservation stay when resort space has been provided.
- (3) Resort management and administration fees are recognised over the period during which the services are provided.

Where the 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, 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

Tangible fixed assets are initially recognised at cost and then subsequently depreciated. 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% to 33% per annum
Motor vehicles	-	33% per annum

Intangible fixed assets

Patents, intellectual property rights, trademarks and management contracts are included at cost and amortised on a straight line basis over their useful economic lives, which usually varies from 7 to 20 years.

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 2019 (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 statement of comprehensive income over the director's estimate of its useful economic life. In accordance with this policy, all remaining goodwill has now been fully amortised. Impairment tests on the carrying value of goodwill are undertaken when an impairment indicator has been identified.

Impairment of fixed assets and intangible fixed assets

The need for any fixed asset or intangible fixed asset impairment write down is assessed by comparing the carrying value of the asset against the higher of its realisable value (fair value less costs to sell) and value in use (discounted cash-flows of the relevant cash generating unit).

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 timeshare weeks acquired in the market; purchase price of timeshare weeks repossessed from members. |
| Weeks (Mediterranean), representing the right to use accommodation at properties in a timeshare trust, (these weeks are made available for the use of points club members and are currently not marketed for sale). | - Purchase price of timeshare weeks acquired from third party developers less amortisation of elapsed right to use term; |
| Weeks (other), representing the right to use accommodation at properties in a timeshare trust, (intention to sell onwards under existing right to use). | - Purchase price of timeshare weeks acquired from third party developers; |
| 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. |
| 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 date of the statement of financial position. 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 2019 (continued)**

1 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.

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.

Leased assets

All leases are regarded as operating leases and the payments made under them are charged to the statement of comprehensive income on a straight line basis over the lease term.

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 date of the statement of financial position are reported at the rates of exchange prevailing at that date, and the gains or losses on transactions are included in the statement of comprehensive income.

The results of overseas operations are translated at the average rates of exchange during the year and their statements of financial position at the rates ruling on the period end 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 date of the statement of financial position are taken directly to reserves.

Management of timeshare clubs and the holiday ownership points club

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 behalf of the clubs 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 its 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 latter comprises maintenance fee debtors receivable from club members on behalf of the clubs, over which the group has the right to recover the timeshare interests owned by any defaulting club members on payment to the clubs of the outstanding maintenance fee debt. 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 (see note 16). 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 statement of comprehensive income as it is not group income and expenditure, as the group is acting as an agent on behalf of the clubs. Club income and expenditure is netted off in the statement of comprehensive income and the net surpluses and deficits included in the net liability on behalf of club members.

Diamond Resorts (Holdings) Limited

**Notes forming part of the financial statements
for the year ended 31 December 2019 (continued)**

2 Judgements in applying accounting policies and key sources of estimation uncertainty

In the application of the group's accounting policies, which are described in note 1, management is required to make judgements, estimates and assumptions about the carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The key sources of estimation uncertainty that have a significant effect on the amounts recognised in the financial statements are described below:

Tangible fixed assets (see note 12)

Tangible fixed assets are depreciated over their useful lives taking into account residual values, where appropriate. The actual lives of the assets and residual values are assessed annually and may vary depending on a number of factors. In re-assessing asset lives, factors such as technological innovation, product life cycles and maintenance programmes are taken into account. Residual value assessments consider issues such as future market conditions, the remaining life of the asset and projected disposal values.

Fixed asset investments (see note 13)

The most critical estimates, assumptions and judgements relate to the determination of carrying value of unlisted investments. In determining this amount, the Group applies the overriding concept that value is the amount for which an asset can be exchanged between knowledgeable willing parties in an arm's length transaction. The nature, facts and circumstance of the investment drives the valuation methodology.

As equity investments in subsidiaries are not publicly traded, the group recognises that a reliable measurement of carrying value to be cost less impairment. The value of such investments is recorded at the higher of net realisable value (a measure of subsidiary net assets excluding balances with fellow Diamond group undertakings) and £1.

Stocks (see note 14)

The group measures inventories at the lower of cost and estimated selling price less costs to complete and sell. The director believes that a weighted average cost of obtaining points and weeks of timeshare at a points equivalent to be the method most appropriate for valuing stocks of holiday accommodation and the group uses the same cost formula for all inventories having a similar nature.

