

Sagicor Real Estate X Fund Limited

REPORT TO OUR STOCKHOLDERS

2019 Performance



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 on the performance of our Group of companies for the year ended December 2019.

OVERVIEW

The Group generated net loss attributable to stockholders of \$38.31 million compared to a net profit of \$154.35 million reported for prior year. However, profit before tax was much stronger in current year at \$258.15 million versus \$163.57 million in prior year. The primary factors driving the outcome are:

1. The performance of the hotels which were directly owned for January to May 2018 produced better results than our share of earnings from investment in Playa Hotels & Resorts N. V. (Playa) since disposal and into 2019.
2. The prior year's results include a one-time gain of \$367 million stemming from the sale of the Jewel hotels.
3. The current year numbers include a tax charge of \$200 million on dividends repatriated from DoubleTree by Hilton (DoubleTree) to its immediate parent, X Fund Properties Limited.

4. Unrealised capital gains from revaluation of the Jewel Grande Montego Bay (JGM) property were much higher in 2019.

Net profit attributable to stockholders for Q4 2019 was \$25.98 million, an improvement over the same period last year. The results for both quarters were impacted by losses reported by Playa.

Total comprehensive income attributable to stockholders of the company for the period was \$487.25 million, compared to \$2.36 billion for the similar period last year, influenced mainly by lower unrealised capital gains on the DoubleTree property which was partially offset by positive movement in the exchange rate on our foreign operations.

Earnings per stock unit (EPS) attributable to stockholders of X Fund was a loss of -\$0.02 (2018: profit of \$0.07) and the return on average Stockholders' Equity (ROE) on an annualized basis was -0.15% (December 2018: 0.65%).

EARNINGS

Group total revenue for the full year was \$6.30 billion, down 28% from the \$8.81 billion recorded for 2018. This is as a result of the change in the business model, with the sale of the hotels last year where the discontinued operations contributed revenues of \$2.72 billion and the gain on the sale of the hotels. The net profits from our direct hotel operations

HIGHLIGHTS

	Dec-19 YTD Audited	Dec-18 YTD Audited	% Change
Total Revenue - J\$ million	6,298.39	8,807.51	-28%
Earnings before interest, tax, depreciation and amortisation (EBITDA) J\$ million	1,679.63	2,124.08	-21%
Earnings before tax (EBT) J\$ million	258.15	163.57	58%
Net (Loss)/ Profit attributable to stockholders - J\$ million	(38.31)	154.35	-125%
Earnings per stock unit -J\$	(0.02)	0.07	-129%
Annualized return on average Stockholders' Equity (ROE)	(0.15%)	0.65%	-123%
Total Assets - J\$ billion	49.22	48.80	1%
Stockholders' Equity J\$ billion	25.54	25.05	2%
JSE X Fund share price - J\$	10.00	14.07	-29%
Market capitalisation - J\$ billion	22.43	31.56	-29%

segment reflects this reduction, as this segment now comprises of DoubleTree and part of JGM only.

The Group's indirect hotel and commercial operations comprise of investments in Jamziv Mobay Jamaica Portfolio Limited (Jamziv) and units in Sigma Real Estate Fund. This segment mainly reflects the share of profits from associate and capital appreciation from Sigma Units in the current year. X Fund, through Jamziv holds 60.81% of the 20,000,000 Playa shares and 402 million units or a 3% interest in the Sigma Real Estate Fund.

X FUND NET PROFIT/(LOSS) BY SEGMENT

	December 2019 Audited \$M	December 2018 Audited \$M
Direct Hotel Operations	244	468
Indirect Hotel & Commercial Operations	(147)	(607)
Other	(175)	139
NET PROFIT (before NCI)	(78)	-

\$6.30B
Total Revenue

\$25.54B
Stockholders' Equity

\$49.22B
Total Assets

\$22.43B
Market Capitalisation

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The X Fund has 57% of its assets invested in Playa, in pursuit of our strategy to diversify our hospitality sector risk by participating in a larger number of resorts and geographical markets in Jamaica, Mexico, and the Dominican Republic. Playa's commitment to expansion through brand affiliations and strategic alliances, such as Hilton and Hyatt, as well as property acquisitions and developments have contributed to its performance.

