Diamond Resorts (Europe) Limited

Report and Financial Statements

Year Ended

31 December 2014

Company Number 2353649

Diamond Resorts (Europe) Limited

Report and financial statements
for the year ended 31 December 2014

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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

Diamond Resorts (Europe) Limited

Strategic report
for the year ended 31 December 2014

The directors present their strategic report together with the audited financial statements of the company for the year ended 31 December 2014.

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 £9.0m (2013 - £2.3m profit). The directors do not recommend the payment of a dividend (2013 - £Nil). The profit and loss account is set out on page 9.

As discussed in the previous year, the company has extended its trade for the first time into the Mediterranean region with the launch of a Greek branch of the company. The employee infrastructure, expertise and local business set up for this venture was either replicated, transferred or recharged from the existing Mediterranean (Greek Islands) sales and marketing operation acquired by the wider Diamond group in the autumn of 2012. During the year this new branch began to market and sell the Preview or Discover Diamond Membership entry product (Cold line), and also the full points holiday ownership (Warm line) products. It was the first opportunity for the wider Diamond European group to launch these products to UK, Scandinavian and German nationals holidaying in that region, particularly as they may not have encountered the Diamond brand when taking holidays elsewhere in Europe or the United States. As a result, this start up had a significant impact on the trading results of the company and will be discussed in the following review of the business and key performance indicators.

The company's result before taxation deteriorated by £12.0m compared with the prior year and a loss of £9.0m was recorded (2013 - £3.0m profit). Material contributory factors were as follows:

(1) The sales and marketing operation in the UK and Spanish territories has contributed £2.2m less this year to the company result. This decrease was principally attributable to the sales of the fractional holiday ownership product being weaker in the second full year of this offering to the same membership population.

(2) The net running costs of unoccupied resort accommodation increased by £2.4m, the majority of this uplift is due to lower membership numbers, inflationary pressure on resort costs and additional room space in the Mediterranean. This new Mediterranean space is contracted under agreement between the Greek branch and third party developers.

(3) Launch of trading in the Greek branch resulted in combined losses of £6.2m in the Mediterranean sales and marketing business and corporate administrative support functions. The major contributing factor is the launch of the holiday ownership product in this region and the challenges that this created. The conversion of existing short term timeshare or Aegean Blue members that had previously purchased in the Mediterranean has been below expectation. Another factor is the deferral of revenues from cold line sales (new customers buying Preview or Discover Diamond holiday packs) that could not be recognised as the revenue recognition rules concerning this are dependent on the holiday reservation. Such reservations are expected between 2015 and 2018. As a result, cold line marketing expenses (cost of generating tours for customers not staying in company resort accommodation) and direct selling relating expenses related to such sales were an expense to the company with no compensating revenue this year. The Greek branch has deferred revenues of £2.2m that will be carried forward and released in future periods.

(4) The company introduced a share option scheme for senior employees and total expenses of £1.4m were recognised (see note 29).

However, to partly offset:
(5) £0.5m reduction in legal and professional fees, the majority of savings because the corporate restructuring project is now materially complete.

Review of the business *(continued)*

Membership numbers declined again, although at a level within expectation as the sales and marketing operation continued to concentrate on selling to the existing membership base (warm line), with only a low level of new entrants joining the holiday ownership system (cold line). The Directors are content with the revenues that have yielded from the fractional holiday ownership product; the sales from this product were expected to stabilise after the initial uptake and the drop off in revenues from existing territories is not unexpected. However, the performance of the Mediterranean selling and marketing start up has been disappointing and corrective action was taken during the year with regard to a change in the senior staff in the sales and marketing operation. Monitoring of this business will continue as its further integration into the group continues.

