
Financial Analysis Summary

29 April 2016

Issuer

AX Investments p.l.c.

Guarantor

AX Holdings Limited

The Directors
AX Investments p.l.c.
Ax House, Mosta Road
Lija LJA 9010
Malta

29 April 2016

Dear Sirs

Financial Analysis Summary

In accordance with your instructions, and in line with the requirements of the Listing Authority Policies, we have compiled the Financial Analysis Summary set out on the following pages and which is being forwarded to you together with this letter.

The purpose of the financial analysis is that of summarising key financial data appertaining to AX Investments p.l.c. (the “**Company**”) and AX Holdings Limited (the “**Guarantor**” or “**Group**”). The data is derived from various sources or is based on our own computations as follows:

- (a) Historical financial data for the three years ended 31 October 2013 to 31 October 2015 has been extracted from audited financial statements of the Company and Guarantor for the three years in question.
- (b) The forecast data of the year ending 31 October 2016 has been provided by management.
- (c) Our commentary on the results of the Guarantor and on its financial position is based on the explanations provided by management.
- (d) The ratios quoted in the Financial Analysis Summary have been computed by us applying the definitions set out in Part 4 of the Analysis.
- (e) Relevant financial data in respect of such companies included in Part 3 has been extracted from public sources such as websites of the companies concerned, financial statements filed with the Registrar of Companies or websites providing financial data.

The Analysis is meant to assist investors in the Company's securities and potential investors by summarising the more important financial data of the Group. The Analysis does not contain all data that is relevant to investors or potential investors. The Analysis does not constitute an endorsement by our firm of any securities of the Company and should not be interpreted as a recommendation to invest in any of the Company's securities. We shall not accept any liability for any loss or damage arising out of the use of the Analysis. As with all investments, potential investors are encouraged to seek professional advice before investing in the Company's securities.

Yours faithfully,



Wilfred Mallia
Director

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PART 1 – INFORMATION ABOUT THE COMPANY AND GUARANTOR

1. COMPANY'S KEY ACTIVITIES

The principal activity of the Company is to carry on the business of a finance and investment company within the AX Group.

The Company does not itself carry on any trading activities apart from the raising of capital and the advancing thereof to members of the AX Group as and when the demands of their business or the demands of a particular project so require. Accordingly, the Company is economically dependent on the AX Group.

2. GROUP'S KEY ACTIVITIES

The AX Group is principally engaged in the provision of hospitality services, construction & property development, and operates exclusively in and from Malta. It commenced operations in the 1970s and in the earlier period, construction was the primary activity of the Group. During the 1980s, the AX Group diversified its activities into hotel operations and developed two hotels, the Sunny Coast Resort & Spa and the Seashells Resort at Suncrest, both located in Qawra Malta. The Group continued to grow this segment through the development of The Victoria Hotel and The Palace Hotel in 1996 and 2007 respectively, both of which are situated in Sliema Malta.

Over the years, the AX Group was involved in a number of property related projects, including the construction of the Valletta Cruise Port, the four hotels owned by the Group, Verdala Mansions, Capua Hospital and the Parliament Building in Valletta, amongst others. Furthermore, the AX Group has specialised in restoration works and has to date completed various restoration projects on a number of buildings in Malta, including Casino di Venezia, Valletta Waterfront, Palazzo Capua and Valletta & Birgu bastions.

In FY2014, the AX Group commenced development of the Hilltop Gardens Care Home & Residences and by end of 2015 construction was largely complete with finishes at an advanced stage. The property was officially opened on 10 December 2015 and is being marketed as a high-end retirement property, offering independent living with access to a range of facilities and amenities, and 24-hour care when required. The Hilltop Gardens Care Home & Residences also includes a nursing home which provides intensive nursing care to dependent elderly residents. The expenditure on development and plant & equipment in relation to the aforesaid project is estimated at €23 million.

In FY2016, the Group increased its shareholding in Valletta Cruise Port p.l.c. from 24% to 36% for a total consideration of €3.93 million. The aggregate value of the said investment post acquisition amounts to €8.1 million.

