Sagicor Real Estate X Fund Limited

REPORT TO OUR STOCKHOLDERS

Our Q3 2016 Performance

Sagicor

REAL ESTATE X FUND

DIRECTORS' REPORT

On behalf of the Board of Directors of Sagicor Real Estate X Fund Limited (X Fund or the Group) we are pleased to report the financial results of the Group for the nine months ended 30 September 2016.

Overview

For the nine months ended 30 September 2016, X Fund reported consolidated net profit of $1.69 billion (Q3 2015 - $1.04 billion). This performance was primarily due to:

- Net profit from our direct hotel operations of $513 million. Revenue from these operations grew by $1.77 billion to $6.67 billion at September 2016, up from $4.90 billion at Q2 2016; and
- Net gain attributable to investment in Sigma Real Estate Portfolio of $1.16 billion.

Our hotel operation is comprised of two hotels directly owned by the Group; the Hilton Rose Hall Resort and Spa (Hilton Rose Hall) and DoubleTree Universal in Orlando, Florida (DoubleTree). We acquired the 489 room Hilton Rose Hall effective January 2015 and the 742 room DoubleTree in September 2015. Both hotels have shown positive performance to date, with Hilton Rose Hall generating net profit of $391 million and DoubleTree $122 million to 30 September 2016. Earnings before Interest Tax Depreciation and Amortization (EBITDA) was $1.65 billion.

The Group also held a 48% interest in the Sigma Real Estate Portfolio (the Sigma Portfolio), down from 50% at Q2 2016. The Sigma Portfolio has property investments in the tourism sector through ownership of three Jewel Resorts branded hotels; and the real estate sector by owning several office/retail shopping buildings, industrial/warehousing properties and prime land holdings slated for development. The net earnings in the Sigma Portfolio, which forms the basis for appreciation of the Sigma Portfolio unit values, was based on 2016 revenue of $7.68 billion – of which $5.52 billion was earned by the Jewel hotels, with property revaluation of $1.13 billion. EBITDA was $2.80 billion and net profit of $2.49 billion. Additional property revaluation recognized by the Sigma Portfolio in reserves was $1.60 billion.

The Group's performance was $650 million or 63% higher when compared with Q3 2015 and was attributable to:

- Appreciation of the units in the Sigma Portfolio of $2.02 billion, which was $1 billion higher than 2015. This was mostly due to our 48% share of the property revaluation in 2016; as net profits earned by the Sigma Portfolio (before revaluation gain) was $1.36 billion (2015 - $1.31 billion).
- EBITDA from our direct hotels (adjusted also for FX losses and revaluation loss on loans) was $1.65 billion (Q3 2015 - $1.04 billion). DoubleTree accounted for $626 million of the 2016 EBITDA. This hotel was acquired in September 2015 and hence was a small portion of Q3 2015 results.
- Foreign currency devaluation on US dollar denominated loans was $401 million; Q3 2015 - $257 million. The Jamaican dollar depreciated by 6.58% relative to the US dollar for the nine months to 30 September, 2016, with only a 3.78% for the similar period in 2015.
- Interest expense, depreciation and taxation of $1.59 billion was $778 million higher than Q2 2015 ($816 million) and reflected borrowings to finance the purchase of the DoubleTree and additional units in the Sigma Portfolio; depreciation of the DoubleTree property and taxation of the earnings from these new investments.
- Revaluation of loans issued at discount in 2016 of $85 million. This is a one-off charge recognized on issue of the loans.

Earnings per stock unit (EPS) was $0.75 (Q3 2015 - $0.63) and return on average Stockholders' Equity (ROE) was 13.62% (Q3 2015 – 11.19%, December 2015 - 10.38%). In addition to the net profit, these performance ratios were impacted by more ordinary shares in issue. In September 2015, a rights issue grew stockholders' equity by $5.2 billion, with the number of stock units increasing from 1,495,336,750 to 2,243,005,125. The weighted average number of shares for EPS was 2,243,005,125 (30 September 2015 – 1,630,568,931).