Key Performance Indicators

The directors consider 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 increased by 2%, contributing factors were as follows:
(1) Sales of full holiday ownership and the Discover Diamond products in the existing UK and Spanish territories were £2.8m lower this year. The majority of this decrease can be attributed to the drop in converting existing holiday ownership members to the fractional timeshare product and the higher revenues that this product can yield in comparison to an upgraded regular points membership.
(2) The aforementioned start up operation in the Greek branch contributed new revenues of £3.4m from sales centres in the Greek Islands.
Resulting from the above two factors, there was a fall in holiday ownership volumes per guest to £1,791 this year, (2013 - £2,184 (excluding Mediterranean)). Marketing tour-flow targeted at selling holiday ownership was 26% higher across continental Europe at 17,353 tours, (2013 – 13,795 tours), 2,516 tours are attributable to the new launch in the Mediterranean.
(3) Revenues derived from the mini-break and mini-vacation packages (including the one week "Preview" product) increased by £0.3m this year. This is a reflection of the increase in marketing activity directed at this product type. The majority of these revenues related to bookings taken in the prior year with client travel occurring during 2014. Marketing guests occupied 38,000 room nights during the year (2013 – 27,000 room nights). This equated to 4% of available accommodation across the portfolio of resorts (2013 – 3% of available accommodation).

Cost of sales increased by 19%, 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. As a result, even though sales from the UK and Spanish territories were lower there is only a minor £0.1m fall in the cost of points sold in those regions.
(2) The cost of points sold in the new Greek branch was £2.1m. This is high as a percentage of the revenues in that region due to the use of more expensive fractional holiday ownership stock that is purchased just in time under agreement with a third party developer based in Bulgaria.
Due to the above two factors, the number of European Collection points sold has increased considerably by 10.3m points to 15.9m (2013 - 5.6m).
However, the following savings partly offset the above net expense:
(3) The directors negotiated a reduction of £0.4m in the cost of exchange company fees that the group is paying to allow European Collection members to access third party accommodation; this is partly due to the decline in membership numbers.
(4) A rebate of £0.3m was obtained from the exchange company after a change in the contractual agreement.
(5) There is a reduction of £0.5m in sales unwinds as a result of the decrease in holiday ownership turnover.

Key Performance Indicators *(continued)*

Distribution costs increased by 32%, due to the following reasons:
(1) £1.6m increase in carrying costs of unsold timeshare stock outside of the Mediterranean due to the aforementioned reduction in membership numbers and the related contribution that they make to the running costs of group managed resorts and hotels.
(2) £0.8m new expense in the Greek branch, being the cost of rooms rented under contract with local hotel developers in the Greek Islands and also the carrying costs of unsold stock in that region.
(3) £0.9m increase in indirect and direct selling and marketing costs in the UK and Spain, the majority of which was either for staff salary and commission or tour related expenditure, principally due to an increase in cold line marketing activity.
(4) £6.9m new expense in the Greek branch, part of which is geared towards generating upgrade revenues in the following year as Preview and Discover Diamond customers take their first holiday and potentially purchase points. It must be noted that the aforementioned deferred revenues discussed in page 1 will help to compensate that company for part of this expense.

Administration expenses increased by 9%:
(1) Legal and professional fees were lower by £0.5m due to the winding down of the aforementioned corporate restructuring project. The company previously engaged advice and guidance on the complex local country filing requirements and court representations required to achieve the successful EU cross border merger.
(2) £0.6m new expense in the Greek branch, being support functions for the launched operation.
(3) A new share-based remuneration scheme was introduced for senior group employees and an expense of £1.4m was recognised (see note 29).

Other operating income decreased by 5%:
(1) £0.3m reduction in commission revenues received from the providers of external finance to purchasers of holiday ownership. During the year there was a change in the financing offer to members.
(2) The income earned from the relationship with preferred rental partners was comparable. These rental partners occupied a similar level of total resort room space compared with the previous year, (as allocated from the developer's portion), being 22% this year, (2013 - 23% of space), equating to 219,000 room nights, (2013 - 216,000 room nights). There was also a slight fall in the average daily rate charged to partners, (2014 - £41 per night, 2013 - £43 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.
(3) There was a smaller gain of £0.2m from the disposal of surplus timeshare stock and other assets in the Spanish territories.

