Diamond Resorts (Europe) Limited

Report and Financial Statements

Year Ended

31 December 2015

Company Number 2353649

Diamond Resorts (Europe) Limited

Report and financial statements
for the year ended 31 December 2015

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Director

S Crook

Secretary and registered office

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

Company number

2353649

Auditors

BDO LLP, 3 Hardman Street, Manchester, M3 3AT

Strategic report
for the year ended 31 December 2015

The director presents her strategic report together with the audited financial statements of the company for the year ended 31 December 2015.

Principal activity

The company's principal activity is the development, maintenance, management and rental of holiday accommodation and the sale and marketing of holiday ownership. The company also has active trading activities outside the UK, through branches in Spain, Greece, France, Malta, Ireland, Bulgaria and Austria. There are no plans to alter the activities of the company.

Review of the business

The loss for the year after taxation amounted to £13.4m (2014 - £9.0m loss). The director does not recommend the payment of a dividend (2014 - £Nil). The statement of comprehensive income is set out on page 9.

The company's operating loss before taxation increased by £3.8m compared with the prior year. The main factors were as follows:

(1) There is a £1.7m gross profit reduction in the sales and marketing operations across Europe. This decrease was principally attributable to reduced tour-flow of selling prospects and also a fall in the volumes generated per guest; this latter issue was in part due to a change in the sold product mix as the fractional holiday ownership offering was curtailed during the year as a result of falling demand as this product reached the expected final year of its lifespan.

(2) The net running costs of unoccupied resort accommodation increased by £2.2m, the majority of this uplift is due to additional Mediterranean accommodation acquired under an existing agreement and lower membership numbers.

(3) The company operates a share option scheme for senior employees and there is a reduction in expenses of £0.8m (see note 28).

(4) Additional legal and professional fees of £0.9m were incurred on advice and compliance regarding UK litigation, taxation across Europe (including assistance with the harmonisation of local VAT applicable on sales of points in EU territories) and also further corporate restructuring.

Membership numbers declined slightly again, although at a level within expectation as the sales and marketing operation concentrates on selling to the existing membership base (warm line), with only a low level of new entrants joining the holiday ownership system (cold line). The director and other key management personnel are concerned with the drop off in revenues and steps have been taken to restructure the sales & marketing operations across Europe with the aim of reducing regional losses and turning around poorly performing selling sites in the future. As a result, the unprofitable Mediterranean selling and marketing operation was considerably downsized following the end of the selling season in that region (autumn 2015), with the curtailment of sales to new entrants (cold line prospects) going forward.

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 or memberships upgraded to fractional ownership
- 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 3%, contributing factors were as follows:

(1) Sales of full holiday ownership and shorter term timeshare products were a combined £3.4m lower this year. The majority of this decrease can be attributed to two factors; as discussed earlier there was a drop in converting existing holiday ownership members to the fractional timeshare product in existing sales locations. Such sales yield a higher volume per guest due to upgrade fees and in the prior year a higher proportion of total timeshare sales revenues resulted from this product (2015 – 50% of group timeshare revenues, 2014 – 77% of revenues). The poorly performing Mediterranean business also had a detrimental impact on the group as a whole with high direct marketing expenditure targeted at new entrants returning low tour-flow and poor conversion rates. Accordingly, there was a fall in holiday ownership volumes per guest to £1,401 this year, (2014 - £1,791). Marketing tour-flow targeted at selling holiday ownership was 9% lower across Europe (a fall of 1,547 tours) at 15,806 tours, (2014 - 17,353 tours); the reduction attributable to the Mediterranean region was 692 tours.

(2) Revenues derived from hotel and timeshare resorts managed or owned by the company were largely comparable this year. Members of the European Collection holiday ownership occupied 375,000 room nights during the year (2014 - 390,000 room nights). This equated to 37% of available accommodation across the portfolio of resorts (2014 - 38% of available accommodation).

(3) Additional income of £1.4m was earned from the relationship with preferred rental partners. These rental partners occupied a higher level of total resort room space compared with the previous year, (as allocated from the developer's portion), being 25% this year, (2014 - 22% of space), equating to 241,000 room nights, (2014 -211,000 room nights). There was also a slight increase in the average daily rate charged to partners, (2015 - £41 per night, 2014 - £39 per night). The rental market continues to be competitive. This income partly reduces the developer's liability for unsold inventory and its associated accommodation expense.

Cost of sales increased by 26%, the higher expense is due to:

(1) There has been a change in the mix of timeshare revenues, a lower portion of which related to upgrade revenues that are generated from the conversion of existing members from points holiday ownership to the new fractional holiday ownership (see Turnover comments above). As a result, the number of European Collection points sold has increased by 9.1m points to 25.0m (2014 - 15.9m), consequently, the cost of timeshare stock sold increased by £0.9m.

