

ANNUAL MEETING REPORT OF THE ROYAL SANDS

ADVISORY COUNCIL October 19, 2015

Members: Thomas Carroll, James W. Glennon, Ron Gross, Jefferson Snyder, Debbie Vergin

The annual meeting of the Advisory Council for The Royal Sands was held in Cancún on Monday, October 19, 2015. All Council members were present.

Prior to the meeting, Council members toured the resort in order to see projects that were completed in 2015. They inspected the model villa that has been renovated with the design concept selected for the Furniture Replacement Project (FF & E) and visited Housekeeping, the Resort Laundry, Staff Cafeteria, Training rooms, the Machine House and the solar panels on the rooftop.

After the tour, Council members met with Chief Financial Officer Fernando López, Vice President of Resort Operations Armando Millet and members of their staff in the boardroom at The Royal Sands. 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 departmental budgets denominated in pesos. 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\$1. However, the actual average is approximately \$15.78/US\$1, resulting in a currency exchange gain of US\$1,834,384.

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

Resort Improvements

- Upgrade of elevator systems in Buildings A and I
- Replacement of filling set for the cooling tower
- Spare parts for the Reverse Osmosis water purification plant
- Replacement sand filter in the swimming pools

Villa Improvements

- Corrective maintenance in 34 villas
- Replacement of aluminum doors in 10 villas
- Installation of smoke detectors in 170 villas (1/2)
- Replacement of marble floors with ceramic tiles in four villas
- Replacement of T-bars on the false ceilings in 12 villas
- Repair superficial wall cracks in six villas

Fixed Assets & Major Repairs approved in 2014 and additional items authorized in 2015

- Renovation of restroom
- Renovation of staff meeting room
- Gardening department storeroom
- Installation of CCTV in public areas

APPROVED FOR 2016

Resort Improvements

- Upgrade of electrical and traction systems for 1 elevator
- Repairs to the marble base for the resort sign at the entrance
- One new 7.5 HP grinder pump for the sumps
- One new waterfall effect pool pump for Phase 1 of the resort
- Wall enclosing the garden nursery and gas tank area
- Partial waterproofing for the cooling towers (92 square meters)
- Repairs to the dock at The Royal Sands Marina

Villa Improvements

- Corrective maintenance for 30 villas
- Replacement of aluminum sliding doors in 10 villas
- Replacement of T-bars on the false ceiling in 20 villas
- Replacement of marble floors with ceramic tiles in four villas
- Purchase of 120 bronze Mariner ceiling fans for villas
- Repair superficial cracks in six villas

Fixed Assets and Major Repairs authorized for 2015 and executed in 2016

- Installation of smoke detectors in 170 villas (2/2)

Furniture Refurbishment Project (FF & E)

During the meeting, the Advisory Council was informed about the Furniture Refurbishment Project, included in the income statement as the FF&E Cash Reserve. All 340 villas will be renovated over the next four years. The total cost for the project is US\$10 million and approximately US\$28,700 will be invested per unit.

A contemporary design concept in tones of beige and green with accents of aquamarine, jade and turquoise was selected. The walls will be repainted in soft grey and the furniture will be replaced in the living room, both bedrooms and on the terrace, along with curtains, cushions, bedspreads, lamps, art and a new wall mirror for the dining area. The kitchen and lock off kitchenette will have new quartz counters and a different covering for cabinet doors.

Given the excellent condition of the dining room furniture and the Murphy bed wall unit, it was decided to restyle them with new paint and upholstery for the chairs. By doing this, the resort will save several thousand dollars per villa in renovation costs.

The plan is to renovate 100 villas in 2016 and 80 units in 2017, 2018 and 2019, completing the program by the end of 2019. The number of units renovated each year is subject to occupancy.

Continuing with villa improvements, Council approved a Management proposal to add an amenity package to 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 18.5 percent less than budgeted, largely due to the exchange rate variation but with some departments registering savings. Housekeeping Services came in at 15.3 percent under budget as a result of a smaller than anticipated staff turnover and the cancellation of the termite control project. Housekeeping Maintenance, Maintenance and Machine House, Social Activities, Security, Resort Insurance and the Courtesy Shuttle also came in under budget. Savings were obtained in Fixed Assets and Major Repairs as a result of a better price quote for the purchase of the smoke detectors and because the upgrade to the elevator electrical system will be completed in 2016.

The resort paid 35.9 percent less than budgeted for Electricity in 2015 due to a reduction in the rate charged and the exchange rate variation. In contrast, Water and Sewage costs increased in 2015 as a result of higher municipal rates and the implementation of new sanitary norms that require resorts to change pool water more frequently.