With regard to other non-points stock, the majority of these have been measured at a points equivalent of such accommodation, as the director believes that this is a likely future plan of disposal.

At the date of the statement of financial position the director has validated the carrying value of such stocks compared to their estimated net revenues, (future selling price of equivalent unsold points less estimated sales & marketing expenditure required to achieve sale completions).

The cost of the other non-points stock that is unlikely to be added into the points trust shall be validated against either the market value of similar properties, or valuations performed by an independent professional agency with recent experience in the location and category of property valued.

Diamond Resorts (Holdings) Limited

Notes forming part of the financial statements
for the year ended 31 December 2019 (continued)

2 Judgements in applying accounting policies and key sources of estimation uncertainty (continued)

Creditors: amounts falling due within one year – VAT accrued on holiday ownership points

As previously mentioned, the group manages and sells timeshare club memberships in the form of holiday ownership points (in Diamond Resorts European Collection) that can be used to access holiday resort accommodation across a portfolio of resorts in differing European countries. Under a Court of Justice of the European Union (ECJ) ruling, VAT must be accounted for in the member state where the accommodation is located and at the time points are redeemed over the life of a membership. This has given rise to considerable practical difficulties in applying it to schemes of this nature. In accordance with this ruling, VAT is accrued on the completion of each sale of holiday ownership and on the annual maintenance fees billed to the points membership at a blended rate. This rate is subject to a degree of provisional estimation and uses the director's best judgement on the likely number of points to be used in each individual tax jurisdiction across Europe and the differing VAT rates applicable there (see note 17 – taxation & social security).

Contingent liabilities and recognition of provisions (see notes 19 and 27)

The group makes provisions when an obligation exists resulting from a past event and it is probable that cash will be paid to settle it, but the amount of cash can only be estimated. Where an obligation is merely a possibility but material enough to a user of accounts, disclosure will be made as a contingent liability. Using information available at the balance sheet date, the director makes judgements based on experience regarding the level of provision required to account for potential legal settlements.

3 Turnover

An analysis of turnover by geographical location has not been presented as the director considers such a disclosure to be seriously prejudicial to the interest of the group.

	2019 £'000	2018 £'000
Sales of holiday ownership	5,868	8,355
Rental revenues	21,771	22,148
Resort management and administration fees	17,188	17,996
	<hr/> 44,827	<hr/> 48,499

4 Other operating income

	2019 £'000	2018 £'000
Commission and fees received	176	235
Relinquishment fees received	771	862
Loss on disposal of tangible fixed assets	(6)	(86)
Loss on disposal of surplus points stock	(31)	(100)
Profit on disposal of surplus non-points stock	516	-
Other income	115	221
	<hr/> 1,541	<hr/> 1,132

Diamond Resorts (Holdings) Limited

Notes forming part of the financial statements
for the year ended 31 December 2019 *(continued)*

5	Operating profit/ (loss)	2019	2018
	This is arrived at after charging/ (crediting):	£'000	£'000
	Depreciation:		
	- owned assets	355	362
	- assets held under finance leases and hire purchase contracts	-	-
	Amortisation of Intangible fixed assets	6	660
	Cost of sales:		
	- consumables and resort services	643	963
	- timeshare points	468	822
	- timeshare weeks – right of use amortisation	413	1,858
	Operating lease rentals:		
	- land and buildings	428	1,107
	- other	73	69
	Foreign exchange differences	(250)	482
	Employee reduction – expenses relating to restructuring project	-	556
	Loss on disposal of tangible fixed assets	6	86
	Loss on disposal of surplus points stock	31	100
	Profit on disposal of surplus non-points stock	(516)	-
	Auditors' and associates of group's auditors		
	- Fees payable for the auditing of the group's annual accounts	175	168
	- Fees payable for the auditing of non-statutory club accounts	72	72

Diamond Resorts (Holdings) Limited

*Notes forming part of the financial statements
for the year ended 31 December 2019 (continued)*

6 Employees

Group staff costs for the year
were as follows:

	2019 £'000	2018 £'000
Wages and salaries	10,308	10,941
Social security costs	1,347	1,388
Pension costs (note 32)	174	130
Staff costs recharged to US parent	(2,261)	(2,469)
	<u>9,568</u>	<u>9,990</u>

Group

The average monthly number of persons employed,
(including directors) by the group during the year
was:

	2019 No.	2018 No.
Sales and marketing	13	14
Finance and administration	251	256
	<u>264</u>	<u>270</u>

Company

The company had no employees during 2019 or 2018.

