

Terms of Issue – Ordinary Shares of CSRJL

Issuer:	Carlton Savannah REIT Jamaica Limited (“CSRJL”)
Instrument:	Ordinary Shares in CSRJL
No. of Offered Shares:	212,330,270 common shares
Offer Price:	J\$5.91 per Common Share
Offer Amount:	J\$1,254,680,000 (US\$17,426,100)
Payable:	In full on application
Prospective Applicants:	Institutional and individual investors
Opening Date:	May 19, 2008
Closing date:	May 30, 2008
Purpose of Offer:	To purchase 16 of the 55 apartments of the Carlton Savannah Hotel, as well as the hotel’s Health Club & Spa for a price of US\$12,837,227.00 and US\$4,588,873.00 respectively, in fulfilment of their sales agreement with the developers of the Carlton Savannah Hotel.
Dividend Payment:	Quarterly dividends payable (in either US\$ or JA\$) to shareholders of ordinary shares. Dividends will be 95% or more of Investment Property Income generated from the hotel less operating expenses of CSRJL and will be reviewed from time to time. Dividend yield is forecasted to be 6.3% per annum in the first two years and 6.5% in year three.
Terms & Conditions:	The proceeds from the offer will determine the number of apartments purchasable and CSRJL reserves the right to withdraw if same falls below the Jamaican equivalent of US\$2 million applying Bank of Jamaica weighted average rate on the closing date above.

The Hotel



The Carlton Savannah Hotel (CSH) is centrally located, close to the business district in Port of Spain, Trinidad. The hotel has 55 apartments each consisting two-bedrooms, one living room and three bathrooms. Each apartment is fully furnished and can be reconfigured to form three separate hotel rooms allowing the CSH to be easily convertible to 165 room hotel.

CSH differs from traditional hotels in that the possibility of individuals and institutions owning apartments exist, thereby operating in the structure of a condominium (in such situations owners will collect a proportionate share of the rent).

The primary target market for the CSH is the business travellers. Classified as a Preferred

Hotel's Luxury Hotel, the CSH intends to provide the highest level of customer service conforming to the expectations of international travellers. The provision of business support resources such as offering secretary to take notes; type, print and bound documents on demand; ironing suits are some of the stated business requirements the team intends to fulfil. According to the CSH they will be the first to provide this type of service in Port of Spain.

The Arrangement

CSRJL's revenues will be derived from income generated by the hotel rooms proportioned as follows, 65% to investors and 35% to Carlton Savannah Limited (CSL), the hotel operating company. This income as well as the lease payments, which CSRJL will receive as owners of the Health Club and Spa, will comprise the main operating cash income to the company.

The hotel will be managed by CSL, which will be responsible for calculating the amount owing to owners on a monthly basis. Payments will be made through Carlton Savannah REIT St. Lucia Ltd (CSRSL), a wholly owned subsidiary of CSRJL, created to facilitate the acquisition of the Apartments and Spa, to CSRJL.

In the first and second years of ownership a guaranteed minimum rent of 8.5% of the purchase price of the apartments is payable monthly to the owners, inclusive of the monthly lease payments from the Spa. Monthly lease payments are calculated at 6% of the purchase price of the Spa in the first year and will increase thereafter as specified by the lease contract.

In the event of a sale, proceeds from the sale of apartments owned by CSRJL may be distributed to shareholders as dividend. The applicable corporate tax rate is 15% and is payable on CSRJL's share of rent from the apartments and lease payments from the Spa.