3. DIRECTORS AND KEY EMPLOYEES

3.1 COMPANY'S BOARD OF DIRECTORS

AX Investments p.l.c. is managed by a Board consisting of five directors entrusted with its overall direction and management of the Company.

| | |
|--------------------|--------------------------------------|
| Angelo Xuereb | Chairman and Chief Executive Officer |
| Michael Warrington | Executive Director |
| Patrick J. Galea | Non-Executive Director |
| Michael Scortino | Non-Executive Director |
| Philip A. Ransley | Non-Executive Director |

3.2 GUARANTOR'S BOARD OF DIRECTORS

The parent company of the AX Group is AX Holdings Limited, and is managed by a Board consisting of seven directors who are responsible for the day-to-day management of the Group.

| | |
|----------------------|--------------------------------------|
| Angelo Xuereb | Chairman and Chief Executive Officer |
| Claire Zammit Xuereb | Group Hospitality Director |
| Richard Xuereb | Group Estate Director |
| Denise Xuereb | Group Construction Director |
| Michael Warrington | Group Finance Director |
| Christopher Paris | Executive Director |
| John Soler | Non-Executive Director |

The weekly average number of employees engaged with the companies forming part of the AX Group during FY2015 amounted to 567 persons (FY2014: 413).

4. MAJOR ASSETS OWNED BY THE GROUP

The AX Group is the owner of a number of properties which are included in the consolidated balance sheet under the headings: 'property, plant & equipment', 'investment property', and 'inventory of property'. The following is a list of major assets owned by the AX Group.

| Major Assets | FY2013 €'000 | FY2014 €'000 | FY2015 €'000 |
|---------------------------------------|-----------------|-----------------|-----------------|
| The Palace Hotel | 38,778 | 38,118 | 37,193 |
| Victoria Hotel [#] | 18,263 | 18,095 | 20,246 |
| Seashells Resort at Suncrest | 21,417 | 21,767 | 27,617 |
| Sunny Coast Resort & Spa [#] | 16,864 | 16,842 | 19,119 |
| Palazzo Capua* | 8,237 | 8,120 | 8,023 |
| Grand Hotel Verdala | 11,423 | 11,423 | 11,423 |
| Tas-Simblija | 10,775 | 23,780 | 37,486 |
| Villa Vistana | 3,500 | 3,500 | 3,500 |
| Tad-Dwiemes, Marsa | 3,402 | 3,402 | 3,402 |
| Hard Rocks Warehouses | 1,750 | 1,750 | 1,750 |
| Luzzu Complex | - | - | 2,178 |
| Other assets [#] | 5,849 | 6,230 | 8,321 |
| | 140,258 | 153,027 | 180,258 |

*Palazzo Capua is held directly by AX Investments p.l.c.

[#]In FY2015, the Group revalued a number of properties as follows: Victoria Hotel - €2.0 million, Sunny Coast Resort & Spa - €2.4 million and AX House (included in other assets) - €2.5 million (aggregate revaluation gain -€6.9 million)

Source: Consolidated audited financial statements of AX Holdings Limited for the years ended 31 October 2013 to 2015

5. GROUP OPERATIONAL DEVELOPMENT

The AX Group is principally involved in hotel operations, construction & property development, and related services. As of FY2014, the Group diversified its activities to include the management of a retirement home in Simblija, limits of Naxxar Malta. A divisional analysis of the Group's business is provided below.

5.1 KEY FINANCIAL INFORMATION – THE GROUP

| AX Group Divisional Analysis | FY2013 Actual | FY2014 Actual | FY2015 Actual | FY2016 Forecast |
|--|------------------|------------------|------------------|--------------------|
| Turnover (€'000) | 23,778 | 26,037 | 32,110 | 35,804 |
| Hospitality & entertainment | 19,467 | 21,268 | 26,343 | 29,911 |
| Construction, building materials & management services | 3,020 | 3,778 | 4,349 | 3,700 |
| Sale of property, real estate & rental income | 1,291 | 646 | 1,048 | 966 |
| Retirement residences & nursing home | - | - | - | 1,227 |
| Dividend receivable | - | 345 | 370 | - |
| Gross Operating Profit (€'000) | 7,976 | 8,593 | 12,083 | 12,543 |
| Hospitality & entertainment | 6,427 | 7,486 | 10,826 | 12,358 |
| Construction, building materials & management services | 461 | 704 | 425 | 320 |
| Sale of property, real estate & rental income | 1,088 | 403 | 832 | 885 |
| Retirement residences & nursing home | - | - | - | (1,020) |
| Gross Operating Profit Margin (%) | 34% | 33% | 38% | 35% |
| Hospitality & entertainment | 33% | 35% | 41% | 41% |
| Construction, building materials & management services | 15% | 19% | 10% | 9% |
| Sale of property, real estate & rental income | 84% | 62% | 79% | 92% |
| Retirement residences & nursing home | 0% | 0% | 0% | -83% |

Source: Management information.