During the year the number of unsold points in the Diamond Resorts European Collection (the points trust) increased by 8m to 160.4m (2013: 152.4m). These 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 the year end is £20.6m (2013 - £20.3m, see note 12). Members of the European Collection holiday ownership occupied 390,000 room nights during the year (2013 – 396,000 room nights). This equated to 40% of available accommodation across the portfolio of resorts (2013 – 43% of available accommodation).

Going Concern

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.

Future developments

As reported previously, the company will continue to roll out new membership benefit products and services and will continue to pursue opportunities to dispose of developer owned surplus unsold timeshare stock. The latter strategy will reduce the carrying costs of unoccupied resort accommodation. In addition, it is a desire of the Directors to continue to increase the portfolio of affiliate resort and international destinations at no cost to members.

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

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 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 has been extremely 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 29th September 2015

S Crook Susan Crook

Director

Diamond Resorts (Europe) Limited

Report of the directors
for the year ended 31 December 2014

The directors present their report together with the audited financial statements for the year ended 31 December 2014.

Directors

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

S J Hulme (resigned 3 September 2015)
S Crook

None of the directors have any interest in the share capital of the company. The interests of the directors 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 directors do 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 cashflow 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

Directors' responsibilities

The directors are responsible for preparing the strategic report, the directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the 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 directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors

All of the current directors have taken all the steps that they ought to have taken to make themselves aware of any information needed by the company's auditors for the purposes of their audit and to establish that the auditors are aware of that information. The directors are not aware of any relevant audit information of which the auditors are unaware.

BDO LLP offer themselves for reappointment as auditors in accordance with 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

S Crook Susan Crook
Director

Date 29th September 2015

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 2014 which comprise the profit and loss account, the balance sheet, the statement of total recognised gains and losses and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

Respective responsibilities of directors and auditors

As explained more fully in the statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit 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 2014 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 directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept, 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 directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

BDO LLP

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

Date 30/9/15

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

Diamond Resorts (Europe) Limited

Profit and loss account
for the year ended 31 December 2014

	Note	2014 £'000	2013 £'000
Turnover	2	**46,666**	45,893
Cost of sales		**4,594**	3,871
Gross profit		**42,072**	42,022
Distribution costs		**42,150**	31,935
Administrative expenses		**18,340**	16,874
		(18,418)	(6,787)
Other operating income	4	**9,571**	10,122
Operating (loss)/ profit	3	**(8,847)**	3,335
Interest receivable	7	**73**	67
Interest payable	8	**(274)**	(421)
(Loss)/ profit on ordinary activities before taxation		**(9,048)**	2,981
Taxation on (loss)/ profit on ordinary activities	9	**14**	(673)
(Loss)/ profit on ordinary activities after taxation		**(9,034)**	2,308

All amounts relate to continuing activities.

The notes on pages 12 to 27 form part of these financial statements.

Diamond Resorts (Europe) Limited

Statement of total recognised gains and losses for the year ended 31 December 2014

	Note	2014 £'000	2013 £'000
(Loss)/ profit for the financial year		**(9,034)**	2,308
Total (losses)/ gains for the year before currency adjustments		**(9,034)**	2,308
Capital contribution – share-based payments	20	**1,368**	-
Exchange translation differences on retranslation of foreign branches	20	**879**	(328)
Total recognised gains and losses for the financial year		**(6,787)**	1,980

The notes on pages 12 to 27 form part of these financial statements.

Diamond Resorts (Europe) Limited

Balance sheet
at 31 December 2014

Company number 2353649	Note	2014 £'000	2014 £'000	Restated 2013* £'000	2013 £'000
Fixed assets					
Tangible assets	10		**2,996**		2,133
Fixed asset investments	11		**275**		391
			3,271		2,524
Current assets					
Stocks	12	**29,263**		28,530	
Debtors	13	**74,994**		73,068	
Cash at bank and in hand	14	**41,697**		45,264	
		145,954		146,862	
Creditors: amounts falling due within one year	15	**118,988**		112,120	
Net current assets			**26,966**		34,742
Total assets less current liabilities			**30,237**		37,266
Creditors: amounts falling due after more than one year	16	**17,314**		17,756	
Provisions for liabilities	17	**3,143**		2,943	
			20,457		20,699
Net assets			**9,780**		16,567
Capital and reserves					
Called up share capital	19		**5,000**		5,000
Share premium account	20		**34,769**		34,769
Merger reserve	20		**16,392**		16,392
Profit and loss account	20		**(46,381)**		(39,594)
Shareholders' funds	21		**9,780**		16,567

*The restatement in relation to the year ended 31 December 2013 is explained in note 1.

