

ANNUAL MEETING REPORT OF THE ROYAL HACIENDAS ADVISORY COUNCIL *October 21, 2015*

Advisory Council Members: John Lynne Hemenway, Elizabeth Horwin, Tomas Rother, John Williams, Paul Cochrane (alternate),

The annual meeting of the Advisory Council for The Royal Haciendas was held at the resort on Wednesday, October 21, 2015. Paul Cochrane took part in the meeting as Alternate for Richard Boyer.

Prior to the meeting, Council members toured the resort with Resort Manager Sandra Aguilar who pointed out projects that were authorized in 2014 and completed in 2015. These included the Phase I painting project and resurfacing two tennis courts. The third court may be turned into a multiple use court, a project still under review. As a result of termite damage, the hammock stand in Phase I was removed. The goal is to replace it with two lounge areas and Management is reviewing several proposals. The tour also included visits to the machine house, staff café and activities center. In the villa, Council members were able to see the new 40-inch TV in the living room and a sample bedroom cabinet refurbished to house 42-inch TVs.

After the tour, Council members met with Chief Financial Officer Fernando López, Vice President of Resort Operations Armando Millet and members of their staff. CFO López explained the 2015 financial statements in detail. The Income Statement Comparison accompanying this summary shows budgeted and actual (forecast) income and expenses as of September 30, 2015 with estimates to the end of the year. The 2016 budget was unanimously approved and is also shown.

In 2015, the performance of the exchange rate had a positive impact on resort operating expenses. However, as such variables are beyond the control of the administration and fluctuate during the year, Management will continue to budget conservatively.

The budget compilation process begins with preliminary budgets denominated in pesos submitted by each department to Operations Director Millet. Once approved, a collective budget is prepared and converted to US dollars using a projected average exchange rate. The 2015 budget was based on a projected average exchange rate of \$13.27/US\$. However, the actual average is approximately \$15.78/US\$, resulting in a currency exchange gain of US\$1,614,006.

Repairs and replacement items approved by Council in 2014 and completed in 2015 include:

Resort Improvements

- Paint villa building facades in Phase I of the resort
- Replacement of synthetic grass on two tennis courts
- Aluminum headstock and other metal alloys for reverse osmosis plant No. 2
- Installation of air-conditioning in guest elevator, Building D1
- Replacement of polished brass resort sign

Villa Improvements

- 97 LED 40" TVs
- Corrective maintenance in 10 villas
- Varnish closet doors in 25 villas
- Replacement of front doors in 40 villas
- Varnish interior doors in 25 villas
- Paint front doors in 25 villas
- IP for the telephone in 85 villas
- Repair superficial cracks in five villas

Fixed Assets and Major Repairs approved in the 2014 Budget and Additional Items authorized in 2015

- HD Signal Encoder for all 252 villas

- 158 42-inch TVs for 52 villas
- Gardening department nursery and soil storage area
- Two lifeguard lookout towers
- Three security cameras
- Seven additional beach palapas
- Three printers for the Front Desk
- Reupholstering lobby furniture
- Refurbishment of lounge furniture on Phase I terrace

APPROVED FOR 2016 Resort Improvements

- Paint villa building facades in Phase II
- Purchase and installation of two new boilers in the main machine house
- Leveling the slope of the Phase II pool bridge to improve access for physically challenged guests
- Repairs to champagne colored aluminum work in villa corridors
- Paint duct doors in villa corridors with epoxy paint, Phase I
- Two repair kits with different components for reverse osmosis plants 1 and 2

Villa Improvements

- 252 42-inch LED TVs
- Corrective maintenance in 10 villas
- Varnish for closet doors in 40 villas
- Varnish for interior doors in 40 villas
- Sheer curtains for 68 ground floor villas
- Varnish for front doors in 50 villas
- Repair of superficial cracks in five villas

In addition to these villa improvements, Council approved a proposal to put an amenity package in the units starting January 1, 2016. This will include a roll of paper towels, dishwashing liquid and a welcome pack of regular and decaf coffee in the kitchen and locally made Yucatan honey shampoo, conditioner and body lotion in the bathrooms.

The purchase of the amenities in member units is included in the Housekeeping Services budget and the Rental department will cover the cost of the package for units occupied by rental guests.

In the accompanying budget comparison, Total Operating Expenses for 2015 are 14.4 percent less than budgeted due to the exchange rate differential and savings obtained for some line items. In the case of electricity, the resort paid 34.7 percent less in 2015 as a result of lower energy rates and the exchange rate variation, representing savings of US\$500,000 for the resort. Housekeeping Services, Housekeeping Maintenance, Security, Sport Services and Social Activities all finished 2015 under budget.

