

ANNUAL MEETING REPORT OF THE ROYAL SANDS ADVISORY COUNCIL

October 25, 2023

Members: LaDene Bowen, Pat Hanley, Bruce Glasscock, Rick Hoffman, Stanley Yaren

The Royal Sands Advisory Council annual meeting was held on October 25, 2023, with all members present.

Prior to the meeting, Council members toured the resort to see projects completed in 2023 such as the full-length glass windows and hurricane panels in the lobby. On the pool decks, safety glass panels and handrails were added to the Phase 1 whirlpool tubs and shade umbrellas were replaced in Phase 2. The water park will open in spring 2024.

Council members met with President of HICV Mexico and Royal Resorts Fernando López, VP of Hospitality Javier Vales and members of their staff. Representing Holiday Inn Club Vacations were Lesley Nau, VP of Finance, Carlos Ramos VP of Finance and Michael Thompson, Senior Vice President and General Counsel.

Fernando López began by reviewing the final figures for 2022 and explained the 2023 financial statement. The Income Statement Comparison accompanying this summary shows budgeted and actual (forecast) income and expenses as of September 30, 2023, with estimates to the end of the year. The 2024 budget is also shown, as are Resort and Villa Improvements executed in 2023 and those planned for 2024.

Repairs and replacement items approved by Council in 2022 and completed in 2023 include:

Resort Improvements

- Replacement of walkway railings in Buildings A,F, G, I and part of Buildings C, M and P (350 meters)
- Construction of an elevator shaft, Building P
- Purchase of an industrial washing machine (60 kilos)
- Hurricane screens for lobby windows in Phase 1

Villa Improvements

- Replacement of aluminum terrace and balcony railings in 32 villas
- Corrective maintenance in 26 villas
- Replacement of marble floors with ceramic tiles in 30 villas
- Replacement of aluminum sliding doors in 10 villas
- New kitchen windows in 50 villas

Fixed Assets and Major Repairs Approved in the 2022 Budget and Additional Items Authorized in 2023

- Replacement of aluminum window and door frames with glass in lobby entrance and entrance to the pool area, including the revolving door
- Lobby soft remodeling
- Water park
- Fan & Coil set replacement in two villas
- New LED lighting for tennis courts

Approved for 2024

Resort Improvements

- Replacement of 345 meters of walkway railings in Buildings D, E, H, K, L, M and N (2/7)
- New high-pressure pump for the reverse osmosis system
- New hydropneumatics control panel, machine house
- New matting for the tennis courts and waterproofing for the walkway
- 40 kg industrial washing machine for the resort laundry
- Eight water dispensers in public areas
- Repair kit for the reverse osmosis booster pump

Villa Improvements

- Replacement of aluminum terrace and balcony railings in 26 villas
- Pillows and pillowcases for 340 villas
- Replacement of marble floors with ceramic tiles in 10 villas
- Replacement of aluminum sliding doors in four villas

In his review of the 2023 budget comparison, Fernando López briefed Council on the economic headwinds that had an unprecedented impact on resort finances and that are discussed in the General Introduction.

The principal factor is the exchange rate fluctuations and the strength of the peso. YTD, the peso is almost 16 percent stronger versus the dollar in 2023. The negative exchange rate variation represents a negative impact to the resort operating budget of US\$3,093,775.

Other contributing factors were the continued high inflation rate and price rises. Inflation has a cumulative effect on payroll expenses and a cost-of-living salary adjustment of 5.5 percent for team members is factored into the 2024 budget. This is inclusive of another mandatory minimum wage increase expected for 2024 that may be up to 20 percent.

The 2023 Financial Statement and 2024 budget also include the acquisition of hurricane insurance and expanded property insurance coverage.

Total resort operating expenses in 2023 were 16.4 percent over budget. Any increase of around 16 percent for individual line items can be attributed to the exchange rate impact.

Electricity was only 4.8 percent over budget due to the long-term contract with INFRA to provide clean energy.

In contrast, Water and Sewage costs were 53.3 percent over budget due to water leaks and unforeseen, unbudgeted repairs to the reverse osmosis system. The 29.8 percent variation in Security and 36.9 percent for Sport Services are the result to the exchange rate impact, replacement CCTV for Security and an adjustment in the allocation of training expenses.

Fixed Assets and Major Repairs was 14.1 percent over budget and includes a partial beachfront railings expense carried over from 2021, and the water park.

The 167.6 percent increase in Resort Insurance is due to the new hurricane insurance policy (cost for seven months coverage). The reserves in the Hurricane Cash Reserve were transferred to the Club Cash reserves.

In General & Administrative Expenses, Operating Income was 45.5 percent less than budgeted.

In Financial Expenses, interest Earned showed a 1009.4 percent increase over budget due to rising interest rates.

The Lodging Tax charged by the Quintana Roo government increased from 3 to 5 percent in 2023.

Given the economic situation and forecast for 2024, Management proposed a 13 percent increase in the 2024 Club Service Fee.