(2) In the prior year a rebate of £0.3m was obtained from the exchange company after a change in the contractual agreement.

Distribution costs increased by 2%, due to the following reasons:

(1) £3.6m increase in carrying costs of unsold timeshare stock due to the aforementioned reduction in membership numbers and additional Mediterranean accommodation.

(2) £3.0m decrease in indirect and direct selling and marketing costs, the majority of which was either for staff salary and commission or tour related expenditure. Direct costs fell in accordance with the reduction in commissionable timeshare revenues and lower tour-flow generation.

Key Performance Indicators *(continued)*

Administration expenses increased by 2%:
(1) Legal and professional fees were £0.9m higher due to fees incurred on advice and compliance regarding UK litigation, taxation across Europe and further corporate restructuring.
(2) Staff related expenses were £0.6m higher due to inflationary cost of living increases and also the redundancy of a senior employee in Spain.
(3) Expenses recognised on the share-based remuneration scheme for senior group employees were £0.8m lower (see note 28).

Other operating income increased by 51% (see note 4):
There was a gain of £0.6m from the disposal of surplus timeshare stock at the Cypress Pointe resort, Florida, USA.

During the year the number of unsold points in the Diamond Resorts European Collection (the points trust) decreased by 4.0m to 156.4m (2014 - 160.4m). These points are attributable to the portfolio of properties placed into the points trust directly and also to timeshare weeks owned by the company 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 £19.2m (2014 - £20.6m, see note 13).

Future developments

The company will monitor the demand for and financial suitability of existing membership benefit products and services and also continue the roll out of new products to keep the offering fresh. In addition, the company will continue to pursue opportunities to dispose of developer owned surplus unsold timeshare stock. The latter strategy will reduce the carrying costs of unoccupied resort accommodation. In addition, it is a desire of the Director and other Key Management Personnel to continue to increase the portfolio of affiliate resort and international destinations.

The company is also still investigating strategies to widen the client base to new nationalities and to acquire new resort management opportunities.

Financial risks and uncertainties

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

To help the business mitigate this risk and take corrective action, close attention is directed towards the key performance indicator "Volume per guest" and the relationship of this indicator to each type of marketing tour per region. The ability of regional sales teams to convert specific prospects and to achieve desired closing percentages will be reflected in this result.

The net liability position reported in the company statement of financial position has arisen from the profit and loss account deficit, but it must be noted that the company and wider European group of Diamond have no significant external bank creditors. The company and group are funded by, and have an undertaking from, Diamond Resorts Corporation in the US to provide support as necessary to fund the company and group's operations for the foreseeable future. It should be noted, however, that the company is party to a cross guarantee, registered 24 April 2007, in favour of Diamond Resorts Corporation. The debenture provides a fixed and floating charge over the undertaking and all assets of the group due to the existence of external debt at US group level.

At the ultimate parent level in the US, the issued financial performance for the period under review is encouraging. The US group have successfully obtained credit facilities and credit conduits to finance consumer loans that are provided to customers in the US and to fund working capital and other corporate purposes worldwide.

Approval

This strategic report was approved by order of the Board on 28 September 2016

Susan Crook

S Crook

Director

The director presents her report together with the audited financial statements for the year ended 31 December 2015.

Directors

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

S Crook
S J Hulme (resigned 3 September 2015)

The director does not have any interest in the share capital of the company. The interests of the director in the share capital of Diamond Resorts (Holdings) Limited are disclosed in the financial statements of that company.

Employment of disabled persons

It is the company'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 company will use its best endeavours to ensure continuity of employment through rehabilitation and retraining.

Employee involvement

It is company policy to involve employees in the business and to ensure that matters of concern to them, including the company'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.

Financial risk management

Information on the company'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.

Existence of branches of the company outside of the United Kingdom

The company has the following branches outside of the United Kingdom:

- Austria
- Bulgaria
- France
- Greece
- Ireland
- Malta
- Spain

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 financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law).

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing these financial statements, the directors are required to:

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

The 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. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors

The 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.

BDO LLP offer themselves for reappointment as auditors in accordance with the Companies Act 2006.

Likely future developments in the business of the company

Information on likely future developments in the business of the company has been included in the Strategic Report.

On behalf of the Board

Susan Crook

S Crook
Director

Date 28 September 2016

TO THE MEMBERS OF DIAMOND RESORTS (EUROPE) LIMITED

We have audited the financial statements of Diamond Resorts (Europe) Limited for the year ended 31 December 2015 which comprise the statement of comprehensive income, the statement of financial position, the statement of changes in equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) including, Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland..

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

Respective responsibilities of director and auditors

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

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the FRC's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2015 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the 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.

BDO LLP

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

Date 29/9/16.