The Courtesy Shuttle line item covers three of the scheduled journeys into Playa del Carmen, including two early evening services. Members and guests pay a small charge for all other scheduled services.

The Resort Insurance premium was adjusted in 2015, which accounts for the 32.9 percent increase in the amount paid for the year. Fixed Assets and Major Repairs were also over budget by 9.3 percent, due to additional projects and purchases. Savings were registered in the tennis court and Phase I painting projects and the purchase of the televisions for the guest bedrooms.

The 2016 budget shows increases for Housekeeping Services, which covers the hiring of additional staff and the villa amenity package. Municipal water and Sewage rates are

also expected to rise and have been budgeted accordingly.

As shown on the accompanying statement, The Royal Haciendas receives income from sources other than Club Service Fees. Interest earned on bank accounts, a fee for certain ISCO transactions, guest laundry services, late checkout fees, kitchen cleaning fees and other charges, and commissions on telephone use are credited to income accounts.

The Royal Haciendas has an anticipated Club Cash Reserve of US\$639,909 for 2015. A Hurricane Reserve has been established for the resort and appears in the 2015 financial statement for the first time. This is a policy already in practice at the other resorts and the goal is to reach US\$2,000,000. As of September 30, 2015, the resort's total net worth was US\$913,376.

A percentage of members are delinquent in their Club Service Fee and membership payments and the Resort has to make a provision for this cash shortfall when budgeting. The Non cash provision for Uncollectible Accounts for 2015 was US\$210,822 which was lower than budgeted due to a better rental performance and the Voluntary Turnover Program that offers members who are unable to make their payments the opportunity to relinquish their unit, which then becomes a company unit and may be rented or sold. The Developers pay the Club Service Fees for company units. Given the continuing success of the rental program, the Non cash provision for Uncollectible Accounts is even lower for 2016 at US\$56,421. Nevertheless, members who are in arrears are urged to fulfill their financial obligations.

After reviewing the budget, the Council voted unanimously to accept Management's proposal not to raise the Club Service Fee for 2016.

The Club Service Fee for 2016 will be US\$1,115.00 and US\$1,185.00 for the Deluxe Villas and the breakdown is as follows:

Villa	Flexivilla	Deluxe
CSF	936.97	995.80
VAT 16%	149.92	159.33
Occupancy tax 3%	28.11	9.87
CSF + Taxes	1,115.00	1,185.00
Suite		
CSF	609.24	647.06
VAT 16%	97.48	103.53
Occupancy tax 3%	18.28	19.41
CSF + Taxes	725.00	770.00
Room		
CSF	327.73	348.74
VAT 16%	52.44	55.80
Occupancy tax 3%	9.83	10.46
CSF + Taxes	390.00	415.00

In a private session, the Advisory Council chose Deborah Lee Buchma to take over from retiring member Richard Boyer.

In closing, the Advisory Council thanked management for maintaining The Royal Haciendas at the highest levels of excellence while keeping the Club Service Fee lower than similar resorts in the Riviera Maya and elsewhere. Council is confident that 2016 will be another successful year for The Royal Haciendas and Royal Resorts.