Management budgeted conservatively to keep costs to a minimum in 2024, while still offering the high standards and vacation experience members expect. In Resort Operating Expenses, the -68.3 percent decrease in Fixed Assets & Major Repairs expenses reflects the decision to delay some 2024 projects.

The lobby soft remodeling project scheduled for 2023 is on hold as the Holiday Inn Club Vacations design team studies the proposals. Additionally, there will be no contribution to the FF&E Cash Reserve in 2024.

The 15 percent rise in Security expenses is to cover additional personnel. A new government ruling on

the Civil Safety code stipulates that resort pools must have lifeguards.

The Resort Insurance expense is 112.4 percent more than the forecast for 2023 as it is for a full year of coverage.

Operational Services is 21.6 percent less than the 2023 budget due to the centralization of the Customer Service department.

The Net Income Operation for 2024 is budgeted as a Net deficit of US\$509,150 and the Club Cash Reserve is US\$6,425,278. Thanks to the resort's healthy finances, US\$1M of the 2023 deficit was absorbed, the reason for a 13 percent increase and not the 15 percent needed at the other resorts.

The Resort Revenue line item includes resort income received from sources other than Club Service Fees. These include interest earned on bank accounts, a fee for certain Membership Service transactions, guest laundry services, late check out and kitchen cleaning fees.

Other Income also includes the savings from Resort Fees that Resort Operations receives from the REFINA All-Inclusive program, US\$2.50 per All-Inclusive guest per day to cover expenses generated by the program. Member Club Service Fees do not subsidize the REFINA All-Inclusive program.

The Royal Sands has an anticipated Club Cash reserve of US\$8,991,501 and a Hurricane Cash Reserve of US\$3,743,030 by the end of 2023. As of September 30, 2023, the resort's total net worth was US\$9,048,762.

A percentage of members are delinquent in their Club Service Fee and membership payments and the Resort must make a provision for this cash shortfall when budgeting. Members who are in arrears are urged to fulfill their financial obligations.

The Royal Sands Advisory Council listened to Management's recommendations and endorsed the proposed Club Service Fee increase, based upon the understanding that it is due to external economic factors and that it is necessary to protect the club's cash reserves and finances.

The Club Service Fee for 2024 will be US\$1,351.00 and the breakdown is as follows:

The Royal Sands

	Occupancy	1-44 days before	44-90 days before
Villa			
CSF	1,141.32	1,128.92	1,116.53
VAT 16%	182.61	180.63	178.64
Lodging Tax 5%	57.07	56.45	55.83
CSF + Taxes	1,381.00	1,366.00	1,351.00

Suite

	Occupancy	1-44 days before	44-90 days before
CSF	750.40	738.02	725.62
16% VAT	120.06	118.08	116.10
Lodging Tax 5%	37.54	36.90	36.28
CSF + Taxes	908.00	893.00	878.00

Room

	Occupancy	1-44 days before	44-90 days before
CSF	415.71	403.31	390.91
16% VAT	66.50	64.53	62.54
Lodging Tax 5%	20.79	20.16	19.55
CSF + Taxes	503.00	488.00	473.00

In a private session, the Advisory Council chose Dennis J. Prindiville to replace retiring member Pat Hanley.