HIGHLIGHTS

	Sept 2016 YTD Unaudited	Sept 2015 YTD Unaudited	% Change
Total Revenue - J$ million	8,301.1	4,363.4	90%
Earnings before interest tax depreciation and amortization (EBITDA) - J$ million	3,279.8	1,851.1	77%
Net Profit attributable to stockholders – J$ million	1,685.4	1,035.2	63%
Earnings per stock unit –J$	0.75	0.63	19%
Annualized return on average Stockholders' Equity (ROE)	13.62%	11.19%	22%
Total Assets – J$ billion	40.399	32.849	23%
Stockholders' Equity J$ billion	17.340	15.331	13%
Book value per share – J$	7.73	6.84	13%
JSE X Fund share price – J$	10.23	7.50	36%

SIGMA REAL ESTATE PORTFOLIO

	Revenue $M	EBITDA $M	Net Income $M
Hotel sector	5,517	1,180	1,034
Non-hotel properties	407	289	289
Other *	1,757	1,329	1,167
Total	7,681	2,798	2,490

* Includes unrealized property revaluation gains of $1.129 billion in net income. An additional $1.6 billion is credited to reserves.

TABLE OF NET PROFIT BY SEGMENT

	Sept 2016 Unaudited $M	Sept 2015 Unaudited $M
Hotel Operations	513	428
Sigma Real Estate Portfolio	1,156	599
Other	16	8

Financial Performance

Operations and Cash Flows

Consolidated revenue was $8.3 billion, up from $5.7 billion at Q2 2016 and $3.94 billion (90%) higher than Q3 2015. This reflected strong revenue from the Hilton Rose Hall of $3.88 billion (Q3 2015 - $3.46 billion) as tourist arrivals have improved over 2015; and from DoubleTree of $2.84 billion (Q3 2015 - $140 million). Capital gains from investment in the Sigma Portfolio were $2.02 billion, 101% above 2015 -$1.0 billion, with foreign exchange losses on US dollar denominated loans of $401 million and revaluation of loans issued at discount in 2016 of $85 million.

Group Interest income contributed $35.4 million (Q3 2015 - $14 million) to revenue and net profit.

Consolidated net profit attributable to stockholders was $1.69 billion, after reflecting hotel operating expenses of

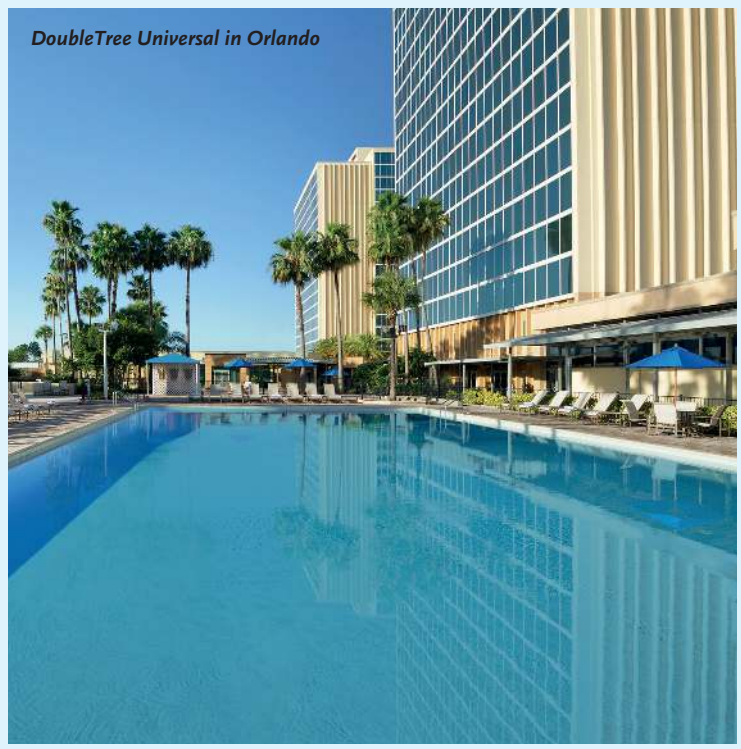
UP **90%** Total Revenue

UP **63%** Net Profit Attributable to Stockholders

UP **23%** Total Assets

UP **13%** Stockholders' Equity

Hilton Rose Hall Resort & Spa



DoubleTree Universal in Orlando

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$5.0 billion, depreciation of $358 million, interest expenses of $956 million, other expenses of $19 million and taxation of $280 million. Net profit at the end of Q3 2015 was $1.04 billion.