The financial statements were approved by the board of directors and authorised for issue on 29th September 2015

S Crook Susan Crook
Director

The notes on pages 12 to 27 form part of these financial statements.

1 Accounting policies

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

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 balance sheet has been restated to ensure consistency with the current period and certain balances have been reclassified within the statement to correctly reflect their underlying nature. The company recognises purchase consideration on sales of holiday ownership, (see Turnover section below) which is paid initially into bank accounts that are controlled by the trustee of the points club. This consideration is eventually transferred by the trustees into a Diamond bank account when the sale is outside of a cooling off period under EU timeshare legislation. The directors now consider that any such consideration held in these trustee bank accounts at the period end should be a trade debtor rather than cash at bank, as such funds are not accessible on demand or within a notice period that is not more than 24 hours. As a result, £1,182,970 has been transferred from cash at bank and in hand to trade debtors receivable within one year.

The following principal accounting policies have been applied:

Consolidated financial statements

The company is exempt from preparing consolidated financial statements on the grounds that it qualifies under Section 400 of the Companies Act 2006 as a wholly owned subsidiary of a company registered in England and Wales for which consolidated financial statements are prepared (Diamond Resorts (Holdings) Limited). These financial statements therefore present information about the company as an individual undertaking and not as a consolidated group.

Cash flow statement

The company has taken advantage of the exemption provided by FRS 1 and has not prepared a cash flow statement as its results are included in the consolidated results of Diamond Resorts (Holdings) Limited, which are publicly available.

Turnover

Turnover primarily consists of sales of stocks of holiday ownership, in the form of points in Diamond Resorts European Collection, which give members the right to use accommodation in holiday resorts owned by the 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.

Additionally resort management 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.

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.

1 Accounting policies *(continued)*

Other operating income

Other operating income consists primarily of rental revenues derived from surplus holiday accommodation not utilised by the group's sales and marketing operation.

Also included are 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.

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.

1 Accounting policies *(continued)*

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.

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 the profit and loss account over the period of the lease.

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

Foreign currency

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

The results of overseas branches are translated at the average rates of exchange during the period and their balance sheets at the rates ruling at the balance sheet 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.

1 Accounting policies *(continued)*

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

Club income and expenditure is excluded from the profit and loss account 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 profit and loss account and the net surpluses and deficits included in the net liability on behalf of club members.

2 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.

3 Operating (loss)/ profit

	2014 £'000	2013 £'000
This is arrived at after charging/(crediting):		
Depreciation of tangible fixed assets	**431**	712
Asset reduction - amounts written off investments	**116**	176
Operating lease rentals - land and buildings	**942**	964
Operating lease rentals - other	**61**	32
Share-based payments	**1,368**	-
Profit on disposal of other assets in Mainland Spain	**(319)**	(213)
Profit on disposal of non points stock in the Balearic Islands	**(94)**	(411)
Auditors' and associates of company's auditors:		
- Fees payable for the auditing of the company's annual accounts	**212**	206
- Fees payable for the auditing of other Diamond group companies	**56**	35

4 Other operating income

	2014 £'000	2013 £'000
Rental income	**8,456**	8,474
Profit on disposal of assets	**413**	624
Other income	**702**	1,024
	9,571	10,122

5 Employees

	2014	2013
	£'000	£'000
Staff costs (including directors) consist of		
Wages and salaries	**19,491**	14,910
Social security costs	**3,214**	2,009
Other pension costs	**57**	24
	22,762	16,943

The average number of employees (including directors) during the year was as follows:	**Number**	**Number**
Finance and administration	**238**	200
Sales and marketing	**411**	213
	649	413

6 Directors' remuneration

	2014	2013
	£'000	£'000
Emoluments and benefits in kind	**182**	160

During the year the company contributed to the private pension plans of no directors (2013 - no directors).