5.2 HOSPITALITY & ENTERTAINMENT

5.2.1 Market Overview

Tourism in Malta has in recent years been performing at a strong level and this trend continued in 2015 as well. Inbound tourism from January to December 2015 amounted to 1.8 million guests, an increase of 6.0% over the same period in 2014. Although tourists residing in collective accommodation (hotels, guesthouses, hostels, B&Bs, etc) made up 71.7% of the market in 2015, preference for private accommodation has been growing in the last years at a faster pace, and actually increased by 18.2% from 2014. Tourism expenditure was estimated at €1.6 billion, 7.5% higher than that recorded for the comparable period in 2014.

The majority of incoming tourists were leisure guests, predominantly from the European Union. Non-package travel was higher than package travel, with a 56% share of the total market. Nonetheless, package travel still advanced by 1.0% when compared to 2014. Total room nights spent by inbound tourists went up by 5.1% surpassing 14.2 million nights, while average length of stay remained flat at 7.9 nights.

Focus will be maintained on increasing traffic during the winter months and attracting more visitors from new markets to Malta. This bodes well for the Maltese hospitality industry as the expectation is to continue to grow revenues and increase profitability.

Looking forward, Malta's EU Presidency in 2017 together with Valletta serving as the European City of Culture in 2018 are widely expected to generate increased demand for hotels and enhance Malta's image as a tourist destination, which would in turn generate future growth in the hospitality sector. Meanwhile, the somewhat uncertain future of national carrier Air Malta poses a concern to further growth and competition from other Mediterranean countries will likely remain strong.

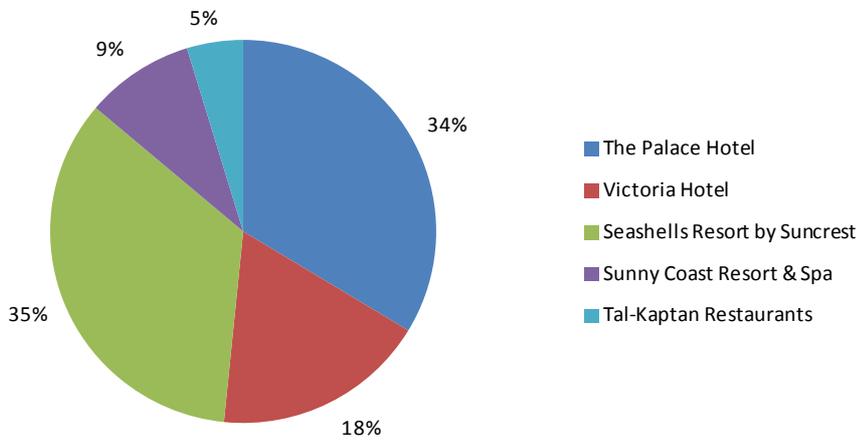
5.2.2 Financial Information – Sector Analysis

| Hospitality & Entertainment | FY2013 | FY2014 | FY2015 | FY2016 |
|--|---------------|---------------|---------------|-----------------|
| | Actual | Actual | Actual | Forecast |
| Turnover (€'000) | 19,467 | 21,268 | 26,343 | 29,911 |
| The Palace Hotel | 6,814 | 7,521 | 8,866 | 9,267 |
| Victoria Hotel | 3,888 | 4,229 | 4,721 | 4,761 |
| Seashells Resort by Suncrest | 5,690 | 6,329 | 9,112 | 11,658 |
| Sunny Coast Resort & Spa | 1,869 | 2,093 | 2,406 | 2,762 |
| Tal-Kaptan Restaurants | 1,206 | 1,096 | 1,238 | 1,464 |
| Gross Operating Profit (€'000) | 6,427 | 7,486 | 10,826 | 12,358 |
| The Palace Hotel | 2,357 | 2,704 | 3,620 | 3,921 |
| Victoria Hotel | 1,353 | 1,629 | 2,046 | 2,040 |
| Seashells Resort by Suncrest | 1,802 | 2,216 | 3,899 | 4,754 |
| Sunny Coast Resort & Spa | 830 | 960 | 1,212 | 1,471 |
| Tal-Kaptan Restaurants | 85 | (23) | 49 | 173 |
| Gross Operating Profit Margin (%) | 33% | 35% | 41% | 41% |
| The Palace Hotel | 35% | 36% | 41% | 42% |
| Victoria Hotel | 35% | 39% | 43% | 43% |
| Seashells Resort by Suncrest | 32% | 35% | 43% | 41% |
| Sunny Coast Resort & Spa | 44% | 46% | 50% | 53% |
| Tal-Kaptan Restaurants | 7% | -2% | 4% | 12% |