The Group generated cash of $1.91 billion from its operating activities (Q3 2015 - $1.19 billion). As at 30 September 2016, the Group had cash and cash equivalents of $717 million, down from $1.28 billion at 30 June 2016 and $1.07 billion at 31 December 2015. Cash inflow from borrowings in Q1 2016 of $3.66 billion, along with cash from operating activities, were used to acquire additional units in the Sigma Portfolio and to pay deposit towards the purchase of Palmyra. Cash and cash equivalents excluded restricted cash of $1.34 billion held for the renovation of the DoubleTree.

Balance Sheet

The Group's total assets grew by $6.54 billion to $40.40 billion at the end of September 2016, up from $33.86 billion as at 31 December 2015 (30 September 2015 - $32.85 billion). This growth of 19% reflected the appreciation of units in the Sigma Real Estate Portfolio, investment of net borrowings and cash inflow from operating activities. Total borrowings at September 2016 stood at $21.69 billion, up from $17.07 billion as at 31 December 2015 and $16.55 billion as at 30 September 2015.

Total Stockholders' Equity as at 30 September 2016 was $17.34 billion compared to $15.65 billion as at 31 December 2015 and $15.33 billion as at 30 September 2015. Net earnings less dividend paid of $314 million and currency translation reserve of $322 million attributed to the increase in Equity. Market capitalization at 30 September 2016 and 31 December 2015 were $22.95 billion and $24.67 billion, respectively, due to market prices.

Market Dynamics

Tourism Sector

Data published by the Jamaica Tourist Board (JTB), revealed higher stopover arrivals for the period January to August of Current Year 2016. For the reporting period arrivals amounted to 1,532,272, an increase of 2.4%, relative to the 1,496,899 recorded for the similar period of 2015. The performance was largely attributable to the steady growth in arrivals from USA and Europe markets. Arrivals from the US market grew by 4.9% to 1,007,941 visitors compared to the 960,505 visitors during the same period in 2015. Similarly arrivals from European market grew by 4.9% to 195,596 relative to 186,412 in 2015. Despite the growth trend in stopover arrivals, the Canadian market recorded a decline of 8.2% to 255,414 visitors. North America (USA and Canada) continues to be the major source market, accounting for over 80% of the stop over arrivals.

For the quarter ending June 2016, Real Value Added for the Hotels & Restaurants industry grew by 1.6% largely reflecting increased stopover arrivals. This is supported by the visitor expenditure of US$595.1 million which grew by 4.1% relative to the similar period of 2015. This increasing trend for the sector is expected to continue during 2016. The growth is predicated on higher stopover arrivals, which are primarily associated with an increase in the frequency of flights; the addition of new flights from the USA and Europe; and the utilization of larger aircrafts by some airlines.

Commercial Sector

The performance of the construction sector is used as a gauge for assessing activities in the real estate sector. For Q2 2016, the construction sector of the economy grew by 0.4%. This is primarily attributable to higher levels of construction activities associated with new hotel construction and expansion works; and the construction of new office space to facilitate the expansion of Business Process Outsourcing (BPO) activities. The importance of the BPO sector has been increasing as it continues to contribute positively to economic activities. The Planning Institute of Jamaica has projected the sector to grow by 1.5% in Financial Year 2016/17.

Corporate Social Activities

During the period to September 2016, our hotels participated in several Environmental Awareness Programmes, which included International Coastal Clean Up Day, Earth Day, Nuh Dutty Up Jamaica and the Plastic Bottle "Bakkle Drive" Competition. These allowed our staff members to engage in tree planting, cleaning of the reef and collection of plastic bottles.

We also continued our support within the communities, with visits to the Falmouth and St. Ann's Infirmaries and Bloom Gardens Child Care in Montego Bay, where residents were fed and given care packages. In addition, the Salem Basic School was painted and cleaned up.