THE HOTELS

- Jamziv, which holds the Playa shares, reported share of loss from associate of \$98.66 million, much better results than the loss of \$393.89 million in the previous year. Playa produced full year earnings of US\$18.98 million or J\$2.44 billion in prior year. The share of loss in prior year was based on earnings from acquisition date of July 2018 to December 2018, while Playa's performance is usually stronger during the earlier part of the year. For current year, Playa generated net loss of US\$4.85 million or J\$643.67 million, due to a combination of factors including an impairment charge of US\$6.17 million or J\$818.34 million on goodwill on the Panama Jack Playa del Carmen reporting unit.
- JGM recorded a profit for the year ended December 31, 2019, contributing

net income of \$9.76 million to X Fund, compared to a loss of \$368.14 million in the prior year. JGM generated profits for the first time since it began operations in 2017. Playa assumed management of the property in June 2018 under a management contract, while we continued to build-out the operations of the property. Consequently, occupancy levels have risen with the full year occupancy level being 67.1% compared to 29.28% for the same period last year.

- DoubleTree by Hilton had a good year, having benefited from strong last quarter earnings. The company continues to operate better than comparable properties in the Orlando, Florida market with high occupancy levels in excess of 91% full year. The average daily rate however declined marginally by 1.92%, in keeping with the market conditions. Hotel revenues for DoubleTree were \$5.27 billion, with Earnings before Interest, Tax, Depreciation and Amortization (EBITDA) of \$1.47 billion, and net income for the year of \$277.04 million. For the same period in 2018, net profit was higher at \$469.14 million, from revenues of \$5.21 billion and EBITDA of \$1.59 billion.

OTHER ITEMS

- Interest and other financing costs were lower by \$500.60 million, as cash

proceeds from the sale of Hilton Rose Hall Resort & Spa and a part of JGM were used to pay-down borrowings and other obligations in June 2018.

- The portion of the JGM owned by X-Fund Properties is carried as investment property and recorded unrealised capital gains of \$111.23 million. This is significantly higher than the \$8.77 million gains in prior year.

Cash Flows

The Group generated cash of \$1.62 billion from its operating activities (December 31, 2018: \$1.05 billion). As at December 31, 2019, the Group had cash and cash equivalents of \$1.76 billion, up from the amount of \$1.48 billion as at December 31, 2018. The liquidity levels for the Group remain strong. Cash and cash equivalents exclude restricted cash of \$403.85 million.

Balance Sheet

The Group's total assets of \$49.22 billion at December 2019 increased by 1% over December 2018. Total Stockholders' Equity as at December 2019 was \$25.54 billion, up 1.96% from \$25.05 billion as at December 2018. Market capitalization at December 31, 2019 was \$22.43 billion, compared to \$31.56 billion at December 2018 due to reduction in the share price.

OUTLOOK

The COVID-19 pandemic has negatively impacted hospitality, airlines and other related sectors. Our local hotel operation closed in March 2020, while our partner, Playa Hotels & Resorts N. V. has also closed some of its operations both locally and overseas. DoubleTree remains opened but is experiencing some cancellations. This virus is a global crisis and we continue to closely monitor the situation. We remain hopeful that our business activities will quickly rebound in the latter part of the year.

We thank our stakeholders for the confidence they continue to show in us.

On behalf of The Board of Directors:

CHRISTOPHER ZACCA
Chairman

BRUCE JAMES
Director

09 April 2020

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As At 31 December 2019
(Expressed in thousands of Jamaican dollars)

	December 2019 Audited	December 2018 Audited
NON-CURRENT ASSETS:		
Property plant and equipment	14,858,281	14,766,405
Goodwill	923	923
Investment in Sigma Real Estate Portfolio	871,643	774,861
Investment property	2,033,593	1,922,362
Investment in Associate	27,926,492	27,796,598
Financial investments	291,094	273,249
	45,982,026	45,534,398
CURRENT ASSETS:		
Inventories	35,285	41,563
Receivables	928,223	1,403,048
Securities purchased under agreement to resell	246,240	130,693
Cash resources	2,030,657	1,691,004
	3,240,405	3,266,308
CURRENT LIABILITIES:		
Bank overdraft	-	17,927
Payables	994,962	1,030,877
Contractual Liabilities	248,016	62,610
Borrowings	2,397,150	4,033,391
Taxation payable	31,731	429,969
	3,671,859	5,574,774
NET CURRENT ASSETS/(LIABILITIES)	(431,454)	(2,308,466)
NET ASSETS	45,550,572	43,225,932
STOCKHOLDERS' EQUITY:		
Equity attributable to stockholders of the company		
Share capital	12,642,512	12,642,512
Equity Reserves	4,052,520	3,526,964
Retained earnings	8,845,934	8,884,244
Total Equity	25,540,966	25,053,720
Non-controlling interest	10,944,404	10,893,492
Total Stockholders' equity	36,485,370	35,947,212
NON-CURRENT LIABILITIES:		
Borrowings	7,734,503	6,170,569
Deferred income taxes	1,330,699	1,108,151
	9,065,202	7,278,720
STOCKHOLDERS' EQUITY AND NON-CURRENT LIABILITIES	45,550,572	43,225,932