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

Diamond Resorts (Europe) Limited

Statement of comprehensive income
for the year ended 31 December 2015

	Note	2015 £'000	2014* £'000
Turnover	3	**53,364**	55,122
Cost of sales		**5,799**	4,594
Gross profit		**47,565**	50,528
Distribution costs		**43,093**	42,150
Administrative expenses		**18,754**	18,350
		(14,282)	(9,972)
Other operating income	4	**1,685**	1,115
Operating loss	5	**(12,597)**	(8,857)
Interest receivable	8	**69**	73
Interest payable	9	**(352)**	(274)
Loss on ordinary activities before taxation		**(12,880)**	(9,058)
Taxation on loss on ordinary activities	10	**(472)**	14
Loss on ordinary activities after taxation		**(13,352)**	(9,044)
Other comprehensive income			
Foreign exchange differences		**507**	879
Share-based payment		**615**	1,368
Total comprehensive income for the year		**(12,230)**	(6,797)

All amounts relate to continuing activities.

*The restatements in relation to the year ended 31 December 2014 are explained in notes 1 and 30. Relating to the first time adoption of FRS102.

The notes on pages 13 to 32 form part of these financial statements.

Diamond Resorts (Europe) Limited

Statement of financial position
at 31 December 2015

Company number 2353649	Note	2015 £'000	2015 £'000	2014* £'000	2014* £'000
Fixed assets					
Tangible assets	11		**3,033**		2,996
Fixed asset investments	12		**141**		275
			3,174		3,271
Current assets					
Stocks	13	**31,072**		29,263	
Debtors	14	**74,969**		74,994	
Cash at bank and in hand	15	**32,948**		41,697	
		138,989		145,954	
Creditors: amounts falling due within one year	16	**124,889**		119,018	
Net current assets			**14,100**		26,936
Total assets less current liabilities			**17,274**		30,207
Creditors: amounts falling due after more than one year	17	**16,872**		17,314	
Provisions for liabilities	18	**2,882**		3,143	
			19,754		20,457
Net assets			**(2,480)**		9,750
Capital and reserves					
Called up share capital	20		**5,000**		5,000
Share premium account	21		**34,769**		34,769
Merger reserve	21		**16,392**		16,392
Profit and loss account	21		**(58,641)**		(46,411)
Shareholders' funds			**(2,480)**		9,750

The financial statements were approved by the director and authorised for issue on 28 September 2016

S Crook Susan Crook
Director

*The restatement in relation to the year ended 31 December 2014 is explained in note 30. Relating to the first time adoption of FRS102.

The notes on pages 13 to 32 form part of these financial statements.

Diamond Resorts (Europe) Limited

Statement of changes in equity
for the year ended 31 December 2015

	Share capital £'000	Share premium £'000	Merger reserve £'000	Profit and loss account £'000	Total equity £'000
1 January 2015 (as restated)	**5,000**	**34,769**	**16,392**	**(46,411)**	**9,750**
Comprehensive income for the year:					
Loss for the year	-	-	-	(13,352)	(13,352)
Foreign exchange differences	-	-	-	507	507
Total comprehensive income for the year	-	-	-	(12,845)	(12,845)
Contributions by and distributions to owners					
share-based payments	-	-	-	615	615
Total contributions by and distributions to owners	-	-	-	615	615
31 December 2015	**5,000**	**34,769**	**16,392**	**(58,641)**	**(2,480)**

Statement of changes in equity
for the year ended 31 December 2015 *(continued)*

	Share capital £'000	Share premium £'000	Merger reserve £'000	Profit and loss account £'000	Total equity £'000
1 January 2014 (as restated)	5,000	34,769	16,392	(39,614)	16,547
Comprehensive income for the year:					
Loss for the year (as previously stated)	-	-	-	(9,034)	(9,034)
First time adoption of FRS 102:					
Short-term compensated absences (note 29)	-	-	-	(10)	(10)
Foreign exchange differences	-	-	-	879	879
Total comprehensive income for the year	-	-	-	(8,165)	(8,165)
Contributions by and distributions to owners					
share-based payments	-	-	-	1,368	1,368
Total *contributions* by and distributions to owners	-	-	-	1,368	1,368
31 December 2014 (as restated)	5,000	34,769	16,392	(46,411)	9,750

The notes on pages 13 to 32 form part of these financial statements.

1 Accounting policies

Diamond Resorts (Europe) Limited is a company 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 company's operations and its principal activities are set out in the director's 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.

These financial statements are the first financial statements prepared under FRS 102 and information on the impact of first-time adoption of FRS 102 is given in note 30.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the Group's accounting policies.

In preparing the separate financial statements of the parent company, advantage has been taken of the following disclosure exemptions available in FRS 102:

- The requirements of Section 7 Statement of Cash Flows
- The requirements of Section 11 paragraphs 11.39 to 11.48A and Section 12 paragraphs 12.26 to 12.29A 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 requirement of Section 33 Related Party Disclosures

The financial statements have been prepared on a going concern basis and there is an undertaking by Diamond Resorts Corporation to provide sufficient financial support for the foreseeable future to enable liabilities to be met as they fall due.