Outlook

Both X Fund and Sigma Real Estate Portfolio continue to actively seek viable investments in tourism and commercial real estate. As world tourism rebounds, the Caribbean and Jamaican travel markets have done well, and is expected to continue in the near to medium term. The Financial Year 2016 will reflect a full year's performance for the DoubleTree, which we acquired in September 2015, as well as improved performance from the newly renovated properties – Jewel Runaway Bay, Jewel Paradise Cove and Hilton Rose Hall.

We thank our stakeholders for the confidence they have shown in us, as we commit to serve you with professionalism and excellent customer service.

On behalf of The Board of Directors:

RICHARD BYLES
Chairman

ROHAN MILLER
Chief Executive Officer

7 November 2016

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (BALANCE SHEET)

As at 30 September 2016
(Expressed in thousands of Jamaican dollars)

	September 2016 Unaudited	September 2015 Unaudited	December 2015 Audited
NON-CURRENT ASSETS:			
Property plant and equipment	20,985,414	19,095,895	19,395,729
Investment in Sigma Real Estate Portfolio	15,427,760	10,404,555	10,726,225
Financial investments	221,334	104,680	105,650
	36,634,508	29,605,130	30,227,604
CURRENT ASSETS:			
Inventories	97,211	116,688	98,005
Receivables	1,615,041	551,684	698,904
Securities purchased under agreement to resell	-	486,324	438,507
Short term deposits	234,233	-	-
Cash resources	1,817,764	2,089,279	2,396,101
	3,764,249	3,243,975	3,631,517
CURRENT LIABILITIES:			
Bank overdraft	-	-	36
Payables	915,972	802,610	954,275
Borrowings	290,894	5,216,460	5,422,647
Taxation payable	17,902	48	48
	1,224,768	6,019,118	6,377,006
NET CURRENT (LIABILITIES)/ASSETS	2,539,481	(2,775,143)	(2,745,489)
NET ASSETS	**39,173,989**	**26,829,987**	**27,482,115**
STOCKHOLDERS' EQUITY:			
Equity attributable to stockholders of the company			
Share capital	12,642,512	12,642,512	12,642,512
Currency translation reserve	404,753	29,315	82,684
Retained earnings	4,293,173	2,659,524	2,921,769
Total Equity	17,340,438	15,331,351	15,646,965
NON-CURRENT LIABILITIES:			
Borrowings	21,400,706	11,333,306	11,648,564
Deferred income taxes	432,845	165,330	186,586
	21,833,551	11,498,636	11,835,150
STOCKHOLDERS' EQUITY AND NON-CURRENT LIABILITIES	**39,173,989**	**26,829,987**	**27,482,115**

Richard Byles
Chairman
7 November 2016

Rohan Miller
Director & CEO

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the nine months ended 30 September 2016
(Expressed in thousands of Jamaican dollars)

	September 2016 Quarter Unaudited	September 2015 Quarter Unaudited	September 2016 Year-to date Unaudited	September 2015 Year-to-date Unaudited	December 2015 Year-to date Audited
Revenue:					
Interest income	7,644	5,299	35,413	13,994	19,435
Net capital gains on financial assets and liabilities	810,533	279,211	1,538,868	746,266	1,022,176
Hotel revenue	1,782,869	1,253,343	6,726,817	3,603,189	5,570,529
Total revenue	**2,601,046**	**1,537,853**	**8,301,098**	**4,363,449**	**6,612,140**
Expenses:					
Hotel expenses	1,565,492	988,123	5,002,655	2,509,193	4,107,226
Depreciation	122,176	64,355	358,205	156,919	270,003
Interest and other financing costs	340,006	130,161	956,159	512,476	764,089
Other operating expenses	4,486	1,382	18,669	3,168	5,673
Total expenses	**2,032,160**	**1,184,021**	**6,335,688**	**3,181,756**	**5,146,991**
Profit before Taxation	568,886	353,832	1,965,410	1,181,693	1,465,149
Taxation	(7,419)	(4,438)	(279,985)	(146,543)	(167,754)
NET PROFIT	**561,467**	**349,394**	**1,685,425**	**1,035,150**	**1,297,395**
Other comprehensive income:					
Re-translation of foreign operation	62,781	29,315	322,069	29,315	82,684
Total other income recognised directly in Stockholders' equity	62,781	29,315	322,069	29,315	82,684
TOTAL COMPREHENSIVE INCOME	**624,248**	**378,709**	**2,007,494**	**1,064,465**	**1,380,079**
Earnings per stock unit for profit attributable to stockholders of the parent company:					
Basic and Fully diluted (originally reported)	$0.25	$0.17	$0.75	$0.63	$0.75