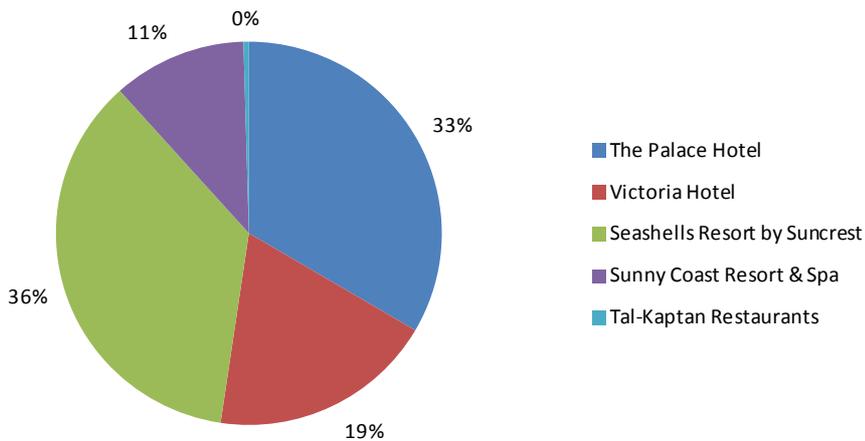
Source: Management information.

5.2.3 Aggregate Hotel Revenue and Operating Profit

% of total revenue by hotel - FY2015



% of total operating profit by hotel - FY2015



As illustrated above, the principal contributor to the Group’s hotel sector in terms of both revenue and gross operating profit is The Palace Hotel, and the second best performer is the Seashells Resort by Suncrest. In aggregate, both hotels generate *circa* 70% of total revenue and gross operating profit and this situation was broadly similar in the financial years FY2013 to FY2015.

5.2.4 The Palace Hotel

The Palace Hotel is a 149-room five-star city hotel located in Sliema Malta and offers extensive conference and events facilities, and utilisation of the 200 year old Palazzo Capua. It was developed by the AX Group in 2007. The Palace Hotel also includes two restaurants (The Tabloid and TemptAsian), a spa, and an indoor & outdoor pool. The carrying amount of the Hotel as at 31 October 2015 is €37.2 million (FY2014: €38.1 million).

Operational Performance

The following table sets out the highlights of the hotel's operating performance for the years indicated therein:

| The Palace Hotel | FY2013 | FY2014 | FY2015 | FY2016 |
|---|---------------|---------------|---------------|-----------------|
| | Actual | Actual | Actual | Forecast |
| Turnover (€'000) | 6,814 | 7,521 | 8,866 | 9,267 |
| Gross operating profit (€'000) | 2,357 | 2,704 | 3,620 | 3,921 |
| Gross operating profit margin (%) | 35 | 36 | 41 | 42 |
| Occupancy level (%) | 82 | 86 | 92 | 81 |
| Average room rate (€) | 90 | 98 | 110 | 120 |
| Revenue per available room (RevPAR) (€) | 125 | 139 | 158 | 157 |
| Benchmark performance | | | | |
| Occupancy level (%) | 69 | 72 | 78 | n/a |
| Average room rate (€) | 106 | 112 | 137 | n/a |
| Revenue per available room (RevPAR) (€) | 120 | 135 | 163 | n/a |
| Revenue Generating Index | 1.04 | 1.03 | 0.97 | n/a |

Source: Management information.

In FY2015, The Palace registered an 18% increase in revenue over FY2014 to €8.9 million. This growth was reflected in gross operating profit, which increased by 34% from €2.7 million in FY2014 to €3.6 million. The Hotel's performance improved both in terms of occupancy (from 86% in FY2014 to 92% in FY2015) and average room rate (from €98 in FY2014 to €110 in FY2015) and thus resulted in a y-o-y increase in RevPAR of 14% to €158 in FY2015.