The comparative statement of comprehensive income has been restated to ensure consistency with the current period and all rental revenues derived from surplus holiday accommodation have been reclassified within the statement to correctly recognise their strategic importance. The director now considers that any such revenues are a key revenue stream, especially with regard to their materiality as part of total income and as such they are no longer considered to be a supplemental income stream. As a result, £8,456,000 has been transferred from other operating income to turnover.

The following principal accounting policies have been applied:

Group accounts

The company is exempt, by virtue of section 400 of the Companies Act 2006, from the requirement to prepare group financial statements as it and its subsidiary undertakings are included in the full consolidation in the consolidated financial statements of Diamond Resorts (Holdings) Limited . These financial statements present information about the company as an individual entity and not about its group.

Financial assets

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

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, excluding convertible debt and derivatives, are initially measured at transaction price (including transaction costs) and subsequently held at amortised cost.

1 Accounting policies *(continued)*

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's sales and marketing operation are recognised when the resort space has been provided.
(3) Resort management, administration and maintenance 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.

Fractional holiday ownership points

Also included within turnover are sales to members of a points related product that allows the purchaser to acquire a share in a specific unit of holiday accommodation but with the added benefit of full holiday ownership membership (fractional holiday ownership points). This fractional product has a finite life of 15 years, after which the accommodation will be marketed for sale by First National Trustee Company and after disposal each fractional member will receive a share of the net proceeds generated. The revenues from this product are primarily conversion fees payable by existing members of the Diamond Resorts European Collection.

Other operating income

Other operating income consists primarily of peripheral revenues and cost reimbursements obtained from private members clubs and club members for administration services and occupied facilities, as well as any profits made on the sale of surplus holiday ownership stock removed from timeshare trust and held as current assets.

Tangible fixed assets and depreciation

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

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

Impairment of fixed asset

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

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.

1 Accounting policies *(continued)*

Investments

Investments are stated at cost less any provision for impairment.

Stocks

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 holiday acquiring resorts, comprising accommodation and resort facilities; purchase price of points acquired in the market; purchase price of points repossessed from members.

- Other non-points trading stock, comprising land and buildings not yet put into trust, but which may be available for use; facilities not deemed to meet the standard required for club resorts and awaiting refurbishment or sale; Purchase price of properties, cost of acquisition, construction and related costs.

- Consumables 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 rental payments

Where local accounting rules require stock to be accounted for by overseas Diamond entities, but the beneficial ownership has been transferred to the company, the company recognises a deferred rental creditor to give effect to the transfer of the stock and to recognise a liability for future rental for use of the overseas assets.

Deferred taxation

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

Share based payments

Where share options are awarded to employees, the fair value of the options at the date of the grant is charged to the statement of comprehensive income over the vesting period. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each statement of financial position date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. The cumulative expense is not adjusted for failure to achieve a market vesting condition. The fair value of the award also takes into account non-vesting conditions. Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to comprehensive income over the remaining vesting period. Where equity instruments are granted to persons other than employees, the statement of comprehensive income is charged with the fair value of goods and services received.

1 Accounting policies *(continued)*

Contributions to pension funds

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

Leased assets

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

All other 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 statement of financial position date 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 branches are translated at the average rates of exchange during the period 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 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 (Diamond Resorts European Collection) that can be used to access space across a portfolio of resorts.

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

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

Management of timeshare clubs and the holiday ownership points club (continued)

Club income and expenditure is excluded from the statement of comprehensive income as it is not company income and expenditure, the company 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.

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

In the application of the company'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.

In preparing these financial statements, the directors have made the following judgements:

- Determine whether leases entered into by the company either as lessor or a lessee are operating or finance leases. These decisions depend on an assessment of whether the risks and rewards of ownership have been transferred from the lessor to the lessee on a lease by lease basis;

- Determine whether there are indicators of impairment of the company's tangible and intangible assets, including goodwill. Factors taken into consideration in reaching such a decision include the economic viability and expected future financial performance of the asset and where it is a component.

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 11)

Tangible fixed assets, other than investment properties, 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 12)

The most critical estimates, assumptions and judgements relate to the determination of carrying value of unlisted investments at fair value through comprehensive income. In determining this amount, the Group applies the overriding concept that fair 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 fair 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 group undertakings) and £1.

The impairment charge in the period of £134,000 relates to the director's estimate that the fair value in certain subsidiary undertakings has declined to £1, this being higher than the net liabilities reported.

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

Stocks (see note 13)

The company shall measure inventories at the lower of cost and estimated selling price less costs to complete and sell.

The director's believe 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 company shall use 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 directors' believe that this is a likely future plan of disposal.

