

ANNUAL MEETING REPORT OF THE ROYAL HACIENDAS

ADVISORY COUNCIL

October 24, 2023

Advisory Council Members: Kathleen Fransen, Catherine Long Meyers, Curtis Sparks, Philip Stano, Andrea Kaiser (Alternate)

The annual meeting of the Advisory Council for The Royal Haciendas was held at the resort on October 24, 2023.

Prior to the meeting, Council members toured the resort with Manager Sandra Aguilar, who showed them 2023 projects and briefed them on beach erosion. Oceanographers have carried out studies in the bay and will propose measures based on their findings.

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

- Major repairs to Chiller No. 3
- Internal combustion engine for the emergency generator
- One heat exchanger for the boilers
- Purchase of UMA, installation and construction of protective housing
- Hydranautics polyimide membranes for reverse osmosis plant 2
- 2 centrifuge pumps
- Replacement of cracked decorative pool rim tiles (25 meters)
- Renovation of two elevators, cabin walls, ceiling and lights
- Nuvola guest service management software

Villa Improvements

- Fan and coil replacement for silent air-conditioning in 63 villas (1/4)
- Corrective maintenance in 25 villas
- Shower glass panel replacement, 2 per villa in 63 penthouse villas (1/4)
- Furniture top replacement for nightstand, night tables and the desk, 13 items
- New stainless steel fridges in 63 villas (3/4)
- New terrace furniture for 10 villas, 10 items per set (4/4)
- Modification of whirlpool protective window in 40 villas and Security

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

- Landscape design and gardening in Phase 1
- 5,193 sq. ft. of concrete flooring in public areas and 2,815 meters. of decorative trim (expense carried over from 2022)

Approved for 2024

Resort Improvements

- Major repairs for chiller no. 2
- Replacement of the central fan & coil unit for public

areas (UMA no. 5 & 6 of 11) and construction of the protective housing

- New thatch and repainting the metallic frame of the motor lobby palapa
- Predictive maintenance for six elevators in resort buildings
- Renovation of two guest elevators

Villa Improvements

- Fan & coil replacement for silent air-conditioning in 63 villas (2/4)
- Corrective maintenance in 25 villas
- Stainless steel fridges for 64 villas (4/4)
- Shower glass panel replacement, 2 per villa (2/4)

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\$2,597,851.

Other contributing factors were the 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 and rising associated payroll expenses.

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

Due to these factors, total resort operating expenses in 2023 were 20.9 percent over budget. Any increase of around 16 percent for line items can be attributed to the exchange rate impact.

Water and Sewage was 24 percent over budget because of increased consumption, leaks, and the installation of new meters.

Fixed Assets and Major Repairs was 2.7 percent under budget. However, several 2023 projects were carried over to 2024, such as silent air-conditioning for villas.

Landscaping was 20.4 percent over budget due to the exchange rate and increased payroll expenses.

Sport Services and Social Activities were 19.4 percent and 20.9 percent over budget respectively. In the case of Telephones, the 30.9 percent increase was due to the exchange rate and a PBX expense which was not properly budgeted.

The 1892.4 percent increase in Resort Insurance reflects the purchase of hurricane insurance (seven months coverage). The reserves in the Hurricane Cash Reserve were transferred to the Club Cash reserves.

The Courtesy Shuttle to Playa del Carmen was 46.3 percent over budget because an extra departure was added.

In General & Administrative Expenses, Operating Income was 42.3 percent less than budgeted.

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 15 percent increase in the 2024 Club Service Fee to protect the resort operating budget and build depleted cash reserves.

Management budgeted conservatively to keep costs to a minimum in 2024, while still offering the high standards members expect.

In Resort Operating Expenses, the 13.9 percent increase in Housekeeping Services is to have full staffing. The Resort Insurance expense is 109.8 percent more than the 2023 budget as it is for the full year of hurricane insurance. Operational Services is 34.9 percent less than 2023 due to the centralization of the Customer Service department.

The Net Income Operation of US\$221,561 is a deficit. To avoid adding to it, there will be no contribution to the FF&E Cash Reserve in 2024.