7 Interest receivable

	2014	2013
	£'000	£'000
Interest receivable on bank and other deposits	**20**	17
Other interest receivable	**53**	50
	73	67

8 Interest payable

	2014 £'000	2013 £'000
Interest payable to fellow group undertakings	253	421
Other interest paid	21	-
	274	421

9 Taxation on profit on ordinary activities

	2014 £'000	2013 £'000
The tax (credit)/ charge represents:		
- UK corporation tax at 21.5% (2013 – 23.3%)	-	-
- Overseas	584	673
- Adjustment in respect of prior years	(379)	-
	205	673
Deferred tax	(219)	-
	(14)	673

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:

	2014 £'000	2013 £'000
(Loss)/ profit on ordinary activities before tax	(9,048)	2,981
(Loss)/ profit on ordinary activities at the standard rate of corporation tax in the UK of 21.5% (2013 - 23.3%)	(1,945)	695
Effect of:		
Expenses not deductible for tax purposes	3,164	99
Depreciation for the period in excess/ (deficit) of capital allowances	53	(156)
Utilisation of losses from prior periods	(1,973)	(86)
Group relief	-	107
Losses carried forward	1,531	14
Other timing differences	(164)	-
Difference in overseas tax rates	(82)	-
Adjustments in respect of prior years	(379)	-
Current tax charge for the year	205	673

10 Tangible fixed assets

	Freehold land and buildings £'000	Motor vehicles £'000	Fixtures, fittings and equipment £'000	Total £'000
Cost				
At 1 January 2014	2,256	86	3,192	5,534
Additions	933	8	504	1,445
Disposals	-	-	(509)	(509)
Exchange adjustments	(180)	(4)	(100)	(284)
At 31 December 2014	**3,009**	**90**	**3,087**	**6,186**
Depreciation				
At 1 January 2014	876	78	2,447	3,401
Provided for the year	139	3	289	431
Disposals	-	-	(488)	(488)
Exchange adjustments	(73)	(3)	(78)	(154)
At 31 December 2014	**942**	**78**	**2,170**	**3,190**
Net book value				
At 31 December 2014	**2,067**	**12**	**917**	**2,996**
At 31 December 2013	1,380	8	745	2,133

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 £88,000 (2013 - £43,000). Depreciation charged on these assets in the year amounted to £18,000 (2013 - £17,000). 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 6 years.

11 Fixed asset investments

	Group undertakings £'000
Cost	
At 1 January 2014	391
Impairment adjustment	(116)
At 31 December 2014	**275**

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 2014.

	Country of incorporation or registration	Class of share capital held	Proportion of share capital held
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 timeshare resorts			
LS International Resort Management Limited	England	Ordinary	100%
Diamond Resorts Italia SRL	Italy	Ordinary	100%
Golf Club management			
Diamond Resorts Broome Park Golf Club Limited	England	Ordinary	100%

12 Stocks

	2014 £'000	2013 £'000
Consumables	**115**	91
Timeshare points	**20,621**	20,313
Other non-points trading stock	**8,527**	8,126
	29,263	28,530

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

13 Debtors

	2014 £'000	Restated 2013* £'000
Amounts receivable within one year		
Trade debtors	**2,653**	2,903
Corporation tax	**37**	-
Deferred tax	**217**	-
Club maintenance fee debtors	**22,404**	22,380
Amounts owed by group undertakings	**42,663**	41,657
Other debtors	**1,740**	2,259
Prepayments and accrued income	**2,250**	1,964
Tax and social security	**3,030**	1,905
	74,994	73,068

*The restatement in relation to the year ended 31 December 2013 is explained in note 1.

14 Cash at bank and in hand

Cash at bank and in hand includes restricted cash balances of £31,301,000 (2013 - £38,416,000) held on behalf of the Resort Clubs' members. None of the restricted cash amounts held are available for use by the company.