At the date of the statement of financial position the directors' have 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.

Share-based payments (see note 28)

Where the company's ultimate parent undertaking has granted rights to its equity instruments to employees of the company, such arrangements are accounted for as equity-settled share-based payment arrangements. In such instances a capital contribution is recognised to the extent that the company is not recharged by its parent. The capital contribution recognised in the period of £615,000 (2014 -£1,368,000) has been calculated as the fair value of vesting options during the period. The directors' have utilised the option pricing model -'Black-Scholes' for this purpose.

3 Turnover

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

4 Other operating income

	2015	**Restated 2014***
	£'000	**£'000**
Profit on disposal of assets	**787**	413
Commission and fees received	**512**	609
Other income	**386**	93
	1,685	1,115

*The restatement in relation to the year ended 31 December 2014 is explained in note 1.

5 Operating loss

	2015 £'000	2014 £'000
This is arrived at after charging/(crediting):		
Depreciation of tangible fixed assets	**494**	431
Foreign exchange differences	**478**	394
Asset reduction - amounts written off investments	**134**	116
Cost of sales:		
- consumables and resort services	**1,814**	1,504
- timeshare points	**3,985**	3,090
Operating lease rentals:		
- land and buildings	**1,106**	942
- other	**50**	61
Share-based payments	**615**	1,368
Staff costs including directors' remuneration:		
- salaries	**21,979**	22,705
- defined contribution plans	**59**	57
Profit on disposal of other assets in Mainland Spain	**(205)**	(319)
Profit on disposal of surplus timeshare stock	**(582)**	(94)
Auditors' and associates of company's auditors:		
- Fees payable for the auditing of the company's annual accounts	**220**	212
- Fees payable for the auditing of other Diamond group companies	**56**	56

6 Employees

	2015 £'000	2014 £'000
Staff costs (including directors) consist of:		
Wages and salaries	**19,060**	19,491
Social security costs	**2,919**	3,214
Other pension costs	**59**	57
	22,038	22,762

The average number of employees (including directors) during the year was as follows:	Number	Number
Finance and administration	**265**	238
Sales and marketing	**387**	411
	652	649

7 Director's remuneration

	2015 £'000	2014 £'000
Aggregate emoluments (including benefits in kind)	**198**	182

During the year the company contributed to the private pension plans of no directors (2014 - no directors). During the year no directors exercised shares (2014 – none).

8 Interest receivable

	2015 £'000	2014 £'000
Interest receivable on bank and other deposits	**10**	20
Other interest receivable	**59**	53
	69	73

9 Interest payable

	2015 £'000	2014 £'000
Interest payable to fellow group undertakings	**252**	253
Other interest paid	**100**	21
	352	274

10 Taxation on profit on operating activities

	2015 £'000	2014 £'000
The tax (credit)/ charge represents:		
- UK corporation tax at 20.25% (2014 - 21.50%)	-	-
- Overseas	270	584
- Adjustment in respect of prior years	247	(379)
	517	205
Deferred tax (Note 19)	(45)	(219)
	472	(14)

The tax assessed for the year is higher than the standard rate of corporation tax in the UK applied to profit before tax. The differences are explained below:

	2015 £'000	2014* £'000
(Loss) on ordinary activities before tax	(12,880)	(9,058)
(Loss) on ordinary activities at the standard rate of corporation tax in the UK of 20.25% (2014 - 21.50%)	(2,608)	(1,947)
Effect of:		
Expenses not deductible for tax purposes	482	3,164
Utilisation of losses from prior periods	(1,789)	(1,973)
Unrecognised losses	4,431	1,367
Other timing differences	(207)	(164)
Difference in overseas tax rates	(84)	(82)
Adjustments in respect of prior years	247	(379)
Current tax charge for the year	472	(14)

*The restatement in relation to the year ended 31 December 2014 is explained in note 30.

11 Tangible fixed assets

	Freehold land and buildings £'000	Motor vehicles £'000	Fixtures, fittings and equipment £'000	Total £'000
Cost				
At 1 January 2015	3,009	90	3,087	6,186
Additions	121	36	533	690
Disposals	-	(17)	(448)	(465)
Exchange adjustments	(166)	(3)	(84)	(253)
At 31 December 2015	**2,964**	**106**	**3,088**	**6,158**
Depreciation				
At 1 January 2015	942	78	2,170	3,190
Provided for the year	121	9	364	494
Disposals	-	(17)	(409)	(426)
Exchange adjustments	(62)	(1)	(70)	(133)
At 31 December 2015	**1,001**	**69**	**2,055**	**3,125**
Net book value				
At 31 December 2015	**1,963**	**37**	**1,033**	**3,033**
At 31 December 2014	2,067	12	917	2,996

Freehold land and buildings include the cost of improvements to the UK head office held under an operating lease. The net book value of these assets amounted to £136,000 (2014 - £88,000). Depreciation charged on these assets in the year amounted to £31,000 (2014 - £18,000). Depreciation is charged on these assets over the shorter of their estimated useful lives or the remaining term of the operating lease, up to a maximum of 5 years.

