

Diamond Resorts AB Acquisition Company Limited

Report and Financial Statements

For the year ended

31 December 2019

Company Number 08217626



Diamond Resorts AB Acquisition Company Limited

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

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Director

S Crook

Secretary and registered office

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

Company number

08217626

Auditor

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

Diamond Resorts AB Acquisition Company Limited

Report of the director for the year ended 31 December 2019

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

Principal activities

The company's activities are to act as a holding company for the group headed by Diamond Resorts Mediterranean Holdings Limited, Cyprus.

Results and review of the business

The statement of comprehensive income is set out on page 6 and shows the profit for the year.

The profit for the year after taxation amounted to £254,716 (2018 loss – £516,341). The director does not recommend the payment of a dividend (2018 - £Nil).

Included within administration expenses are £294,871 (2018 – loss of £482,397) of foreign exchange gains relating to the US Dollar denominated loan and credit agreement, as mentioned below.

In addition, there is also included £5,072 impairment to fixed asset investments, see note 5.

The interest payable of £35,325 (2018 - £33,814) is in respect of unpaid interest on a loan and credit agreement with AB Blue Acquisition LLC, a USA registered company and fellow wholly owned member of the group headed by Dakota Holdings Inc., see note 10.

Principal risks and uncertainties

The market for timeshare and hotel accommodation in Europe is highly competitive. The major commercial risk for the business relates to the ability of the Diamond group, as headed by Diamond Resorts (Holdings) Limited (see note 9), to generate revenue from sales, marketing and rental activities, the latter operation targeted to offset the majority of the carrying costs of unsold resort accommodation held within the stock of that group.

To help the group business mitigate this risk and take corrective action, close attention is directed towards the *financial success of converting onsite resort guests to holiday ownership and the rental room rates achieved from a dynamic online market.*

At the time of the signing of these financial statements the company and consolidated group of Diamond Resorts, as a result of being in the hospitality sector, are still enveloped by the health pandemic relating to the coronavirus (COVID-19). There has been significant disruption and curtailment since March 2020 on group operations; on its business partners, employees, membership offerings and customers.

Post balance sheet events

Coronavirus

As the company is not trading in its own right but acting as a holding company, the director has not been able to determine the effect on the company, and feels that it is more appropriate to disclose the full impact on the wider consolidated group in the financial statements of Diamond Resorts (Holdings) Limited (see note 9).

Director

The director of the company that served during the year was:

S Crook

The director does not have any interest in the share capital of the company.

Diamond Resorts AB Acquisition Company Limited

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

Going Concern

As a result of the aforementioned trading disruption faced by the company and the upward consolidating group with regard to the Covid-19 pandemic; particular attention should be drawn to the accounting policy relating to the basis of going concern, (see page 8).

Director's liabilities

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

Likely future developments in the business of the company

The director does not anticipate any significant change in the company's business for the foreseeable future.

Director's responsibilities

The director is responsible for preparing 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 director must not approve the financial statements unless she is satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing those financial statements, the director is required to:

- a. select suitable accounting policies and then apply them consistently;
- b. make judgements and accounting estimates that are reasonable and prudent;
- c. 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 to enable her to ensure that the financial statements comply with the Companies Act 2006. She is also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Diamond Resorts AB Acquisition Company Limited

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

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.

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

In preparing this director's report, advantage has been taken of the small companies' exemption.

On behalf of the Board



S Crook

Director

Diamond Resorts AB Acquisition Company Limited, Citrus House, Caton Road, Lancaster, Lancashire, LA1 3UA

Date 30 October 2020

Diamond Resorts AB Acquisition Company Limited

Independent auditor's report to the members of Diamond Resorts AB Acquisition Company Limited

Opinion

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

In our opinion, the financial statements:

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

Basis for opinion

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

Conclusions relating to going concern

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

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

Other information

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

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

Diamond Resorts AB Acquisition Company Limited

Independent auditor's report to the members of Diamond Resorts AB Acquisition Company Limited

Matters on which we are required to report by exception

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

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

- adequate accounting records have not been kept, 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; or
- the director was not entitled to prepare the financial statements in accordance with the small companies regime and take advantage of the small companies exemption from the requirement to prepare a strategic report or in preparing the director's report.