7 Director's remuneration

	2019 £'000	2018 £'000
Aggregate emoluments (including benefits in kind)	196	192

During the year and the preceding year the group did not contribute to the private pension plans of any directors.

During the year the director exercised no shares (2018 - no shares.). The above emoluments relate to the only director that has served during the period.

8 Interest receivable

	2019 £'000	2018 £'000
Other interest	10	41
Bank interest	10	7
	<u>20</u>	<u>48</u>

Diamond Resorts (Holdings) Limited

Notes forming part of the financial statements
for the year ended 31 December 2019 (*continued*)

9 Interest payable

	2019 £'000	2018 £'000
Interest payable to group undertakings	35	34
Notional interest charged on related party loan (note 25)	2,802	2,652
Other interest	-	5
	<u>2,837</u>	<u>2,691</u>

10 Tax on profit/ (loss) on ordinary activities

	2019 £'000	2018 £'000
The tax charge represents:		
- UK corporation tax at 19.00% (2018 - 19.00%)	-	-
- Overseas	575	798
- Adjustment in respect of prior years	106	(86)
	<u>681</u>	<u>712</u>
Deferred tax (note 20)	132	295
	<u>813</u>	<u>1,007</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:

	2019 £'000	2018 £'000
Profit/ (loss) on ordinary activities before taxation	196	(1,652)
Profit/ (loss) on ordinary activities before taxation multiplied by standard rate of corporation tax in the UK of 19.00% (2018 - 19.00%)	37	(314)
Effect of:		
Income/ expenses not allowed as tax deductions	168	2,058
Difference in tax rates on overseas earnings	(215)	40
Movement in unrecognised deferred tax	717	(691)
Adjustment in respect of prior years	106	(86)
	<u>813</u>	<u>1,007</u>

The Government announced that it intends to maintain the rate of corporation tax at 19% for the financial years beginning 1 April 2020 and 1 April 2021. The legislation was introduced in a second reading of the draft Finance Bill 2019-21 on 17 July 2020 and has still to be passed through parliament and into law.

Diamond Resorts (Holdings) Limited

Notes forming part of the financial statements
for the year ended 31 December 2019 *(continued)*

11 Intangible fixed assets

Group	Goodwill on acquisition £'000	Management contracts £'000	Total £'000
<i>Cost</i>			
At 1 January 2019	6,449	137	6,586
Foreign exchange	(188)	(7)	(195)
	<hr/>	<hr/>	<hr/>
At 31 December 2019	6,261	130	6,391
	<hr/>	<hr/>	<hr/>
<i>Amortisation</i>			
At 1 January 2019	6,449	112	6,561
Charged in the year	-	6	6
Foreign exchange	(188)	(6)	(194)
	<hr/>	<hr/>	<hr/>
At 31 December 2019	6,261	112	6,373
	<hr/>	<hr/>	<hr/>
<i>Net book value</i>			
At 31 December 2019	-	18	18
	<hr/>	<hr/>	<hr/>
At 31 December 2018	-	25	25
	<hr/>	<hr/>	<hr/>

The goodwill brought forward relates to the purchase of IGR Mougins SARL, Vilar do Golf Empreendimentos Turisticos Lda LDA and the acquisition of the Cypriot and Greek based sales and marketing operation, Aegean Blue Holdings Limited; (this business is now trading within Diamond Resorts Mediterranean Holdings Limited).

The management contract brought forward relates to operation of owners club resorts in France.

The goodwill of IGR Mougins SARL and Vilar do Golf Empreendimentos Touristicos LDA was amortised over 20 years, goodwill relating to the Mediterranean operation was amortised over 7 years; being the director's best estimate of their useful economic lives.