The Hotel's competitive set also recorded positive results in recent years, which is a reflection of the present buoyant tourism market in Malta. As such, the Hotel performed broadly at par with its competition in each of the historical years (FY2013 to FY2015).

For FY2016, management's strategy is to increase the Hotel's average room rate without adversely impacting RevPAR, and increase food & beverage revenue mainly through marketing its outlets to non-guests. The forward strategy is to further improve the Hotel's offerings and service, and to enhance average room rate mainly through an increased focus on conference & events business.

5.2.5 Victoria Hotel

The Victoria Hotel was developed by the AX Group in 1996. It is a four-star hotel consisting of 137 rooms and is situated a few metres away from The Palace in Sliema Malta. The Hotel together with the adjoining 200 year old Palazzo Capua features a range of conference and meeting facilities. The carrying amount of the Victoria Hotel as at 31 October 2015 is €20.2 million (FY2014: €18.1 million).

Operational Performance

The following table sets out the highlights of the hotel's operating performance for the years indicated therein:

| Victoria Hotel | FY2013 Actual | FY2014 Actual | FY2015 Actual | FY2016 Forecast |
|---|------------------|------------------|------------------|--------------------|
| Turnover (€'000) | 3,888 | 4,230 | 4,721 | 4,761 |
| Gross operating profit (€'000) | 1,353 | 1,629 | 2,046 | 2,040 |
| Gross operating profit margin (%) | 35 | 39 | 43 | 43 |
| Occupancy level (%) | 81 | 85 | 83 | 77 |
| Average room rate (€) | 64 | 67 | 76 | 84 |
| Revenue per available room (RevPAR) (€) | 78 | 83 | 95 | 92 |
| Benchmark performance | | | | |
| Occupancy level (%) | 77 | 80 | 85 | n/a |
| Average room rate (€) | 62 | 66 | 79 | n/a |
| Revenue per available room (RevPAR) (€) | 70 | 77 | 94 | n/a |
| Revenue Generating Index | 1.11 | 1.08 | 1.01 | n/a |

Source: Management information.

The Victoria Hotel registered an increase in revenue of €0.5 million (+12%) in FY2015 from €4.2 million in the prior year to €4.7 million. Such increase was reflected in gross operating profit, which increased by €0.4 million (+26%) from €1.6 million in FY2014 to €2.0 million. Occupancy level in FY2015 was marginally lower than FY2014 at 83%, but the Hotel managed to achieve a 13% increase in average room rate to €76 (in FY2015). After the growth experienced in FY2014 and FY2015, in which RevPAR increased by 6% and 14% respectively, FY2016 is projected as a stable year where the Hotel is expected to perform at FY2015 level.

The Hotel has embarked on a renovation programme to gradually refurbish the rooms and common areas of the property, and also implement energy saving measures in all rooms. In Q1 FY2015, the Hotel refurbished one floor and another two floors will be renovated in FY2016. It is anticipated that further to the full implementation of the aforesaid programme, the Hotel will be in a better position to compete with other hotels in the near term, enhance RevPAR and generate higher year-on-year gross operating profits.

As for benchmark performance, the Hotel has constantly achieved better occupancy and RevPAR than its competitive set, particularly since the Hotel is marketed as a 4 star superior hotel and therefore targets business clients who choose not to stay at 5 star hotels. Furthermore, there are only three other hotels in the Sliema area that offer the same level of service and quality, namely the Waterfront Hotel, Fortina and The Diplomat. In FY2015 the Hotel performed in line with competition mainly due to the ongoing refurbishment works described above.

5.2.6 Seashells Resort at Suncrest

Seashells Resort at Suncrest is a four-star hotel located in Qawra Malta that also offer all-inclusive packages. It features 452 rooms designed in a contemporary style; the Carisma Spa and Wellness International Centre; a large outdoor swimming pool; and various food and beverage operations. The Hotel was developed by the AX Group in 1988 and its carrying value as at 31 October 2015 is €27.6 million (FY2014: €21.8 million).