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the nine months ended 30 September 2016
(Expressed in thousands of Jamaican dollars)

	Share Capital	Currency Translation Reserve	Retained Earnings	Total Stockholders' Equity
Period ended 30 September 2016				
Balance as at 31 December 2015	12,642,512	82,684	2,921,769	15,646,965
Currency reserve	-	322,069	-	322,069
Net Profit	-	-	1,685,425	1,685,425
Dividend declared	-	-	(314,021)	(314,021)
Balance as at 30 September 2016	**12,642,512**	**404,753**	**4,293,173**	**17,340,438**
Period ended 30 September 2015				
Balance as at 31 December 2014	7,476,016	-	1,863,628	9,339,644
Ordinary shares issued	5,166,496	-	-	5,166,496
Currency reserve	-	29,315	-	29,315
Net Profit	-	-	1,035,150	1,035,150
Dividend declared and paid	-	-	(239,254)	(239,254)
Balance as at 30 September 2015	**12,642,512**	**29,315**	**2,659,524**	**15,331,351**

CONSOLIDATED STATEMENT OF CASH FLOWS

For the nine months ended 30 September 2016
(Expressed in thousands of Jamaican dollars)

	September 2016 Unaudited	September 2015 Unaudited	December 2015 Audited
Cash Flows from Operating Activities:			
Net Profit	1,685,425	1,035,150	1,297,395
Adjustments for:			
Items not affecting cash:			
Depreciation	358,205	156,919	270,003
Interest income	(35,413)	(13,994)	(19,435)
Interest expense	956,159	512,476	764,089
Income tax expense	279,985	146,543	167,754
Gain on disposal of property, plant and equipment	(499)	-	(2,048)
Effect of exchange losses/(gains) on foreign currency balances	492,595	223,423	301,026
Fair value gain on units held in Sagicor Sigma Funds	(2,015,411)	(1,001,361)	(1,323,031)
Fair value gain on other financial investments	(9,755)	(1,961)	(1,388)
Fair value loss on loan payable	84,689	-	-
	1,795,980	1,057,195	1,454,365
Changes in other operating assets and liabilities:			
Accounts receivable	155,007	(551,684)	(532,668)
Inventories	794	(116,688)	(98,005)
Accounts payable	(21,654)	802,610	954,275
Taxation paid	(19,261)	(60)	(60)
Net cash provided by operating activities	1,910,866	1,191,373	1,777,907
Cash Flows from Investing Activities:			
Purchase of property, plant and equipment	(1,350,747)	(435,852)	(868,756)
Acquisition of hotels, net of cash acquired	-	(16,915,281)	(16,915,281)
Deposit on purchase of hotel and real property	(1,058,352)	-	-
Restricted cash	430,389	(1,671,784)	(1,656,597)
Purchase of investments	(3,876,679)	(5,783,727)	(6,050,923)
Sale of investments	1,089,454	8,130,627	8,553,905
Interest income received	32,735	11,880	15,483
Net cash used in investing activities	(4,733,200)	(16,664,137)	(16,922,169)
Cash Flows from Financing activities:			
Borrowings, net	3,659,546	11,416,475	11,611,016
Ordinary shares issued	-	5,166,496	5,166,496
Dividends paid	(314,021)	(239,254)	(239,254)
Interest expense paid	(892,082)	(400,811)	(564,715)
Net cash provided by financing activities	2,453,443	15,942,906	15,973,543
Effect of exchange rate on cash and cash equivalents	14,492	1,188	1,219
Cash and cash equivalents at beginning of year	1,071,135	240,635	240,635
Cash and cash equivalents at end of year	**716,736**	**711,965**	**1,071,135**
Comprised of:			
Bank overdraft	-	-	(36)
Cash and bank	482,503	417,495	739,504
Short term deposits	234,233	-	-
Securities purchased under agreement to resell	-	**294,470**	331,667
	716,736	**711,965**	**1,071,135**