Diamond Resorts (Holdings) Limited

Notes forming part of the financial statements
for the year ended 31 December 2019 *(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 2019	3,781	3,494	257	7,532
Additions	4	225	-	229
Disposals	(19)	(625)	(48)	(692)
Transfer to stock	-	(42)	-	(42)
Foreign exchange	(174)	(97)	(9)	(280)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2019	3,592	2,955	200	6,747
	<hr/>	<hr/>	<hr/>	<hr/>
<i>Depreciation</i>				
At 1 January 2019	1,735	3,025	242	5,002
Charged in the year	132	215	8	355
Disposals	(19)	(620)	(47)	(686)
Foreign exchange	(77)	(87)	(8)	(172)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2019	1,771	2,533	195	4,499
	<hr/>	<hr/>	<hr/>	<hr/>
<i>Net book value</i>				
At 31 December 2019	1,821	422	5	2,248
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2018	2,046	469	15	2,530
	<hr/>	<hr/>	<hr/>	<hr/>

Freehold land and buildings includes the cost of improvements to the UK head office held under an operating lease or rental agreement. The net book value of these assets amounted to £14,000 (2018 - £83,000) Depreciation charged on these assets in the year amounted to £73,000 (2018 - £17,000) Depreciation is charged on these assets over the shorter of their estimated useful lives or the remaining term of the operating lease or rental agreement, up to a maximum of 5 years.

Diamond Resorts (Holdings) Limited

Notes forming part of the financial statements
for the year ended 31 December 2019 *(continued)*

13 Investments

	Company £'000
<i>Cost</i>	
At 1 January 2019 and 31 December 2019	96,843
<i>Accumulated impairment charge</i>	
At 1 January 2019 and 31 December 2019	95,809
<i>Net book value</i>	
At 31 December 2019	1,034
At 31 December 2018	1,034

Subsidiary undertakings as at 31 December 2019 are shown in note 29.

14 Stocks

	Group 2019 £'000	Group 2018 £'000
Timeshare points in trust	18,612	17,231
Timeshare weeks in trust	7,028	7,442
Other non-points trading stock	7,544	7,902
Consumables	194	183
	<u>33,378</u>	<u>32,758</u>

There is no material difference between the replacement cost of stocks and the amounts stated above.

Diamond Resorts (Holdings) Limited

**Notes forming part of the financial statements
for the year ended 31 December 2019 (continued)**

15 Debtors

	Group 2019 £'000	Group 2018 £'000	Company 2019 £'000	Company 2018 £'000
<i>Amounts falling due within one year:</i>				
Trade debtors	2,238	2,632	-	-
Deferred tax (note 20)	746	942	-	-
Corporation tax	342	581	-	-
Club maintenance fee debtors	41,127	39,123	-	-
Other debtors	2,427	3,007	-	-
Amounts owed by group undertakings	-	-	11,307	10,938
Prepayments and accrued income	2,002	2,199	-	-
Taxation and social security	1,741	1,259	-	-
	<u>60,623</u>	<u>49,743</u>	<u>11,307</u>	<u>10,938</u>

The amounts due on Club maintenance fee debtors are unsecured, interest free and are repayable on demand. Amounts owed by group undertakings are unsecured and chargeable during the year at rates between 2.99% and 4.04% and are repayable on demand.

	Group 2019 £'000	Group 2018 £'000	Company 2019 £'000	Company 2018 £'000
<i>Amounts falling due after more than one year:</i>				
Trade debtors	81	136	-	-

Trade debtors due after more than one year relate to finance receivables with members of Diamond Resorts European Collection Limited and timeshare owners clubs managed by group undertakings.

The impairment reversal (credit) recognised in the group profit or loss for the period in respect of bad and doubtful trade debtors was £67,183 (2018 – charge of £37,587). The impairment recognised in the company profit or loss for the period in respect of bad and doubtful trade debts was £Nil (2018 - £Nil).

16 Cash at bank and in hand - group

Cash at bank and in hand includes unrestricted cash balances of £25,571,000 (2018 - £29,640,000) held on behalf of the Resort Clubs.

Diamond Resorts (Holdings) Limited

Notes forming part of the financial statements
for the year ended 31 December 2019 (continued)

17 Creditors: amounts falling due within one year

	Group 2019 £'000	Group 2018 £'000	Company 2019 £'000	Company 2018 £'000
Bank overdrafts	16	8	-	-
Trade creditors	2,790	3,079	16	17
Taxation and social security	16,529	15,553	-	-
Other creditors	1,006	1,008	-	-
Amounts owed on behalf of club members	63,470	64,968	-	-
Amounts owed to group undertakings	-	-	3,659	3,659
Accruals	4,361	4,611	-	-
Deferred income	7,638	8,864	-	-
Amounts owed to parent company	6,321	6,211	6,321	6,211
Loan from fellow group company	8,346	8,606	-	-
	<u>110,476</u>	<u>112,908</u>	<u>9,996</u>	<u>9,887</u>

Details of the loan from fellow group company based in the United States of America is given in note 25. The amounts owed on behalf of club members, to group undertakings and to the parent company are unsecured, interest free and are repayable on demand.