12 Fixed asset investments

	Group undertakings £'000
Cost	
At 1 January 2015	275
Impairment adjustment	(134)
At 31 December 2015	**141**

The impairments during the period related to the subsidiary undertakings Diamond Resorts Excursions SL and Diamond Resorts Broome Park Golf Club Limited. These investments have been written down to the value of their assets.

The group headed by the company had the following subsidiary undertakings as at 31 December 2015.

	Country of incorporation or registration	Class of share capital held	Proportion of share capital held
Investments held directly:			
Development and/or sale of holiday ownership			
Los Amigos Beach Club Management Limited	Isle of Man	Ordinary	100%
Los Amigos Beach Club Limited	Isle of Man	Ordinary	100%
Floriana Holdings Limited	Gibraltar	Ordinary	100%
Diamond Resorts Excursions SL	Spain	Ordinary	100%
Diamond Resorts Sales Italy SRL	Italy	Ordinary	100%
Diamond Resorts Voyages SARL	France	Ordinary	100%
Management of resorts and central services			
LS International Resort Management Limited	England	Ordinary	100%
Diamond Resorts Italia SRL	Italy	Ordinary	100%
IGR Mougins SARL *	France	Ordinary	100%
Golf Club management			
Diamond Resorts Broome Park Golf Club Limited	England	Ordinary	100%
Investments held via a subsidiary undertaking:			
Development and/or sale of holiday ownership			
Diamond Resorts Portugal Clube de Ferias LDA	Portugal	Ordinary	4%
Management of resorts and central services			
Vilar do Golf Empreendimentos Turisticos LDA	Portugal	Ordinary	30%

*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 included by virtue of the Diamond group's management of day to day operations and its entitlement to commercial revenues generated from the assets of the entity.

12 Fixed asset investments *(continued)*

Name of subsidiary	**Country of incorporation**
Clubs**	
Thurnham Owners Club	England
Pine Lake Owners Club	England
Woodford Bridge Country Club	England
Cromer Country Club	England
Kenmore Club	England
Royal Sunset Beach Club	Spain
Royal Tenerife Country Club	Spain
Sahara Sunset	Spain
Sunset Bay	Spain
Sunset Harbour	Spain
Santa Barbara	Spain
Sunset View	Spain
Royal Oasis Club at Benal Beach	Spain
Club del Carmen	Spain
White Sands Beach Club	Spain
Club Cala Blanca	Spain
Los Amigos Beach Club	Spain
Royal Oasis Club at P. Quinta	Spain
Royal Regency	France
Moulin de Connelle	France

** These are unincorporated undertakings which are consolidated by virtue of the Diamond group's power to exercise control over them.

13 Stocks

	2015 £'000	**2014 £'000**
Consumables	**99**	115
Timeshare points in trust	**19,244**	20,621
Timeshare weeks in trust	**3,353**	630
Other non-points trading stock	**8,376**	7,897
	31,072	29,263

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

14 Debtors

	2015 £'000	2014 £'000
Amounts receivable within one year		
Trade debtors	**2,772**	2,653
Corporation tax	**-**	37
Deferred tax	**251**	217
Club maintenance fee debtors	**31,473**	22,404
Amounts owed by group undertakings	**32,559**	42,663
Other debtors	**2,239**	1,740
Prepayments and accrued income	**2,247**	2,250
Tax and social security	**3,428**	3,030
	74,969	74,994

The impairment loss recognised in the group profit or loss for the period in respect of bad and doubtful trade debtors was £2,000 (2014 - £6,000).

15 Cash at bank and in hand

Cash at bank and in hand includes cash balances of £28,491,000 (2014 - £31,301,000) held on behalf of the Resort Clubs.

16 Creditors: amounts falling due within one year

	2015 £'000	2014* £'000
Bank loans and overdrafts (secured)	**17**	10
Trade creditors	**3,121**	2,562
Amounts owed to group undertakings	**23,997**	21,951
Taxation and social security	**11,700**	10,085
Amounts due to resort clubs	**68,893**	67,311
Corporation tax	**164**	-
Other creditors	**486**	436
Accruals	**5,532**	5,316
Deferred income	**10,979**	11,347
	124,889	119,018

*The restatement in relation to the year ended 31 December 2014, being an increase of £30,000 to accruals and deferred income is explained in note 30.