THE ROYAL HACIENDAS			NUMBER OF INTERVALS				12,852
Villa	Standard	Penthouse	INCOME STATEMENT COMPARISON BETWEEN 2015 AND 2016 (US Dlls.)	Villa	Standard	Penthouse	
Club Service Fee	\$937	\$996		Club Service Fee	\$937	\$996	
V.A Tax	\$150	\$159		V.A Tax	\$150	\$159	
Occupancy Tax	\$28	\$30		Occupancy Tax	\$28	\$30	
Total	\$1,115	\$1,185		Total	\$1,115	\$1,185	
2015		% DIF.	DESCRIPTION	2016	% DIF. VS. FORECAST '15	% Vert.	\$/INTVAL.
BUDGET	FORECAST			BUDGET			
GENERAL REVENUE							
13,942,141	13,860,287	-0.6%	Dues Income	13,945,164	0.6%	99.4%	1,085.06
16,200	22,850	41.1%	Other	16,200	-29.1%	0.1%	1.26
13,958,341	13,883,137	-0.5%	Subtotal	13,961,364	0.6%	99.5%	1,086.32
RESORT REVENUE							
40,707	30,659	-24.7%	Guest Laundry	33,836	10.4%	0.2%	2.63
36,184	95,369	163.6%	Other Income	30,076	-68.5%	0.2%	2.34
76,891	126,028	63.9%	Subtotal	63,912	-49.3%	0.5%	4.97
14,035,232	14,009,165	-0.2%	Total Revenue	14,025,275	0.1%	100.0%	1,091.29
RESORT OPERATING EXPENSES							
1,531,457	1,335,338	-12.8%	Housekeeping Services	1,401,986	5.0%	10.0%	109.09
600,827	518,420	-13.7%	Housekeeping Maintenance	516,429	-0.4%	3.7%	40.18
1,538,931	1,005,272	-34.7%	Electricity	1,009,524	0.4%	7.2%	78.55
1,682,275	1,557,314	-7.4%	Maintenance & Machine House	1,553,098	-0.3%	11.1%	120.84
264,453	245,384	-7.2%	Water & Sewage	269,011	9.6%	1.9%	20.93
647,447	549,151	-15.2%	Security	555,979	1.2%	4.0%	43.26
372,048	320,494	-13.9%	Front Desk	327,338	2.1%	2.3%	25.47
290,792	246,289	-15.3%	Int. & Guest Laundry	245,153	-0.5%	1.7%	19.08
502,455	549,287	9.3%	Fixed Assets & Major Repairs	579,531	5.5%	4.1%	45.09
191,491	164,847	-13.9%	Landscaping	162,979	-1.1%	1.2%	12.68
157,901	132,390	-16.2%	Sport Services	137,378	3.8%	1.0%	10.69
121,162	104,330	-13.9%	Telephone (Net Result)	100,379	-3.8%	0.7%	7.81
242,375	198,270	-18.2%	Social Activities	200,303	1.0%	1.4%	15.59
66,622	63,857	-4.2%	Operational Services	63,912	0.1%	0.5%	4.97
36,290	48,237	32.9%	Resort Insurance	37,595	-22.1%	0.3%	2.93
45,230	42,787	-5.4%	Courtesy Shuttle to Playa del Carmen	43,234	1.0%	0.3%	3.36
84,580	85,987	1.7%	High Speed Internet Connection	86,469	0.6%	0.6%	6.73
8,376,336	7,167,656	-14.4%	Total Operating Expenses	7,290,297	1.7%	52.0%	567.25
GENERAL & ADMIN EXPENSES							
1,191,020	1,186,368	-0.4%	Management Fee	1,191,274	0.4%	8.5%	92.69
536,332	466,144	-13.1%	Corporate Services	472,900	1.4%	3.4%	36.80
66,455	57,239	-13.9%	Accounting	58,193	1.7%	0.4%	4.53
203,854	150,165	-26.3%	Administration	151,794	1.1%	1.1%	11.81
74,916	55,002	-26.6%	Training	55,686	1.2%	0.4%	4.33
122,281	107,193	-12.3%	Human Resources	108,545	1.3%	0.8%	8.45
19,501	21,208	8.8%	Other Expenses	18,605	-12.3%	0.1%	1.45
26,590	24,909	-6.3%	Auditing	24,813	-0.4%	0.2%	1.93
422,001	408,874	-3.1%	Membership Services	437,454	7.0%	3.1%	34.04
2,662,951	2,477,102	-7.0%	Total General & Admin Expenses	2,519,264	1.7%	18.0%	196.02
2,995,945	4,364,407	45.7%	Operating Income	4,215,715	-3.4%	30.1%	328.02
FINANCIAL EXPENSES/INCOME							
-5,531	-4,809	13.0%	Interest Earned	-5,314	10%	0.0%	-0.41
117,935	119,387	1.2%	Credit Card Commission CSF	133,297	11.7%	1.0%	10.37
112,405	114,577	1.9%	Total Financial Expenses/Income	127,984	11.7%	0.9%	9.96
2,883,541	4,249,830	47.4%	Income Before Taxes	4,087,731	-3.8%	29.1%	318.06
TAXES							
1,711,109	1,681,351	-1.7%	V. A Tax	1,711,515	1.8%	12.2%	133.17
320,833	315,253	-1.7%	Occupancy Tax	320,909	1.8%	2.3%	24.97
50,840	459,886	804.6%	Income Tax & Others	398,412	-13.4%	2.8%	31.00
228,403	143,939	-37.0%	Property Tax & Other Exp.	182,868	27.0%	1.3%	14.23
2,311,184	2,600,429	12.5%	Total Taxes	2,613,705	0.5%	18.6%	203.37
572,356	1,649,400	188.2%	Net Income	1,474,026	-10.6%	10.5%	114.69
	1,618,805		Peso Exchange Adjustment				
572,356	30,595	-94.7%	Net Income Operation	1,474,026	4717.8%	10.5%	114.69
-241,466	-210,822		Provision for Uncollectible Accounts	-56,421			
330,890	1,438,578	334.8%	Net Income After Provision	1,417,605	-1.5%	10.1%	110.30
-1,655,741	-431,431		Accounting Reserve	986,174			
	1,600,000		Hurricane Reserve	1,600,000			
1,644,333	639,909		Club Cash Reserve	2,097,273			