18 Creditors: amounts falling due after more than one year

	Group 2019 £'000	Group 2018 £'000	Company 2019 £'000	Company 2018 £'000
Loan from parent company	52,479	49,674	52,479	49,674
	<u>52,479</u>	<u>49,674</u>	<u>52,479</u>	<u>49,674</u>

The loan from parent company relates to an unsecured revolving credit agreement with Diamond Resorts Corporation, for details of this agreement, see note 25. The loan is recognised at amortised cost in accordance with the requirements of FRS 102, The UK Financial Reporting Standard.

Creditors in one year or less, or on demand relate to a loan from a fellow group company (see note 25) and bank overdrafts.

Group	Loans and overdrafts 2019 £'000	Finance leases 2019 £'000	Total 2019 £'000
In one year or less, or on demand	8,361	-	8,361
Between one and five years	52,479	-	52,479
	<u>60,840</u>	<u>-</u>	<u>60,840</u>

Diamond Resorts (Holdings) Limited

Notes forming part of the financial statements
for the year ended 31 December 2019 (continued)

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

Group	Loans and overdrafts 2018 £'000	Finance leases 2018 £'000	Total 2018 £'000
In one year or less, or on demand	8,614	-	8,614
Between one and five years	49,674	-	49,674
	<u>58,288</u>	<u>-</u>	<u>58,288</u>

19 Provisions for liabilities and charges

	Note	At 1 Jan 2019 £'000	Additions £'000	Amounts used £'000	At 31 Dec 2019 £'000
Holiday ownership claims	(1)	343	305	(94)	554
Maintenance and repairs	(2)	30	-	-	30
UK taxes	(3)	86	-	-	86
		<u>459</u>	<u>305</u>	<u>(94)</u>	<u>670</u>

(1) There is a provision relating to sales of holiday ownership. This is the result of customers' issues regarding product suitability and delivery, and includes an estimate of all costs both direct and indirect.

(2) There is a provision for dilapidations at leasehold offices.

(3) There is a provision for additional UK VAT that could be payable on prior period sales of points; discussions are still on-going with HMRC on the methodology being used regarding points usage calculations.

20 Deferred taxation

The deferred tax asset at 31 December 2019 is in relation to the Spanish region.

	Fixed asset timing differences £'000	Long term Service awards £'000	Unutilised Tax losses & credits £'000	Total £'000
At 1 January 2019	128	392	422	942
Credited/ (charged) to taxation expense	(12)	40	(160)	(132)
Credited/ (charged) to admin. expenses	-	(17)	-	(17)
Foreign exchange	(7)	(22)	(18)	(47)
	<u>109</u>	<u>393</u>	<u>244</u>	<u>746</u>

Diamond Resorts (Holdings) Limited

Notes forming part of the financial statements
for the year ended 31 December 2019 (continued)

20 Deferred taxation (continued)

The company has an unrecognised deferred tax asset of £2.7m, (2018 - £2.7m), representing unutilised tax losses. The group has unrecognised deferred tax assets of £21.5m, (2018 - £21.3m) represented by short term timing differences, deferred revenue, unutilised tax losses and fixed asset timing differences. The group increase of £200,000 is due to tax on ordinary activities in the year of £717,000 - increase, (see note 10) and adjustments to prior period tax provisions of £517,000 - decrease. These assets have not been recognised due to the uncertain timing of future tax recoverability.

The net deferred tax asset expected to reverse in 2020 is £239,000. This primarily relates to the reversal of fixed asset timing differences, a provision for government fines in Spain and utilisation of tax losses. Other net deferred tax assets of £507,000 primarily relating to long term service awards and fixed asset timing differences in Spain are expected to reverse in greater than one year.

21 Share capital

	2019 £'000	2018 £'000
<i>Allotted, called up and fully paid</i>		
48,999,450 Ordinary shares of £1 each	49,000	49,000

Called up share capital represents the nominal value of the shares issued.