The Total Operating Expenses budgeted for 2016 are not very different from the year-end forecast for 2015. Several line items do show increases and include

Housekeeping Services for hiring additional staff, the Courtesy Shuttle for the purchase of a new bus (shared cost), and Water and Sewage due to higher rates.

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

The Royal Sands has healthy finances with an anticipated Club Cash Reserve of US\$4,236,569, FF & E Cash Reserve of US\$2,448, 570, and a Hurricane Cash Reserve of US\$2,000,000 by the end of 2015. As of September 30, 2015, the resort's total net worth was US\$1,506,467.

The number of members who are delinquent in their Club Service Fee and membership payments has risen in recent years and the resort has to make a provision to cover the cash shortfall from unpaid annual dues when budgeting. In the past, units in arrears would go into the Forced Resale program but the significant growth in rental demand has helped some members who would otherwise have fallen behind with payments. As an alternative, the Voluntary Relinquishment Turnover program was implemented to recover units from Members who are not in good standing with their Club Service Fees and villa payments. They receive a repossession letter that they sign and their unit goes into company inventory. The Developer pays the Club Service Fees for company units. As a result of this program, the Non Cash provision for Uncollectible Accounts is set at US\$65,333 for 2016, which is lower than in 2015. 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\$1,037.00 and the breakdown is as follows:

90-44 days prior to Occupancy

	CSF	VAT 16%	Occupancy Tax 3%
Villa	871.43	139.43	26.14
Suite	566.39	90.62	16.99
Room	305.04	48.81	9.15

Total CSF + taxes:

Villa US\$1,037, Suite US\$674, Room US\$363

44-1 Days prior to Occupancy

	CSF	VAT 16%	Occupancy Tax 3%
Villa	884.03	141.45	26.52
Suite	578.99	92.64	17.37
Room	317.65	50.82	9.53

Total CSF + taxes:

Villa US\$1,052, Suite US\$689, Room US\$378

Occupancy

	CSF	VAT 16%	Occupancy Tax 3%
Villa	896.64	143.46	26.90
Suite	591.60	94.65	17.75
Room	330.25	52.84	9.91

Total CSF + taxes:

Villa US\$1,067, Suite US\$704, Room US\$393

In a private session, the Advisory Council chose Kenneth Moon to replace retiring member James W. Glennon.

In closing, the Advisory Council thanked management for maintaining The Royal Sands at the highest levels of excellence while keeping the Club Service Fee lower than similar resorts in Cancún and elsewhere.