15 Creditors: amounts falling due within one year

	2014 £'000	2013 £'000
Bank loans and overdrafts (secured)	**10**	7
Trade creditors	**2,562**	1,991
Amounts owed to group undertakings	**21,951**	21,171
Taxation and social security	**10,085**	6,091
Amounts due to resort clubs	**67,311**	70,519
Corporation tax	**-**	473
Other creditors	**436**	508
Accruals and deferred income	**16,633**	11,360
	118,988	112,120

16 Creditors: amounts falling due after more than one year

	2014 £'000	2013 £'000
Deferred rental payments	**17,314**	17,756

16 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:

	2014 £'000	2013 £'000
Deferred rental payments	**15,547**	15,989

17 Provisions for liabilities

	(1) Sales and marketing £'000	(2) Overseas taxes £'000	(3) Maintenance and repairs £'000	(4) UK taxes and vacant property £'000	Total £'000
At 1 January 2014	604	789	1,305	245	2,943
Charged to profit and loss account	2,487	-	550	-	3,037
Utilised in year	(2,217)	(461)	-	(159)	(2,837)
At 31 December 2014	**874**	**328**	**1,855**	**86**	**3,143**

(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 (2013 - £1,725,000). The period during which these renovations are to take place is expected to be within the next ten years. In addition, a provision of £30,000 has been made for dilapidations at leasehold offices.

(4) The group had recognised future costs arising from a leased property in Salford that was vacant. During the period under review agreement was reached with the property owner to terminate the lease.

18 Deferred taxation

The company has an unrecognised deferred tax asset of £8,770,000, (2013 - £9,200,000, restated following a change in the tax rate used) representing unutilised tax losses carried forward. This asset has not been recognised due to the uncertain timing of future tax recoverability.

19 Share capital

	2014 £'000	2013 £'000
Allotted, called up and fully paid		
5,000,100 ordinary shares of £1 each	**5,000**	5,000

20 Reserves

	Share premium account £'000	Merger reserve £'000	Profit and loss account £'000
At 1 January 2014	34,769	16,392	(39,594)
Capital contribution – share-based payments	-	-	1,368
Foreign exchange	-	-	879
Loss for the year	-	-	(9,034)
At 31 December 2014	**34,769**	**16,392**	**(46,381)**

21 Reconciliation of movements in shareholders' funds

	2014 £'000	2013 £'000
(Loss)/ profit for the year	**(9,034)**	2,308
Capital contribution – share-based payments	**1,368**	-
Foreign exchange	**879**	(328)
Group restructure (note 28)	**-**	496
Net movement in shareholders' funds	**(6,787)**	2,476
Opening shareholders' funds	**16,567**	14,091
Closing shareholders' funds	**9,780**	16,567

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 17).

(2) The company is aware of tax assessments against overseas resort property owning companies which the company could be required to pay. The company expects that these assessments will be successfully appealed. In the event that the appeal is lost, the total cost of settling these assessments is estimated to be £450,000 (2013 - £450,000).

(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 company had annual commitments under non-cancellable operating leases as set out below:

	Land and buildings 2014 £'000	Other 2014 £'000	Land and buildings 2013 £'000	Other 2013 £'000
Operating leases which expire:				
Within one year	**12**	**1**	-	-
In two to five years	**654**	**45**	942	61
After five years	**440**	**-**	-	-
	1,106	**46**	942	61

24 Related party disclosures

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

25 Ultimate parent company and parent undertaking of larger group

The directors regard Diamond Resorts International Inc 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.

26 Capital commitments

There were no capital commitments at 31 December 2014 or 31 December 2013.

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

28 Group restructure

In the years ended 31 December 2013 and 31 December 2012, the directors undertook the first two phases of a corporate restructuring project, involving a cross border merger. This resulted in a reorganisation of the legal and operational structure throughout Continental Europe. The aim of the merger plan was to make company trading more efficient and to remove complexity to better meet present and future needs.