22 Profit and loss account and reserves

Group and company reserves can be explained as follows:

- Merger reserve arose on a past business combination that was accounted for as a merger in accordance with UK GAAP as applied at that time.
- Capital reserve represents amounts owed by a fellow group undertaking on the sale of a revalued property.
- Profit and loss account reserve represents cumulative profits or losses, net of dividends paid and other adjustments.

23 Commitments under operating leases

As at 31 December 2019, the group had total future lease commitments under non-cancellable operating leases as set out below:

	Land and buildings 2019 £'000	Land and buildings 2018 £'000	Other 2019 £'000	Other 2018 £'000
Within one year	125	428	39	73
In two to five years	54	170	23	58
After five years	-	6	-	-
	<u>179</u>	<u>604</u>	<u>62</u>	<u>131</u>

Diamond Resorts (Holdings) Limited

Notes forming part of the financial statements
for the year ended 31 December 2019 *(continued)*

24 Financial Instruments

2019	Carrying amount £'000	Total contractual undiscounted cash flow £'000	Within 1 year or on demand £'000	More than 1 year £'000
Financial assets				
Financial assets that are debt instruments measured at amortised cost	81,465	81,465	81,384	81
	<u>81,465</u>	<u>81,465</u>	<u>81,384</u>	<u>81</u>
Financial liabilities				
Financial liabilities measured at amortised cost	138,788	151,668	86,309	52,479
	<u>138,788</u>	<u>151,668</u>	<u>86,309</u>	<u>52,479</u>
2018	Carrying amount £'000	Total contractual undiscounted cash flow £'000	Within 1 year or on demand £'000	More than 1 year £'000
Financial assets				
Financial assets that are debt instruments measured at amortised cost	81,871	81,871	81,735	136
	<u>81,871</u>	<u>81,871</u>	<u>81,735</u>	<u>136</u>
Financial liabilities				
Financial liabilities measured at amortised cost	138,165	153,850	88,491	49,674
	<u>138,165</u>	<u>153,850</u>	<u>88,491</u>	<u>49,674</u>

Diamond Resorts (Holdings) Limited

Notes forming part of the financial statements
for the year ended 31 December 2019 (continued)

24 Financial Instruments (continued)

Financial assets measured at amortised cost comprise cash, trade debtors, other debtors; amounts owed by club members and associated undertakings.

Financial liabilities measured at amortised cost comprise bank loans and overdrafts, trade creditors, amounts owed to associated undertakings, other creditors and accruals.

Information regarding the company's exposure to and management of credit risk, liquidity risk, market risk and cash flow interest rate risk is included in the Director's report.

Foreign currency risk

The group has manageable exposure to foreign currency risk. A substantial proportion of the points club and timeshare club members' have British nationality and sales of points and annual maintenance fees are in majority billed and collected in Sterling.

Although there are managed hotel and timeshare resort operations in continental Europe, the group reviews Euro currency cash-flow and capital expenditure requirements in a timely manner, through analysis of budgetary comparisons and forecasted requirements that are flexed to take account of exchange rate fluctuations.

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 2019 was £52,479,000 (2018 - £49,674,000). Under this revolving credit agreement the outstanding principal and interest unpaid is due and repayable on 16 December 2023. However, the director has obtained confirmation that repayment of the credit facility will not actually be requested until it is feasible for the group to obtain the relevant funds to finance this. In addition, no interest is to be chargeable on this loan, beginning 1 January 2013 until further notice.

This loan has been adjusted to reflect the present value of future payments, discounted at a market rate of 5.50%. Accordingly, the fair value of the loan is reduced by £12,880,000 as at 31 December 2019. Pursuant to this, there is a notional interest charge applied during the year of £2,802,000 (2018 - £2,652,000).

Separately, the company also has a trading account balance with its parent to fund working capital requirements. The balance owed at 31 December 2019 was £6,321,000 (2018 - £6,211,000) which is interest free and repayable on demand.

- (2) A subsidiary undertaking of the company, Diamond Resorts AB Acquisition Company Limited, entered into a loan and credit agreement for the initial principal amount 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 on demand. However, the director has reached agreement with the fellow group member to extend repayment until it is feasible for the group to obtain the relevant funds to finance this. The percentage rate of interest chargeable on the loan is 0.5% per annum (2018 - 0.5% per annum). The balance owed at 31 December 2019 was £8,346,000 (2018 - £8,606,000).