Christopher Zacca
Chairman
09 April 2020

Bruce James
Director

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the twelve months ended 31 December 2019
(Expressed in thousands of Jamaican dollars)

	December 2019 Quarter Audited	December 2018 Quarter Audited	December 2019 Full Year Audited	December 2018 Full Year Audited
Revenue:				
Net investment income	6,171	6,754	23,723	26,843
Net capital gains on financial assets and liabilities	125,800	98,394	221,572	246,512
Hotel revenue from continuing operations	1,262,282	1,344,575	5,906,238	5,546,543
Hotel revenue from discontinued operations	-	16,798.00	-	2,723,307
Gain on sale of the hotel operations	-	(102,549)	-	264,306
Other income	146,858	-	146,858	-
Total revenue	1,541,111	1,363,972	6,298,391	8,807,511
Expenses:				
Hotel expenses from continuing operations	875,726	1,283,157	4,371,110	4,270,364
Depreciation from continuing operations	202,580	26,349	775,426	678,175
Interest and other financing costs	103,856	293,403	646,050	1,146,645
Other operating expenses	56,669	60,336	148,990	110,732
Expenses from discontinued operations	-	3,157.00	-	2,044,139
Total expenses	1,238,831	1,666,402	5,941,576	8,250,055
Operating profit	302,280	(302,430)	356,815	557,456
Share of profit from associate accounted for using the equity method	(372,254)	(288,289)	(98,662)	(393,887)
Profit before taxation	(69,974)	(590,719)	258,153	163,569
Taxation	(49,938)	80,265	(335,129)	(163,584)
NET PROFIT	(119,912)	(510,454)	(76,976)	(15)
Other comprehensive income, net of taxes:				
Items that may be subsequently reclassified to profit or loss				
Re-translation of foreign operation	(780,642)	(1,947,336)	1,336,059	(408,721)
Interest Rate Swap	(410,058)	-	(410,058)	-
Items that will not be subsequently reclassified to profit or loss				
Unrealised gain revaluation of property, plant and equipment	(294,191)	2,359,398	(294,191)	2,715,601
Retirement Benefit Obligations	(16,676)	-	(16,676)	-
Total other comprehensive income recognised directly in stockholders' equity, net of taxes	(1,501,567)	412,062	615,134	2,306,880
TOTAL COMPREHENSIVE INCOME	(1,621,479)	(98,392)	538,158	2,306,865
Net profit / (loss) attributable to:				
Stockholders of the company	25,976	(397,474)	(38,310)	154,349
Non-controlling interests	(145,888)	(112,980)	(38,666)	(154,364)
	(119,912)	(510,454)	(76,976)	(15)
Total comprehensive income / (loss) attributable to:				
Stockholders of the company	(942,960)	305,876	487,246	2,363,994
Non-controlling interests	(678,519)	(404,268)	50,912	(57,129)
	(1,621,479)	(98,392)	538,158	2,306,865
Earnings per stock unit for profit attributable to stockholders of the company:				
Basic and fully diluted	\$0.01	-\$0.18	-\$0.02	\$0.07

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the twelve months ended 31 December 2019
(Expressed in thousands of Jamaican dollars)