Merger of fellow group undertakings

The board of directors of Diamond Resorts (Europe) Limited approved the absorption of certain fellow group undertakings based in the UK and Austria. Pursuant to this and after conclusion of court approval the following significant undertakings were dissolved and merged into Diamond Resorts (Europe) Limited by 31 March 2013. This process was the culmination of a series of cross border mergers under the Companies (Cross Border Mergers) Regulations 2007 and in accordance with a steps plan agreed by the Directors. The group undertakings absorbed, (DR = "Diamond Resorts") were:

Name of subsidiary	Country of incorporation	Class held	Proportion held
Development and/or sale of holiday ownership			
Octopus GmbH	Austria	Ordinary	100%
Management of timeshare resorts			
DR Management Limited	England	Ordinary	100%
DR Clubs (Europe) Limited	England	Ordinary	100%
Alpine Apartment Hotel LmbH	Austria	Ordinary	100%
Provision of finance and travel services			
DR Travel Limited, DR Holidays Limited	England	Ordinary	100%

To avoid a statement of excessive length, only those entities with assets and liabilities at 1 January 2013 have been listed.

For the purposes of the merger it was agreed that the merger balance sheets of the absorbed group undertaking companies were the balance sheets brought forward as of 1 January 2013.

Following the absorption of certain fellow group undertakings, their net assets were brought into the company and appropriate accounting policy adjustments were made. As part of the merger process the value of investment in these entities was removed and to the extent that the carrying value of the investment was less than the net assets absorbed (at fair value), this was an adjustment to the merger reserve.

In addition, the UK balances of certain Spanish timeshare clubs were also brought into the company for the first time as a result of the relationship between these clubs and the above management operations absorbed under the merger (for an explanation of this policy see note 1).

28 Group restructure *(continued)*

As a result, investments were reduced by £0.9m, net assets absorbed after policy adjustments were £1.396m (see below), with an offsetting increase to merger reserve of £0.496m.

The assets and liabilities merged were as follows:	**Merged value £'000**
Club maintenance fee debtors	26,134
Net amounts owed by group undertakings	4,927
Cash at bank and in hand	31,149
Amounts owed on behalf of club members	(60,832)
Other assets and liabilities (net)	18
Net assets merged	1,396

Summary

The impact on the financial statements in the prior year following the merger and group restructuring was as follows:

	Merger transactions £'000
Assets	
Investments	(900)
Other net assets	1,396
Total net assets	**496**
Capital & reserves	
Merger reserve account	496
Shareholders' funds	**496**

29 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.

	2014 Weighted average exercise price (USD - cents)	**2014 Number**	**2013 Weighted average exercise price (USD - cents)**	**2013 Number**
Outstanding at the beginning of year	**1,400**	**172,800**	-	-
Granted during the year	**1,860**	**115,000**	1,400	172,800
Forfeited during the year	**-**	**-**	-	-
Exercised during the year	**1,440**	**(42,750)**	-	-
Expired during the year	**-**	**-**	-	-
Outstanding at the end of the year	**1,610**	**245,050**	1,400	172,800

The exercise price of options outstanding at the end of the year ranged between 1,400 USD cents and 1,860 USD cents (2013 – 1,400 USD cents) and their weighted average contractual life was 8.8 years (2013 – 9.6 years).

Of the total number of options outstanding at the end of the year, 72,400 (2013 – 172,800) had vested and were exercisable at the end of the year.

The weighted average share price during the year was estimated to be 2,312 USD cents (2013 – none exercised) at the date of exercise of options.

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.

	2014	**2013**
Equity-settled		
Option pricing model used	**Black-Scholes**	Black-Scholes
Weighted average share price at grant date (USD - cents)	**1,860**	1,400
Exercise price (USD - cents)	**1,860**	1,400
Weighted average contractual life (years)	**10**	10
Expected volatility	**52.8%**	52.9%
Risk-free interest rate	**3.2%**	3.0%
Expected dividend growth rate	**0%**	0%

29 Share-based payments *(continued)*

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 £1,368,000 (2013 -£nil) 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.