Diamond Resorts (Holdings) Limited

Notes forming part of the financial statements
for the year ended 31 December 2019 (continued)

25 Related party transactions (continued)

Key management personnel compensation

The remuneration of the director and other members of key management during the year:

	2019 £'000	Restated 2018* £'000
Short-term benefits	1,114	1,255
	<u>1,114</u>	<u>1,255</u>

In addition, the ultimate parent undertaking has made a recharge of £2,192,000 (2018 - £2,107,000) to the group in respect of corporate overhead expenditure incurred in the USA. This recharge includes a contribution towards the services of its key management personnel employed in the USA for matters relating to the group during the period.

*The comparative remuneration has been restated to ensure consistency with the current period. The restatement has increased the expense by £125,000 and relates to paid consideration previously omitted in error from this disclosure. This adjustment has no impact on the results for the prior year.

26 Funds available for use by the group

	2019 £000	2018 £000
Cash used in operations (see cash flow, page 20)	(384)	(1,238)

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

The change in cash used in/ from operations can be allocated between funds available for use by the group and cash amounts held on behalf of the club members as follows:

	2019 £000	2018 £000
Net cash inflow available for use by the group	3,685	713
Net outflow of cash held on behalf of the club members	(4,069)	(1,951)
	<u>(384)</u>	<u>(1,238)</u>

Diamond Resorts (Holdings) Limited

**Notes forming part of the financial statements
for the year ended 31 December 2019 (continued)**

27 Contingent liabilities

- (1) The group is aware of tax assessments against overseas resort property owning companies which the group could be required to pay. The group expects that these assessments will be successfully appealed. Accordingly no provision for any liability from such claims has been made in the financial statements as the director believes the possibility of any outflow of resources to be remote.
- (2) In May 2018, a guest sustained injuries while staying at the Konmore Club, Scotland following the collapse of a balcony. Compensation was agreed with the injured guest and the personal injury claim has been resolved without court intervention. In July 2020, the group received notification that the Procurator Fiscal had determined that a report should be submitted to them by the Local Authority in relation to the incident. The group has not received notification from the Procurator Fiscal as to whether they propose to press charges. If charges were laid (and should the group admit fault), it is estimated that a fine could be assessed in the region of £150,000 to £200,000.
- (3) The group is defending a number of cases which are at various stages in the Spanish court system. The claimants in these cases are asserting that Spanish law applies to their timeshare contract and that Diamond was wrong to apply English law. The legal position is that the Treaty of Rome (which is EU legislation and which takes precedence over domestic legislation) mandates that the parties to a contract can apply whichever law they wish to the contract provided that the choice of law is logical (i.e. that there is a nexus to the law chosen) and the reason for applying the law was not taken to circumvent consumer protection.

With all English resident consumers, the group applied English law and complied with the EU Directive on timeshare as implemented into UK law by the UK Government. Indeed the Timeshare Act 1992 as amended by the 1997 Regulations required Diamond to apply English law where the consumer was a resident in the UK. The group is defending all claims and is confident that it will ultimately prevail.

- (4) A number of complaints have been referred to the Financial Ombudsman Service ("FOS") for adjudication under section 75 of the Consumer Credit Act 1974. The complaints have been brought against consumer credit lending institutions that have funded timeshare sales. These credit institutions have a statutory indemnity against the group in the event that FOS find in favour of the consumer. The complaints have been initiated primarily by claims companies that are actively involved in attacking the timeshare sector.

After carefully reviewing all of the complaints submitted, the group is confident in the strength of its position. The director believes that the majority of the claims as articulated have been brought under a misconceived or flawed premise. Whilst each case needs to be reviewed by FOS on its merits, the decisions returned by FOS thus far (including 4 lead views) have declined to uphold the consumer's complaint.

With regard to sections 3 and 4 above, the complexity of the cases and complaints means that any quantitative estimates of the contingent liability would be both unhelpful and unreliable.

28 Ultimate parent undertaking and parent undertaking of a larger group.

The immediate parent undertaking is Diamond Resorts Corporation, a company incorporated in the United States of America.