THE ROYAL SANDS		NUMBER OF INTERVALS					
		17,340					
Club Service Fee	\$988	INCOME STATEMENT COMPARISON BETWEEN 2023 AND 2024 (US Dlls.)				Club Service Fee	\$1,117
V.A. Tax	\$158					V.A. Tax	\$179
Occupancy Tax	\$49					Occupancy Tax	\$56
Total	\$1,196					Total	\$1,351
2 0 2 3		% DIF.	DESCRIPTION	2 0 2 4 BUDGET	% DIF. VS. FORECAST '23	% Vert.	\$/INTVAL.
BUDGET	FORECAST						
\$20.94	\$17.68	-15.61%	Exchange Rate	\$18.20	2.98%		
19,963,742	20,065,635	0.5%	Dues Income	23,027,150	14.8%	98.4%	1,327.98
77,879	82,178	5.5%	Other	85,559	4.1%	0.4%	4.93
20,041,622	20,147,813	0.5%	Subtotal	23,112,709	14.7%	98.8%	1,332.91
			RESORT REVENUE				
40,109	66,675	66.2%	Guest Laundry	65,937	-1.1%	0.3%	3.80
141,753	191,440	35.1%	Refine Income	204,516	6.8%	0.9%	11.79
17,190	30,829	79.3%	Other Income	19,781	-35.8%	0.1%	1.14
199,052	288,944	45.2%	Subtotal	290,234	0.4%	1.2%	16.74
20,240,673	20,436,757	1.0%	Total Revenue	23,402,943	14.5%	100.0%	1,349.65
			RESORT OPERATING EXPENSES				
2,211,549	2,553,896	15.5%	Housekeeping Services	2,767,440	8.4%	11.8%	159.60
808,527	918,379	13.6%	Housekeeping Maintenance	970,700	5.7%	4.1%	55.98
1,781,237	1,866,196	4.8%	Electricity	2,033,205	8.9%	8.7%	117.26
1,788,332	1,892,414	5.8%	Maintenance & Machine House	2,220,237	17.3%	9.5%	128.04
306,823	470,447	53.3%	Water & Sewage	489,288	4.0%	2.1%	28.22
788,238	1,023,301	29.8%	Security	1,179,958	15.3%	5.0%	68.05
654,681	682,995	4.3%	Front Desk	781,690	14.5%	3.3%	45.08
370,632	386,654	4.3%	Int. & Guest Laundry	451,997	16.9%	1.9%	26.07
2,012,506	2,295,925	14.1%	Fixed Assets & Major Repairs	727,323	-68.3%	3.1%	41.94
249,297	289,659	16.2%	Landscaping	335,356	15.8%	1.4%	19.34
156,926	214,779	36.9%	Sport Services	231,946	8.0%	1.0%	13.38
92,705	111,948	20.8%	Telephone (Net Result)	115,738	3.4%	0.5%	6.67
256,318	304,141	18.7%	Social Activities	380,150	25.0%	1.6%	21.92
85,809	101,273	18.0%	Operational Services	79,444	-21.6%	0.3%	4.58
256,913	687,426	167.6%	Resort Insurance	1,459,845	112.4%	6.2%	84.19
97,850	103,180	5.4%	Courtesy Shuttle	112,573	9.1%	0.5%	6.49
116,318	136,994	17.8%	Gym	133,852	-2.3%	0.6%	7.72
187,272	187,272	0.0%	High Speed Wi-Fi	187,272	0.0%	0.8%	10.80
12,221,933	14,226,878	16.4%	Total Operating Expenses	14,658,014	3.03%	62.6%	845.33
			GENERAL & ADMIN EXPENSES				
1,693,644	1,690,337	-0.2%	Management Fee	1,921,117	13.7%	8.2%	110.79
694,515	828,125	19.2%	Corporate Services	794,585	-4.1%	3.4%	45.82
135,294	149,163	10.3%	Accounting	152,274	2.1%	0.7%	8.78
134,402	158,533	18.0%	Administration	214,007	35.0%	0.9%	12.34
83,158	97,994	17.8%	Training	101,035	3.1%	0.4%	5.83
127,403	149,142	17.1%	Human Resources	153,799	3.1%	0.7%	8.87
50,784	56,009	10.3%	Other Expenses	39,850	-28.9%	0.2%	2.30
31,399	35,382	12.7%	Auditing	37,941	7.2%	0.2%	2.19
603,033	611,985	1.5%	Membership Services	646,244	5.6%	2.8%	37.27
3,553,633	3,776,671	6.3%	Total General & Admin Expenses	4,060,851	7.5%	17.4%	234.19
4,465,108	2,433,208	-45.5%	Operating Income	4,684,078	92.5%	20.0%	270.13
			FINANCIAL EXPENSES/INCOME				
-41,546	-460,894	1009.4%	Interest Earned	-515,265	11.8%	-2.2%	-29.72
358,107	378,508	5.7%	Credit Card Commission CSF	404,810	6.9%	1.7%	23.35
316,561	-82,386	-126.0%	Total Financial Expenses/Income	-110,455	-34.1%	-0.5%	-6.37
4,148,547	2,515,594	-39.4%	Income before Taxes	4,794,533	90.6%	20.5%	276.50
			TAXES				
2,549,309	2,543,657	-0.2%	V.A. Tax	2,907,415	14.3%	12.4%	167.67
477,996	616,882	29.1%	Occupancy Tax	908,567	47.3%	3.9%	52.40
999,977	840,904	-15.9%	Income Tax & Others	1,211,795	44.1%	5.2%	69.88
217,915	266,656	22.4%	Property Tax & Other Exp.	275,906	3.5%	1.2%	15.91
4,245,197	4,268,099	0.5%	Total Taxes	5,303,683	24.3%	22.7%	305.86
-96,651	-1,752,505	-1713.2%	Net Income	-509,150	70.9%	-2.2%	-29.36
-96,651	-1,752,505	1713.2%	Net Income Operation	-509,150	70.9%	-2.2%	-29.36
-464,887	-482,981		Provision for Uncollectible Accounts	-580,902			-33.50
-561,537	-2,235,486		Net Income after Provision	-1,090,052			-62.86
-650,000	-650,000		FF&E Provision	0			0.00
-1,211,537	-2,885,486		Net Income after FF&E Provision	-1,090,052			-62.86
5,420,422	4,044,453		Accounting Reserves	2,954,401			
5,786,598	8,991,501		Club Cash Reserve	6,425,278			
3,306,089	0		Hurricane Cash Reserve	0			
4,741,921	4,741,921		FF&E Cash Reserve	4,741,921			