THE ROYAL SANDS							NUMBER OF INTERVALS	17,340
Club Service Fee	\$872	INCOME STATEMENT COMPARISON BETWEEN 2015 AND 2016 (US Dlls.)					Club Service Fee	\$872
V.A. Tax	\$139						V.A. Tax	\$139
Occupancy Tax	\$26						Occupancy Tax	\$26
Total	\$1,037						Total	\$1,037
2015		% DIF.	DESCRIPTION	2016	% DIF. VS.	% Vert.	\$/INTVAL.	
BUDGET	FORECAST			BUDGET	FORECAST '15			
GENERAL REVENUE								
17,855,484	17,733,395	-0.7%	Dues Income	17,855,484	0.7%	99.6%	1,029.73	
25,414	32,888	29.4%	Other	25,414	-22.7%	0.1%	1.47	
17,880,899	17,766,283	-0.6%	Subtotal	17,880,899	0.6%	99.7%	1,031.19	
RESORT REVENUE								
49,753	45,825	-7.9%	Guest Laundry	41,355	-9.8%	0.2%	2.38	
16,735	110,698	561.5%	Other Income	13,910	-87.4%	0.1%	0.80	
66,488	156,523	135.4%	Subtotal	55,265	-64.7%	0.3%	3.19	
17,947,387	17,922,806	-0.1%	Total Revenue	17,936,164	0.1%	100.0%	1,034.38	
RESORT OPERATING EXPENSES								
1,825,472	1,545,294	-15.3%	Housekeeping Services	1,646,665	6.6%	9.2%	94.96	
846,933	700,698	-17.3%	Housekeeping Maintenance	723,903	3.3%	4.0%	41.75	
1,791,533	1,148,727	-35.9%	Electricity	1,165,963	1.5%	6.5%	67.24	
1,730,062	1,506,015	-13.0%	Maintenance & Machine House	1,523,699	1.2%	8.5%	87.87	
354,200	374,441	5.7%	Water & Sewage	402,377	7.5%	2.2%	23.21	
793,205	642,506	-19.0%	Security	640,973	-0.2%	3.6%	36.96	
587,355	481,230	-18.1%	Front Desk	479,850	-0.3%	2.7%	27.67	
384,974	314,464	-18.3%	Int. & Guest Laundry	297,816	-5.3%	1.7%	17.18	
582,086	464,518	-20.2%	Fixed Assets & Major Repairs	353,444	-23.9%	2.0%	20.38	
226,908	198,490	-12.5%	Landscaping	199,881	0.7%	1.1%	11.53	
121,167	135,195	11.6%	Sport Services	114,479	-15.3%	0.6%	6.60	
125,686	109,735	-12.7%	Telephone (Net Result)	116,688	6.3%	0.7%	6.73	
138,504	109,694	-20.8%	Social Activities	105,403	-3.9%	0.6%	6.08	
85,221	81,563	-4.3%	Operational Services	80,474	-1.3%	0.4%	4.64	
51,253	40,261	-21.4%	Resort Insurance	34,005	-15.5%	0.2%	1.96	
65,736	48,072	-26.9%	Courtesy Shuttle	66,414	38.2%	0.4%	3.83	
136,876	123,441	-9.8%	High Speed WiFi in Villas	122,560	-0.7%	0.7%	7.07	
9,847,171	8,024,346	-18.5%	Total Operating Expenses	8,074,594	0.6%	45.0%	465.66	
GENERAL & ADMIN EXPENSES								
1,511,491	1,497,096	-1.0%	Management Fee	1,498,365	0.1%	8.4%	86.41	
773,043	634,768	-17.9%	Corporate Services	645,050	1.6%	3.6%	37.20	
150,851	122,510	-18.8%	Accounting	124,271	1.4%	0.7%	7.17	
165,726	131,674	-20.5%	Administration	135,489	2.9%	0.8%	7.81	
43,451	30,275	-30.3%	Training	30,750	1.6%	0.2%	1.77	
96,856	86,525	-10.7%	Human Resources	85,629	-1.0%	0.5%	4.94	
30,656	30,664	0.0%	Other Expenses	26,007	-15.2%	0.1%	1.50	
31,056	23,472	-24.4%	Auditing	24,004	2.3%	0.1%	1.38	
557,324	519,578	-6.8%	Membership Services	541,528	4.2%	3.0%	31.23	
3,360,453	3,076,562	-8.4%	Total General & Admin Expenses	3,111,094	1.1%	17.3%	179.42	
4,739,764	6,821,898	43.9%	Operating Income	6,750,476	-1.0%	37.6%	389.30	
FINANCIAL EXPENSES/INCOME								
-22,781	-13,784	-39.5%	Interest Earned	-18,086	31.2%	-0.1%	-1.04	
151,999	154,364	1.6%	Credit Card Commission CSF	180,311	16.8%	1.0%	10.40	
129,218	140,580	8.8%	Total Financial Expenses/Income	162,225	15.4%	0.9%	9.36	
4,610,546	6,681,318	44.9%	Income Before Taxes	6,588,251	-1.4%	36.7%	379.95	
TAXES								
2,418,385	2,326,260	-3.8%	V.A. Tax	2,418,385	4.0%	13.5%	139.47	
453,447	436,174	-3.8%	Occupancy Tax	453,447	4.0%	2.5%	26.15	
451,534	1,194,619	164.6%	Income Tax & Others	926,497	-22.4%	5.2%	53.43	
273,489	244,766	-10.5%	Property Tax & Other Exp.	268,607	9.7%	1.5%	15.49	
3,596,855	4,201,819	16.8%	Total Taxes	4,066,937	-3.2%	22.7%	234.54	
1,013,691	2,479,499	144.6%	Net Income	2,521,314	1.7%	14.1%	145.40	
	1,834,384		Peso Exchange Adjustment					
1,013,691	645,115	-36.4%	Net Income Operation	2,521,314	290.8%	14.1%	145.40	
(143,156)	(243,925)		Provision for Uncollectible Accounts	(65,333)				
870,534	2,235,574		Net Income After Provision	2,455,982				
850,000	849,998		FF&E Provision	1,850,000				
20,534	1,385,576		Net Income After FF&E Provision	605,982				
2,638,339	2,080,473		Accounting Reserves	2,686,454				
2,000,175	2,000,000		Hurricane Cash Reserve	2,500,000				
2,085,353	4,236,569		Club Cash Reserve	4,712,972				
1,600,000	2,448,570		FF&E Cash Reserve	2,198,570				