	Currency		Retained Earnings	Total	Non-controlling Interest	Total Equity	
	Share Capital	Translation Reserve					Fair Value and Other Reserves
Period ended 31 December 2019							
Balance as at 31 December 2018	12,642,512	47,600	3,479,364	8,884,244	25,053,720	10,893,492	35,947,212
Total comprehensive income for the period	-	942,264	(416,708)	(38,310)	487,246	50,912	538,158
Balance as at 31 December 2019	12,642,512	989,864	3,062,656	8,845,934	25,540,966	10,944,404	36,485,370
Period ended 31 December 2018							
Balance as at 31 December 2017	12,642,512	245,340	3,077,123	6,724,751	22,689,726	-	22,689,726.00
Non-controlling interest at acquisition	-	-	-	-	-	10,950,621	10,950,621.00
Total comprehensive income for the period	-	(197,740)	2,407,385	154,349	2,363,994	(57,129)	2,306,865.00
Transfer between reserves	-	-	(2,005,144)	2,005,144	-	-	-
Balance as at 31 December 2018	12,642,512	47,600	3,479,364	8,884,244	25,053,720	10,893,492	35,947,212.00

CONSOLIDATED SEGMENTAL FINANCIAL INFORMATION

For the twelve months ended 31 December 2019
(Expressed in thousands of Jamaican dollars)

Operating results:	Indirect Hotel & Commercial Operations (Playa and Sigma Units)		Other	Eliminations	December 2019 Audited
	Direct Hotel Operations (DTO and JGM)				
External revenues	5,906,238	-	23,723	-	5,929,961
Net capital gains on financial assets and liabilities	259,259	96,782	12,389	-	368,430
Total revenue	6,165,497	96,782	36,112	-	6,298,391
Operating expenses	(4,436,323)	(83,777)	-	-	(4,520,100)
Depreciation	(775,426)	-	-	-	(775,426)
Finance costs	(608,121)	(37,929)	-	-	(646,050)
Operating profit / (loss)	345,627	(24,924)	36,112	-	356,815
Share of profit from associate accounted for using the equity method	-	(98,662)	-	-	(98,662)
Profit / (loss) before taxation	345,627	(123,586)	36,112	-	258,153
Taxation	(101,458)	(22,979)	(210,692)	-	(335,129)
Net profit	244,169	(146,565)	(174,580)	-	(76,976)
Segment assets:					
Total assets	26,668,350	28,799,058	102,067	(6,347,044)	49,222,431
Segment liabilities:					
Total liabilities	12,407,664	6,638,195	38,246	(6,347,044)	12,737,061
Other Segment Items:					
Capital expenditure: Property, plant and equipment					287,315
Geographical Information					
	Jamaica	America	Total		
Revenue	1,024,107	5,274,284	6,298,391		
Total Assets	4,514,514	44,707,917	49,222,431		

CONSOLIDATED SEGMENTAL FINANCIAL INFORMATION

For the twelve months ended 31 December 2018
(Expressed in thousands of Jamaican dollars)

Operating results:	Indirect Hotel & Commercial Operations (Playa and Sigma Units)		Other	Eliminations	December 2018 Audited
	Direct Hotel Operations (DTO and JGM)				
External revenues	8,534,156	-	26,843	-	8,560,999
Net capital gains/(losses) on financial assets and liabilities	46,491	114,663	85,358	-	246,512
Total revenue	8,580,647	114,663	112,201	-	8,807,511
Operating expenses	(6,196,252)	(49,016)	-	-	(6,245,268)
Depreciation	(858,142)	-	-	-	(858,142)
Finance costs	(876,477)	(270,168)	-	-	(1,146,645)
Operating profit / (loss)	649,776	(204,521)	112,201	-	557,456
Share of profit from associate accounted for using the equity method	-	(393,887)	-	-	(393,887)
Profit / (loss) before taxation	649,776	(598,408)	112,201	-	163,569
Taxation	(181,805)	(9,060)	27,281	-	(163,584)
Net profit	467,971	(607,468)	139,482	-	(15)
Segment assets:					
Total assets	26,096,899	28,572,382	90,849	(5,959,424)	48,800,706
Segment liabilities:					
Total liabilities	12,355,296	6,434,076	23,546	(5,959,424)	12,853,494
Other Segment Items:					
Capital expenditure: Property, plant and equipment					569,808
Geographical Information					
	Jamaica	America	Total		
Revenue	3,593,305	5,214,206	8,807,511		
Total Assets	4,476,671	44,324,035	48,800,706		