Summary of Projections

Financial Projections	for the year ending May 31				
	2009	2010	2011	2012	2013
Income Statement					
Share of Profits from Apartments	69,031	71,908	78,548	93,360	103,369
Lease income from Spa	17,273	18,536	19,866	21,284	22,777
Unrealized gains in fair value of investment property	38,426	41,229	44,231	47,458	50,918
Total income	124,730	131,672	142,646	162,102	177,063
Total Expenses	5,799	6,508	7,188	8,299	9,337
Net Profit	118,930	125,164	135,458	153,803	167,726
Balance Sheet					
Shareholders' Equity / Total Assets	1,323,265	1,423,825	1,566,652	1,660,651	1,760,290
Per Share Data					
Book Value per Share	6.23	6.71	7.38	7.82	8.29
EPS (\$)	0.56	0.59	0.64	0.72	0.79
Dividend per Share (DPS)	0.36	0.38	0.41	0.60	0.65
Ratios					
Net Profit Margin	95.4%	95.1%	95.0%	94.9%	94.7%
Return on Equity / Assets	9.0%	8.8%	8.6%	9.3%	9.5%
Price/Book	1.03	1.01	0.99	1.07	1.10
Dividend Yield***	5.9%	5.7%	5.8%	7.7%	7.5%
Projected Share Price **	6.44	6.78	7.34	8.33	9.08

*The financial projections (in JAS) are based on the projected US\$ figures given in the prospectus offer, with adjustments.

*The above assumes an annual depreciation of 4% of the JAS to US\$

** Assumes forward P/E of 11.5X

*** Dividend for the year divided by the average share price

- Total income is expected to grow by an average rate of 9% in Jamaican dollar terms over the next five years, moving from J\$125 million to J\$177 million by the end of the company's 2013 financial year. This growth in income is derived from the following:
 - Growth in the US dollar income from the share of profits in the apartments is projected at 6.2% over the next five years.
 - Growth in the US dollar lease income from the spa is projected at 2.9% over the next five years.
 - The unrealized gains from the revaluation of the properties, assumes a 3% appreciation in the market value of the properties on an annual basis.
 - The devaluation of the Jamaican dollar against the US dollar is projected at 4% per annum.
- After consideration for administrative expenses, net profits are expected to be in the region of J\$119 million for the 2009 financial year and \$168 million by 2013, translating to an improvement in EPS from \$0.56 to \$0.79 over the period.
- Assuming a forward P/E of 11.5X, the CSRJL's share price could appreciate to \$9.08 by end of 2013, resulting in total capital gains of 53% over the offer price of \$5.91. This represents an **average annual growth rate of 8.97% in the share price** over the 6 year period.
- Dividends payable over the period show a steady increase, moving from \$0.36 to \$0.65 per share at the year ending May 31, 2013. This translates to an **average dividend yield of 6.5%** over the period.
- **The total return to investors is therefore anticipated to be an average of 15.5% per annum in Jamaican dollar terms over the five year period.**

Investment Recommendation

Statistical data shows that the net occupancy rates for hotel rooms in Port of Spain have been relatively high over recent years. Additionally, there has been an exponential rise in real estate prices over the past few years, resulting from the sharp growth in the cost of building materials and high demand for construction. The real estate market in Trinidad & Tobago remains buoyant, despite the reported slowdown in residential house prices since the beginning of 2008.

The projections for CSRJL are predicated on the assumptions of average growth of 6.2% in the share of profits of the apartments and 3% appreciation in the value of the real estate. These projections are considered to be relatively conservative, given that real GDP growth for Trinidad has averaged 6.7% going back to 1994. The continued development in both the productive and service sectors augurs well for long term growth of the country, as well as the stability of the local currency at TT\$6.30 to US\$1.

In light of the above, we recommend the stock as a **BUY** primarily for investors seeking a US dollar hedged investment, given that the total returns in US dollar terms could region as high as 11.5% per annum.

Factors to consider:

- Generally, real estate investments are geared for investors interested in long term gains and as such this offer is not recommended for shorter-term investors.
- Business travel to Trinidad depends heavily on its economic performance. Changes in oil prices could adversely affect business travel, thereby negatively impacting the tourism industry. In addition, the negative impacts of variations in exchange rates and government reform may impair the expected return on this investment.
- The accrual of share of rent commences on the CSH's opening date. This poses the threat of dividends payable to investors being deferred as the possibility exists that the opening date of the hotel is delayed.
- Changes in the economic climate such as fluctuations in the market price of other financial instruments can influence returns.