Responsibilities of the director

As explained more fully in the director's responsibilities statement set out on page 2, the director is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the director determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

Use of our report

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

RSM UK Audit LLP

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

Date 30 October 2020

Diamond Resorts AB Acquisition Company Limited

Statement of Comprehensive Income for the year ended 31 December 2019

	Note	2019 £	2018 £
Administrative expenses		290,041	(482,527)
Operating profit/(loss)	2	290,041	(482,527)
Interest payable to group companies		(35,325)	(33,814)
Profit/(loss) on ordinary activities before taxation		254,716	(516,341)
Taxation on profit/(loss) on ordinary activities	4	-	-
Profit/(loss) on ordinary activities after taxation for the financial year		254,716	(516,341)

All amounts relate to continuing activities.

Other Comprehensive Income recognised in the year was £nil (2018: £nil).

The notes on pages 8 to 12 form part of these financial statements.

Diamond Resorts AB Acquisition Company Limited

Statement of Financial Position as at 31 December 2019

<i>Company number 8217626</i>	Note	2019 £	2018 £
Fixed assets			
Fixed asset investments	5	1	5,073
Creditors: amounts falling due within one year	6	(14,175,306)	(14,435,094)
		<u> </u>	<u> </u>
Net liabilities		(14,175,305)	(14,430,021)
		<u> </u>	<u> </u>
Capital and reserves			
Called up share capital	7	1	1
Profit and loss account	8	(14,175,306)	(14,430,022)
		<u> </u>	<u> </u>
Shareholders' deficit		(14,175,305)	(14,430,021)
		<u> </u>	<u> </u>

These financial statements have been prepared in accordance with the provisions applicable to companies subject to the small companies' regime.

The financial statements were approved by the board of directors and authorised for issue on 30 October 2020



S Crook
Director
Company number 8217626

The notes on pages 8 to 12 form part of these financial statements.

Diamond Resorts AB Acquisition Company Limited

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

1 Accounting policies

Diamond Resorts AB Acquisition Company Limited is a private company limited by shares and 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.

These financial statements have been prepared in accordance with FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", the requirements of the Companies Act 2006 as applicable to companies subject to the small companies' regime, and under the historical cost convention. The disclosure requirements of section 1A of FRS 102 have been applied other than where additional disclosure is required to show a true and fair view.

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 an ultimate parent 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 about its group.

Going concern

The current economic conditions continue to create uncertainty over (a) the level of demand for the consolidating group's products, (details of the upward consolidating group can be found in note 9); and (b) the availability of the consolidating group's bank finance for a period of 12 months from the date of signing of the financial statements should additional working capital be required. The company is financed by a fellow group undertaking and such uncertainties could impact the ability of the fellow group undertaking to continue to provide the finance allowing the company to meet its obligations as they fall due.

Notwithstanding the net liabilities position of £14.2m shown in the company statement of financial position, (see page 7) the company and group are able to meet day-to-day working capital requirements through their bank balances and a funding facility that is available from the ultimate US based parent. In addition, the company and consolidating group have in place a letter of support from Diamond Resorts Corporation.

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

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

The following principal accounting policies have been applied:

Investments

Investments are stated as cost less impairment.

Financial assets

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

Diamond Resorts AB Acquisition Company Limited

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

1 Accounting policies (continued)

Financial liabilities and equity

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

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. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in the profit and loss account.

2 Operating profit/(loss)

The operating profit includes foreign exchange gain of £294,871 (2018 – foreign exchange loss of £482,397).

The audit fee for the company is borne by a fellow group undertaking, Diamond Resorts (Europe) Limited. The interest payable is attributable to a loan from a fellow group undertaking.

3 Directors and employees

All staff are employed and paid by a fellow group company, Diamond Resorts (Europe) Limited. The director did not receive any emoluments for services to the company during the period.

4 Taxation on profit/(loss) on ordinary activities

The tax assessed for the period is lower than the standard rate of corporation tax in the UK applied to the profit/(loss) before tax.