17 Creditors: amounts falling due after more than one year

	2015 £'000	2014 £'000
Deferred rental payments	**16,872**	17,314

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

Included in creditors due after more than one year are the following amounts repayable in more than five years:

	2015 £'000	2014 £'000
Deferred rental payments	**15,105**	15,547

18 Provisions for liabilities

	(1) Sales and marketing £'000	(2) Overseas taxes £'000	(3) Maintenance and repairs £'000	(4) UK taxes and litigation £'000	Total £'000
At 1 January 2015	874	328	1,855	86	3,143
Provision made during the year	890	-	-	269	1,159
Utilised in year	(1,237)	(183)	-	-	(1,420)
At 31 December 2015	**527**	**145**	**1,855**	**355**	**2,882**

(1) The company provides incentives to potential customers to purchase as part of its marketing activities. These consist primarily of awards or vouchers which can be redeemed for travel and accommodation.

(2) There is a potential risk that the company could be required to pay additional overseas indirect taxes. The timing of these payments is uncertain.

(3) The company has an obligation under a planning agreement with a local council to perform renovations at a UK resort with an estimated cost of £1,825,000 (2014 - £1,825,000). The period during which these renovations are to take place is expected to be within the next ten years. In addition, a provision of £30,000 has been made for dilapidations at leasehold offices.

(4) There is a provision of £86,000 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. In addition, there has been a legal settlement provided for in the UK of £269,000, this relates to an on-going legal dispute at a hotel resort.

19 Deferred taxation

The deferred tax asset is in relation to long time service awards in Spain.

	2015 £'000	2014 £'000
Charged to the statement of comprehensive income	**45**	219
Foreign exchange movement on the carrying value	**(11)**	(2)
Movement during the period	**34**	217
Opening deferred tax asset	**217**	-
Closing deferred tax asset	**251**	217

The company has an unrecognised deferred tax asset of £15,571,000, (2014 - £8,770,000), representing unutilised tax losses carried forward. This asset has not been recognised due to the uncertain timing of future tax recoverability.

20 Share capital

	2015 £'000	2014 £'000
Allotted, called up and fully paid		
5,000,100 ordinary shares of £1 each	**5,000**	5,000

21 Reserves

	Share premium account £'000	Merger reserve £'000	Profit and loss account £'000
At 31 December 2014 (as previously stated)	34,769	16,392	(46,381)
First time adoption of FRS 102:			
Short-term compensated absences (note 30)	-	-	(30)
At 1 January 2015 (as restated)	34,769	16,392	(46,411)
Capital contribution - share-based payments	-	-	615
Foreign exchange	-	-	507
Loss for the year	-	-	(13,352)
At 31 December 2015	**34,769**	**16,392**	**(58,641)**

22 Contingent liabilities

(1) There is a contingent liability for overseas indirect taxes. It is not practicable to quantify this liability until the group has completed a review of its group structure. A related provision has been made for taxes which are more likely than not to be incurred (note 18).

(2) The company is aware of tax assessments against overseas resort property owning companies which the company could be required to pay. The company expects that these assessments will be successfully appealed. Accordingly no provision for any liability from such claims has been made in the financial statements.

(3) During the year legal cases were brought against the company for breach of contract. These cases have not been resolved at the date of the approval of these financial statements. Accordingly no provision for any liability from such claims has been made in the financial statements.

23 Commitments under operating leases

The total future minimum lease payments under non-cancellable operating leases are payable as follows:

	Land and buildings 2015 £'000	Other 2015 £'000	Land and buildings 2014 £'000	Other 2014 £'000
Within one year	**1,039**	**39**	1,106	50
After one year but within five years	**2,606**	**19**	3,800	56
After five years	**-**	**-**	110	1
	3,645	**58**	5,016	107

24 Financial instruments

The company's financial instruments may be analysed as follows:

	2015 £'000	2014 £'000
Financial assets		
Financial assets that are debt instruments measured at amortised cost:	**101,991**	111,157
	101,991	111,157
Financial liabilities		
Financial liabilities measured at amortised cost:	**102,046**	97,586
	102,046	97,586

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 Directors' report.

Foreign currency risk

The company 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 company 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 Ultimate parent company and parent undertaking of larger group

At the balance sheet date the director regarded Diamond Resorts International Inc, a company incorporated in the USA, as the company's ultimate parent undertaking.

The smallest group in which the results of the company are consolidated is that headed by Diamond Resorts (Holdings) Limited, whose principal place of business is at Citrus House, Caton Road, Lancaster, Lancashire, LA1 3UA. The consolidated accounts of the group can be obtained from the Registrar of Companies, Companies House, Crown Way, Maindy, Cardiff, CF4 3UZ.

Post balance sheet event

On 2 September 2016 Diamond Resorts International Inc. completed a definitive merger agreement and was acquired by affiliates of certain funds managed by affiliates of Apollo Global Management LLC, a New York Stock Exchange listed entity in the USA.

As at that date, the director now regards BRH Holdings GP Limited, a company incorporated in the Cayman Islands, a British overseas territory, as the company's ultimate parent undertaking. Registered office: c/o Intertrust Corporate Services (Cayman) Limited, 190 Elgin Avenue, George Town, Cayman Islands KY1-9005.