In Resort Revenue, The Royal Haciendas receives income from interest earned on bank accounts, Membership Service transaction fees, guest laundry, late checkout and kitchen cleaning fees. Other Income also includes savings from the Resort Fees that Resort Operations receives from the REFINE All-Inclusive program to cover extra expenses.

The Royal Haciendas has an anticipated Club Cash Reserve of US\$1,245,257. As of September 30, 2023, the resort's total net worth was US\$2,616,902.

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.

It was noted that beach mitigation is still an unbudgeted expense as Management has yet to receive the project proposals. Members will be informed about the actions to be taken.

The Royal Haciendas Advisory Council after reviewing all possible alternatives, acknowledged the recommendation of Management to increase the Club Service Fee by 15 percent with the understanding that Management will make every effort to maximize investment opportunities and continue to consider renewable energy projects.

The Royal Haciendas Club Service Fee for 2024 will be US\$1,588.00 for the Flexivilla and US\$1,691.00 for the Deluxe Villa and the breakdown is as follows:

Villa	Flexivilla	Deluxe
CSF	1,312.40	1,397.52
VAT 16%	209.98	223.60
Lodging Tax 5%	65.62	69.88
CSF + Taxes	1,588.00	1,691.00
Suite		
CSF	852.89	908.26
VAT 16%	136.46	145.32
Lodging Tax 5%	42.65	45.42
CSF + Taxes	1,032.00	1,099.00
Room		
CSF	459.51	489.26
VAT 16%	73.52	78.28
Lodging Tax 5%	22.97	24.46
CSF & Taxes	556.00	592.00

In a private session, the Advisory Council chose Mary Dell Jepperson to take over from retiring member Richard Crawshaw.