	2019 £	2018 £
Profit/(loss) on ordinary activities before tax	254,716	(516,341)
Profit/(loss) on ordinary activities at the standard rate of corporation tax in the UK of 19.00% (2018 – 19.00%)	48,396	(98,105)
Group relief claimed in the period	-	74,580
Movement in unrecognised deferred tax	-	23,525
Non-taxable (income)/non-deductible expenditure	(48,396)	-
Current tax result for the period	-	-

The company has an unrecognised deferred tax asset of £276,093 (2018 - £175,543), representing unutilised tax losses where group relief was not claimed. The increase of £100,550 is due to adjustments to prior period tax provisions. These assets have not been recognised due to the uncertain timing of future tax recoverability in the UK tax group.

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

Diamond Resorts AB Acquisition Company Limited

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

5 Fixed asset investments

	Shares in subsidiary undertakings £
Cost	
At 1 January 2019 and 31 December 2019	6,441,193
Accumulated impairment charge	
At 1 January 2019	6,436,120
Impairment during the year	5,072
At 31 December 2019	6,441,192
Net book value	
At 31 December 2019	1
At 31 December 2018	5,073

The investment and impairment recorded during the period related to the subsidiary undertaking Diamond Resorts Mediterranean Holdings Limited. This investment has been written down to the higher of net realisable value (a measure of subsidiary net assets excluding balances with fellow group undertakings) and £1.

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

Name of subsidiary*	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			
Diamond Resorts Mediterranean Holdings Limited	Cyprus	Ordinary	100%
Investments held via a subsidiary undertaking:			
Management of resorts and central services			
Diamond Resorts Mediterranean PLC	Cyprus	Ordinary	99.98%
Diamond Resorts Mediterranean Management Limited	Cyprus	Ordinary	100%

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

6 Creditors: amounts falling due within one year

	2019 £	2018 £
Loan from fellow group company	8,346,476	8,606,022
Amounts owed to group undertakings	5,828,830	5,829,072
	<u>14,175,306</u>	<u>14,435,094</u>

Details of the loan from a fellow group company based in the United States of America are given in note 10.

Diamond Resorts AB Acquisition Company Limited

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

7 Share capital

	2019 £	2018 £
Allotted, called up and fully paid		
1 Ordinary share of £1 each	1	1

Called up share capital represents the nominal value of the shares issued. The shares carry equal rights with regard to distribution of dividends and repayment of capital.

8 Reserves

Profit and loss account reserve represents cumulative profits or losses, net of dividends paid.

9 Ultimate parent company

The immediate parent undertaking is Diamond Resorts (Group Holdings) PLC.

The smallest group to consolidate these financial statements is headed by Diamond Resorts (Holdings) Limited. Copies of the Diamond Resorts (Holdings) Limited financial statements can be obtained from the Company Secretary at Citrus House, Caton Road, Lancaster, Lancashire, LA1 3UA.

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

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

10 Related party disclosures

The company entered into a loan and credit agreement for the initial principal amount of £4,046,713 with AB Blue Acquisition LLC, a USA registered company and fellow wholly owned member of the group headed by Dakota Holdings, Inc. Under this credit agreement, the outstanding principal and interest unpaid shall be due and repayable on demand. However, the director reached agreement with the fellow group member to extend repayment until it is feasible for the company to obtain the relevant funds to finance this. The percentage rate of interest chargeable on the loan is 0.5% per annum (2018 - 0.5% per annum). The balance owed at 31 December 2019 was £8,346,476 (2018: £8,606,022).

11 Capital commitments

There were no capital commitments at 31 December 2019.

12 Financial Commitments

The company is party to a composite banking arrangement. Under this agreement all indebtedness incurred by the Diamond group companies is secured by a cross guarantee enabling credit balances and deficit balances within the Diamond group to be offset.

12 Events after the balance sheet date

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

Diamond Resorts AB Acquisition Company Limited

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

12 Events after the balance sheet date (continued)

As mentioned in the report of the director, detailed disclosure will be provided in the financial statements of *Diamond Resorts (Holdings) Limited* (see note 9).

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