The largest group to consolidate these financial statements is the global parent undertaking of the Diamond group holiday ownership business and related trading activities; Dakota Holdings, Inc., a company incorporated in Delaware, United States of America. Registered office: c/o Diamond Resorts Holdings, LLC, 10600 West Charleston Blvd., Las Vegas, NV 89135.

The director regards Dakota Holdings Inc. as the company's ultimate controlling party.

Diamond Resorts (Holdings) Limited

Notes forming part of the financial statements
for the year ended 31 December 2019 (continued)

29 Subsidiary undertakings

The group headed by the company had the following subsidiary undertakings as at 31 December 2019.

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%
Diamond Resorts Deutschland Holding GmbH	Germany	Ordinary	100%
LS International Resort Management Limited	England	Ordinary	100%
Development and/or sale of holiday ownership			
Diamond Resorts (Europe) Limited	England	Ordinary	100%
Colle 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 Sales Italy SRL	Italy	Ordinary	100%
Diamond Resorts Mediterranean Holdings Limited	Cyprus	Ordinary	100%
Diamond Resorts Deutschland Vertriebsgesellschaft mbH	Germany	Ordinary	100%
Diamond Resorts Voyages SARL	France	Ordinary	100%
Financial services			
Diamond Resorts Financial Services Limited	England	Ordinary	100%
Management of resorts and central services			
Diamond Resorts Deutschland Betriebsgesellschaft mbH	Germany	Ordinary	100%
Diamond Resorts Mediterranean PLC	Cyprus	Ordinary	100%
Diamond Resorts Mediterranean Management Limited	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%
Dormant (non-trading) undertakings			
Floriana Holdings Limited	Gibraltar	Ordinary	100%
Diamond Resorts Portugal Clube de Ferias Lda	Portugal	Ordinary	100%
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		
Club del Carmen	Spain		
White Sands Beach Club	Spain		

Diamond Resorts (Holdings) Limited

Notes forming part of the financial statements
for the year ended 31 December 2019 (continued)

29 Subsidiary undertakings (continued)

Name of subsidiary****	Country of Incorporation
Clubs** (continued)	
Club Cala Blanca	Spain
Los Amigos Beach Club	Spain
Royal Oasis Club at P. Quinta	Spain
The Alpine Club	Austria
Royal Regency	France

*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.

***No minority interest has been recognised in relation to the third party shareholdings in this entity. This is by virtue of the group's entitlement to all beneficial interests and commercial revenues generated from its assets.

****Details of subsidiary registered offices can be obtained from the Company Secretary, Citrus House, Caton Road, Lancaster, Lancashire, England, LA1 3UA.

30 Capital commitments

There were no capital commitments at 31 December 2019 or 31 December 2018.

31 Financial commitments

- (1) The company is party to a cross guarantee, registered 24 April 2007, which secures the revolving credit facility provided by Diamond Resorts Corporation, a fellow member of the group headed by Dakota Holdings, Inc., at the balance sheet date, to the subsidiary companies. The amount outstanding at the year-end was £65,359,000 (2018 - £65,359,000). The debenture provides a fixed and floating charge over the undertaking and all the assets of the company.
- (2) The company is party to a composite banking arrangement. Under this agreement all indebtedness incurred by the Diamond group companies is secured by a cross guarantee enabling credit balances and deficit balances within the Diamond group to be offset.

32 Employer pension scheme

The group operates a defined contribution pension scheme. The pension charge for the year represents contributions payable by the group of £174,000 (2018 - £130,000). The amount outstanding to be paid to the scheme at the year-end was £16,000 (2018 - £13,000).

Diamond Resorts (Holdings) Limited

**Notes forming part of the financial statements
for the year ended 31 December 2019 (*continued*)**

33 Events after the balance sheet date

Since the end of the reporting period Covid-19 has had a significant impact on the group. As at the signing of these financial statements, there has been a significant decline in resort guest numbers as a result of travel bans and quarantines and the temporary closure of Diamond Group properties and resort destinations during 2020.

The director has performed an assessment of the impact of Covid-19 on the group to ascertain if the outbreak or related government actions constitute an adjusting post balance sheet event under FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice). Following her review, it has been concluded that the spread of Covid-19 and related government actions occurred after the end of the reporting period and is therefore a non-adjusting event.