26 Capital commitments

There were no capital commitments at 31 December 2015 or 31 December 2014.

27 Financial commitments

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 Diamond Resorts International Inc, to the subsidiary companies. The amount outstanding at the year-end was £65,365,000 (2014 - £61,958,000). The debenture provides a fixed and floating charge over the undertaking and all the assets of the company.

28 Share-based payments

The company's ultimate parent undertaking, Diamond Resorts International Inc. operates a share option scheme for senior employees of the global group. This scheme includes individuals that are employed by and provide services to the company. Options are exercisable at a price equal to the closing quoted market price of the ultimate parent undertakings shares on the day of grant. 25.0% of shares issuable upon the exercise of such options vested immediately on the grant date and the remaining 75.0% vests equally on each of the next three grant date anniversary dates. All of these options expire ten years from the grant date, the only vesting condition being that the individual remains an employee of the company over the three year vesting period.

	2015 Weighted average exercise price (USD - cents)	**2015 Number**	**2014 Weighted average exercise price (USD - cents)**	**2014 Number**
Outstanding at the beginning of year	**1,610**	**245,050**	1,400	172,800
Granted during the year	**3,270**	**58,000**	1,860	115,000
Forfeited during the year	**2,670**	**(22,000)**	-	-
Exercised during the year	**1,620**	**(64,250)**	1,440	(42,750)
Expired during the year	-	-	-	-
Outstanding at the end of the year	**1,940**	**216,800**	1,610	245,050

The exercise price of options outstanding at the end of the year ranged between 1,400 USD cents and 3,270 USD cents (2014 - between 1,400 USD and 1,860 USD cents) and their weighted average contractual life was 8.2 years (2014 - 8.8 years).

Of the total number of options outstanding at the end of the year, 121,200 (2014 - 72,400) had vested and were exercisable at the end of the year.

The weighted average share price during the year was estimated to be 3,145 USD cents (2014 - 2,312 USD cents) at the date of exercise of options.

The fair value of the share options is measured at the grant date using the Black-Scholes option pricing model taking into account the terms and conditions upon which the instruments were granted. The directors believe that this model is the most appropriate methodology to use as it has been utilised by the ultimate parent undertaking, and issuer of the options in the USA.

The following information is relevant in the determination of the fair value of options granted during the current and previous years under the equity-settled share based remuneration scheme operated by the ultimate parent undertaking of the company.

28 Share-based payments *(continued)*

	2015	2014
Equity-settled		
Option pricing model used	**Black-Scholes**	Black-Scholes
Weighted average share price at grant date (USD - cents)	**3,270**	1,860
Exercise price (USD - cents)	**3,270**	1,860
Weighted average contractual life (years)	**10**	10
Expected volatility	**45.7%**	52.8%
Risk-free interest rate	**2.8%**	3.2%
Expected dividend growth rate	**0%**	0%

The volatility assumption, measured at the standard deviation of expected share price returns, is based on a statistical analysis of daily share prices for a group of identified peer companies over the expected term of the share options on the grant date due to a lack of historical share trading prices of the ultimate parent undertaking.

The company recognised total expenses of £615,000 (2014 -£1,368,000) related to equity-settled share-based payment transactions.

The company did not enter into any share-based payment transactions with parties other than employees during the current or prior year.

29 Employer pension scheme

The company operates a defined contribution pension scheme. The pension charge for the year represents contributions payable by the company of £59,000 (2014 - £57,000). The amount outstanding to be paid to the scheme at the year-end was £5,000 (2014 - £5,000).

30 First time adoption of FRS 102

This is the company's first set of financial statements prepared in accordance with FRS 102. The accounting policies, which are set out in note 1, are unchanged except in respect of accrued holiday pay. The effects on the transition date balance sheet, the 31 December 2014 restated balance sheet, and the 2014 restated profits, are shown below.

Company	**Note**	**Equity as at 1 January 2014 £**	**Loss for the year ended 31 December 2014 £**	**Equity as at 31 December 2014 £**
As previously stated under former UK GAAP		16,567	(9,034)	9,780
Transitional adjustments				
Change in the period for recognising short-term compensated absences	a	(20)	(10)	(30)
As stated in accordance with FRS 102		**16,547**	**(9,044)**	**9,750**

30 First time adoption of FRS 102 *(continued)*

Explanation of changes to previously reported profit and equity

a. FRS 102 requires the cost of accumulating compensated absences to be measured and recognised in the financial statements. Section 28 of the standard deals with employee benefits, defined as "all forms of consideration given by an entity in exchange for service rendered by employees, including directors and management". As a result, the company will need to make an accrual to recognise the entitlement for untaken holidays at the balance sheet date to be paid to employees in the next financial year.