CONSOLIDATED STATEMENT OF CASH FLOWS

For the twelve months ended 31 December 2019
(Expressed in thousands of Jamaican dollars)

	December 2019 Audited	December 2018 Audited
Cash Flows from Operating Activities:		
Net Profit / (Loss)	(76,976)	(15)
Adjustments for:		
Items not affecting cash:		
Depreciation and amortisation	775,426	858,142
Amortisation of franchise fees	2,089	2,023
Interest income	(23,723)	(26,843)
Interest expense	646,050	1,146,645
Income tax expense	335,129	163,585
Gain on disposal of investments	-	(138,135)
Loss on disposal of property, plant and equipment	-	(3,655)
Gain/(loss) on disposal of discontinued operations	-	(264,306)
Gain on revaluation of on Investment Portfolio - Jamziv	-	(8,172)
Effect of exchange losses on foreign currency balances	146	(139,745)
Share of profit from associate	98,662	393,887
Fair value gain on units held in Sagikor Sigma Funds	(96,782)	77,049
Fair value gain on other financial investments	(14,726)	(28,736)
Fair value gain on investment property	(111,231)	(8,772)
	1,534,064	2,022,952
Changes in other operating assets and liabilities:		
Accounts receivable	438,879	415,143
Inventories	7,914	79,353
Accounts payable	137,158	(1,069,167)
Payments for net current assets in relation to discontinued operations	-	(402,428)
Taxation paid	(500,331)	(214)
Net cash provided by operating activities	1,617,684	1,045,639
Cash Flows from Investing Activities:		
Purchase of property, plant and equipment	(287,315)	(569,808)
Proceeds from disposal of property, plant and equipment	-	5,603
Proceeds from sale of discontinued operations	-	12,700,770
Purchase to complete property, plant and equipment projects in relation to sale of discontinued operations	-	(335,530)
Purchase of investment property	-	(209,521)
Restricted cash	(189,906)	8,287
Purchase of investments	(2,405)	14,506,122
Investment in associate	-	(14,490,618)
Interest income received	23,612	28,686
Net cash provided by investing activities	(456,014)	11,643,991
Cash Flows from Financing activities:		
Borrowings, net	(316,683)	(11,251,881)
Interest expense paid	(612,609)	(1,267,717)
Net cash used in financing activities	(929,292)	(12,519,598)
Effect of exchange rate on cash and cash equivalents	43,397	51,448
Cash and cash equivalents at beginning of period	1,480,252	1,258,772
Cash and cash equivalents at end of period	1,756,027	1,480,252
Comprised of:		
Bank overdraft	-	(17,927)
Cash and bank	1,626,812	1,482,122
Securities purchased under agreement to resell	129,215	16,057
	1,756,027	1,480,252

Explanatory Notes

Identification

The Sagikor 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 52.73% owned by the Sagikor Pooled Pension Investment Funds, which are administered by Sagikor Life Jamaica Limited. The other significant shareholders in X Fund are Sagikor Group Jamaica Limited - 21.11% and Sagikor Segregated Funds with 8.09%.

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. X Funds also holds 51.86% of Jamziv Mobyay Jamaica Portfolio Limited (Jazmin), a subsidiary incorporated and domiciled in Jamaica. The X Fund Group combined shareholding of Jazmin is 60.81%, as X Fund Properties also holds 8.95% of the company.

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, 2018 audited financial statements.

Standards, interpretations and amendments to published standards effective in the current year.

There are several new standards and amendments to published standards that came into effect 1 January 2019. The standards, which include IFRS 16 Leases have been assessed by the Group. No significant impact to the financial statements has been determined from the adoption of these standards.

Subsequent Events

Subsequent to the end of the financial year, the World Health Organisation declared the COVID-19 to be a global pandemic. The pandemic has resulted in a significant downturn in commercial activity around the world. There is currently no cure, and the means most recommended to manage contagion is social distancing. This has resulted in several countries embarking on varying degrees of lock-down, closure of borders and travel bans. Global travel restrictions have been implemented, all of which will have negative global economic consequences.

The Group is exposed to the potential effects of the COVID-19 on the economic downturn that could lead to cancellation of vacations and conferences at the various properties operated by the Group resulting in lower revenues and depressed asset values. There has not been a sufficient passage of time for management to quantify the impact of the foregoing on its financial results at the time of reporting.