CONSOLIDATED SEGMENTAL FINANCIAL INFORMATION

For the nine months ended 30 September 2016
(Expressed in thousands of Jamaican dollars)

Operating results:	Hotel Operations	Sigma Real Estate Portfolio	Other	Eliminations	September 2016 Unaudited
External revenues	6,754,540	2,015,411	7,690	-	8,777,641
Net capital gains/(losses) on financial assets and liabilities	(85,158)	(400,043)	8,658	-	(476,543)
Total revenue	6,669,382	1,615,368	16,348	-	8,301,098
Operating expenses	(5,021,324)	-	-	-	(5,021,324)
Depreciation	(358,205)	-	-	-	(358,205)
Finance costs	(560,551)	(395,608)	-	-	(956,159)
Profit before taxation	729,302	1,219,760	16,348	-	1,965,410
Taxation	(216,116)	(63,706)	(163)	-	(279,985)
Net profit	513,186	1,156,054	16,185	-	1,685,425
Segment assets:					
Total assets	24,962,847	15,427,760	102,712	(94,562)	40,398,757
Segment liabilities:					
Total liabilities	13,616,726	9,441,341	94,814	(94,562)	23,058,319
Deferred income taxes	342,201	90,392	252	-	432,845
Other Segment items:					
Capital expenditure: Property, plant and equipment					1,350,747

Geographical Information	Jamaica	United States of America	Total
Revenue	5,457,840	2,843,258	8,301,098
Total Assets	28,291,603	12,107,154	40,398,757

Operating results:	Hotel Operations	Sigma Real Estate Portfolio	Other	Eliminations	September 2015 Unaudited
External revenues	3,611,139	1,001,361	6,044	-	4,618,544
Net capital gains/(losses) on financial assets and liabilities	(62,200)	(195,062)	2,167	-	(255,095)
Total revenue	3,548,939	806,299	8,211	-	4,363,449
Operating expenses	(2,512,361)	-	-	-	(2,512,361)
Depreciation	(156,919)	-	-	-	(156,919)
Finance costs	(310,919)	(201,557)	-	-	(512,476)
Profit before taxation	568,740	604,742	8,211	-	1,181,693
Taxation	(140,431)	(6,030)	(82)	-	(146,543)
Net profit	428,309	598,712	8,129	-	1,035,150
Segment assets:					
Total assets	22,371,073	10,404,555	370,565	(297,088)	32,849,105
Segment liabilities:					
Total liabilities	12,450,022	5,067,650	297,170	(297,088)	17,517,754
Deferred income taxes	140,423	24,825	82	-	165,330
Other Segment items:					
Capital expenditure: Property, plant and equipment					435,852

Geographical Information	Jamaica	United States of America	Total
Revenue	4,223,833	139,616	4,363,449
Total Assets	21,862,256	10,986,849	32,849,105

Explanatory Notes

Identification

The Sagicor Real Estate X Fund Limited (X Fund), the Company, is incorporated as an international business company under the International Business Companies Act, 1999 (as amended) of Saint Lucia. The X Fund is 52.1% owned by the Sagicor Pooled Pension Investment Funds, which are administered by Sagicor Life Jamaica Limited. The other significant shareholders in X Fund are Sagicor Group Jamaica Limited - 21.1% and Sagicor Real Estate Fund with 8.2%

The Company is the parent of X Fund Properties Limited, a wholly owned subsidiary incorporated and domiciled in Jamaica. X Fund Properties Limited, is the parent of X Fund Properties LLC, a subsidiary incorporated and domiciled in Delaware, USA.

Basis of preparation

These condensed financial statements have been prepared in conformity with International Financial Reporting Standards (IFRS) and the accounting policies as set out in note 2 of the December 31, 2015 audited financial statements.