THE ROYAL HACIENDAS			NUMBER OF INTERVALS				12,852
Villa	Flexivilla	Deluxe	INCOME STATEMENT COMPARISON BETWEEN 2023 AND 2024 (US Dlls.)	Villa	Flexivilla	Deluxe	
Club Service Fee	\$1,141	\$1,215		Club Service Fee	\$1,312	\$1,398	
V.A Tax	\$183	\$194		V.A Tax	\$210	\$224	
Occupancy Tax	\$57	\$61		Occupancy Tax	\$66	\$70	
Total	\$1,380	\$1,470		Total	\$1,587	\$1,691	
2 0 2 3		% DIF.	DESCRIPTION	2 0 2 4	% DIF. VS. FORECAST '23	% Vert.	\$/INTVAL.
BUDGET	FORECAST			BUDGET			
\$20.94	\$17.68	-15.61%	Exchange Rate	\$18.20	2.98%		
18,281,377	18,325,856	0.2%	Dues Income	21,519,928	17.4%	98.7%	1,674.44
56,278	61,197	8.7%	Other	62,336	1.9%	0.3%	4.85
18,337,655	18,387,053	0.3%	Subtotal	21,582,263	17.4%	99.0%	1,679.29
			RESORT REVENUE				
48,704	50,769	4.2%	Guest Laundry	51,431	1.3%	0.2%	4.00
154,090	154,324	0.2%	Refine Income	163,333	5.8%	0.7%	12.71
11,460	30,459	165.8%	Other Income	13,187	-56.7%	0.1%	1.03
214,254	235,552	9.9%	Subtotal	227,951	-3.2%	1.0%	17.74
18,551,909	18,622,606	0.4%	Total Revenue	21,810,214	17.1%	100.0%	1,697.03
			RESORT OPERATING EXPENSES				
1,817,184	2,114,224	16.3%	Housekeeping Services	2,408,258	13.9%	11.0%	187.38
798,457	976,011	22.2%	Housekeeping Maintenance	963,369	-1.3%	4.4%	74.96
1,458,503	1,557,279	6.8%	Electricity	1,630,024	4.7%	7.5%	126.83
2,106,571	2,447,168	16.2%	Maintenance & Machine House	2,602,786	6.4%	11.9%	202.52
361,802	448,631	24.0%	Water & Sewage	469,989	4.8%	2.2%	36.57
649,303	758,611	16.8%	Security	698,724	-7.9%	3.2%	54.37
433,751	503,763	16.1%	Front Desk	477,075	-5.3%	2.2%	37.12
282,155	305,811	8.4%	Int. & Guest Laundry	306,591	0.3%	1.4%	23.86
792,466	770,805	-2.7%	Fixed Assets & Major Repairs	752,260	-2.4%	3.4%	58.53
231,895	279,251	20.4%	Landscaping	297,250	6.4%	1.4%	23.13
173,272	206,849	19.4%	Sport Services	197,536	-4.5%	0.9%	15.37
89,231	116,812	30.9%	Telephone (Net Result)	111,438	-4.6%	0.5%	8.67
374,358	452,658	20.9%	Social Activities	422,666	-6.6%	1.9%	32.89
56,230	66,361	18.0%	Operational Services	43,222	-34.9%	0.2%	3.36
35,938	716,027	1892.4%	Resort Insurance	1,502,528	109.8%	6.9%	116.91
48,704	71,268	46.3%	Courtesy Shuttle to Playa del Carmen	71,973	1.0%	0.3%	5.60
68,859	81,510	18.4%	Gym	79,239	-2.8%	0.4%	6.17
196,860	189,384	-3.8%	High Speed Wi-Fi	196,860	3.9%	0.9%	15.32
9,975,539	12,062,424	20.9%	Total Operating Expenses	13,231,789	9.7%	60.7%	1,029.55
			GENERAL & ADMIN EXPENSES				
1,552,107	1,549,179	-0.2%	Management Fee	1,795,882	15.9%	8.2%	139.74
536,764	608,314	13.3%	Corporate Services	697,045	14.6%	3.2%	54.24
63,486	75,629	19.1%	Accounting	77,998	3.1%	0.4%	6.07
246,044	300,802	22.3%	Administration	253,188	-15.8%	1.2%	19.70
63,772	78,974	23.8%	Training	81,443	3.1%	0.4%	6.34
118,919	140,655	18.3%	Human Resources	145,056	3.1%	0.7%	11.29
97,483	122,527	25.7%	Other Expenses	111,579	-8.9%	0.5%	8.68
33,165	29,496	-11.1%	Auditing	29,445	-0.2%	0.1%	2.29
548,883	575,814	4.9%	Membership Services	620,735	7.8%	2.8%	48.30
3,244,622	3,481,389	7.3%	Total General & Admin Expenses	3,812,371	9.51%	17.5%	296.64
5,331,748	3,078,794	-42.3%	Operating Income	4,766,054	54.8%	21.9%	370.84
			FINANCIAL EXPENSES/INCOME				
-163,204	-202,323	-24.0%	Interest Earned	-179,462	-11.3%	-0.8%	-13.96
328,745	352,588	7.3%	Credit Card Commission CSF	419,639	19.0%	1.9%	32.65
165,541	150,265	-9.2%	Total Financial Expenses/Income	240,177	59.8%	1.1%	18.69
5,166,207	2,928,529	-43.3%	Income before Taxes	4,525,877	54.5%	20.8%	352.15
			TAXES				
2,324,471	2,294,610	-1.3%	V. A. Tax	2,713,222	18.2%	12.4%	211.11
435,838	547,166	25.5%	Occupancy Tax	847,882	55.0%	3.9%	65.97
787,066	662,263	-15.9%	Income Tax & Others	978,974	47.8%	4.5%	76.17
163,857	186,711	13.9%	Property Tax & Other Exp.	207,361	11.1%	1.0%	16.13
3,711,233	3,690,750	-0.6%	Total Taxes	4,747,438	28.6%	21.8%	369.39
1,454,974	-762,221	-152%	Net Income	-221,561	70.9%	-1.0%	-17.24
	-2,676,863		Peso Exchange Adjustment				
1,454,974	-762,221	-152.4%	Net Income Operation	-221,561	70.9%	-1.0%	-17.24
-534,490	-540,515		Provision for Uncollectible Accounts	-911,845			-70.95
920,484	-1,302,736		Net Income after Provision	-1,133,406			-88.19
-669,000	-669,000		FF&E Provision	0			0.00
251,484	-1,971,736		Net Income after FF&E Provision	-1,133,406			-88.19
2,725,952	661,028		Accounting Reserve	-472,378			
535,522	1,245,257		Club Cash Reserve	358,937			
2,325,348	0		Hurricane Cash Reserve	0			
2,077,011	2,969,909		FF&E Cash Reserve	2,851,830			