Operational Performance

The following table sets out the highlights of the hotel's operating performance for the years indicated therein:

| Seashells Resort at Suncrest | FY2013 Actual | FY2014 Actual | FY2015 Actual | FY2016 Forecast |
|---|------------------|------------------|------------------|--------------------|
| Turnover (€'000) | 5,690 | 6,329 | 9,112 | 11,658 |
| Gross operating profit (€'000) | 1,802 | 2,216 | 3,899 | 4,754 |
| Gross operating profit margin (%) | 32 | 35 | 43 | 41 |
| Occupancy level (%) | 48 | 52 | 45 | 76 |
| Average room rate (€) | 34 | 39 | 74 | 50 |
| Revenue per available room (RevPAR) (€) | 35 | 38 | 55 | 70 |
| Benchmark performance | | | | |
| Occupancy level (%) | 70 | 73 | 82 | n/a |
| Average room rate (€) | 44 | 52 | 59 | n/a |
| Revenue per available room (RevPAR) (€) | 55 | 66 | 81 | n/a |
| Revenue Generating Index | 0.64 | 0.58 | 0.68 | n/a |

Source: Management information.

The Seashells Resort at Suncrest registered significant growth in FY2015, both in terms of revenue and gross operation profit. Revenue increased by €2.8 million (+44%) from €6.3 million in FY2014 to €9.1 million, while gross operating profit increased by €1.7 million (+76%) from a year earlier to €3.9 million in FY2015. Over the last few years, all external and internal areas of the Hotel (such as the pool area and lobby) were renovated and the final phase of this programme was executed between 1 November 2014 and 31 March 2015 at a total cost of *circa* €7 million. The temporary closure of the property has resulted in a decrease in yearly occupancy in FY2015 from 52% to 45%, but the improvements has raised average room rate by 90% from €39 in FY2014 to €74.

Furthermore, in November 2014, the Group acquired the Luzzu Complex in Qawra for a consideration of €3 million. The property occupies a gross floor area of *circa* 2,235 square metres and includes a restaurant at ground level, conference facilities at a lower level and a lido. As a consequence of this acquisition, F&B revenue has increased considerably and contributed to the above-mentioned improvement in revenue. In the near term the Group intends to internally connect the Luzzu Complex, Suncrest Hotel and the Sunny Coast Resort & Spa.

In addition to the above, the Hotel is now open for a full year (in previous years the hotel did not operate between December and March), and consequently the projections for FY2016 are assuming a substantial increase in occupancy (from 45% to 76%) and RevPAR (from €55 to €70). On the other hand, the average room rate is expected to decrease from €74 to €50, principally due to a lower rate negotiated for the winter months

which will dilute the summer room rates. Overall, the gross operating profit is projected to increase by 22% from €3.9 million (FY2015) to €4.8 million.

The Hotel has underperformed its competitive set in all three years under review. However, the Revenue Generation Index has improved considerably from 0.58 in FY2014 to 0.68 in FY2015. The Hotel's strong performance in FY2015 is projected to continue also in FY2016 as it expects to achieve a much better average room rate due to a refreshed property following the major refurbishment programme. In the near term, management will continue to focus on improving its product in order to approach the figures achieved by the Hotel's competitive set.

5.2.7 Sunny Coast Resort & Spa

The Sunny Coast Resort & Spa commenced operations in 1983 and was the first hotel developed by the AX Group. It is a four-star hotel situated in Qawra Malta and includes 91 rooms offered on a self-catering basis. The Hotel features five restaurants, external and heated indoor pools, spa and leisure facilities, and a squash court. The carrying amount of the Sunny Coast Resort & Spa as at 31 October 2015 is €19.1 million (FY2014: €16.8 million).

Operational Performance

The following table sets out the highlights of the hotel's operating performance for the years indicated therein:

| Sunny Coast Resort & Spa | FY2013 | FY2014 | FY2015 | FY2016 |
|---|---------------|---------------|---------------|-----------------|
| | Actual | Actual | Actual | Forecast |
| Turnover (€'000) | 1,869 | 2,093 | 2,406 | 2,762 |
| Gross operating profit (€'000) | 830 | 960 | 1,212 | 1,471 |
| Gross operating profit margin (%) | 44 | 46 | 50 | 53 |
| Occupancy level (%) | 59 | 64 | 68 | 76 |
| Average room rate (€) | 77 | 73 | 85 | 80 |
| Revenue per available room (RevPAR) (€) | 58 | 64 | 74 | 85 |
| 4 STAR BUGIBBA - Benchmark performance | | | | |
| Occupancy level (%) | 70 | 73 | 82 | n/a |
| Average room rate (€) | 45 | 52 | 59 | n/a |
| Revenue per available room (RevPAR) (€) | 55 | 66 | 81 | n/a |
| Revenue Generating Index | 1.05 | 0.97 | 0.91 | n/a |

Source: Management information.

The apartments at the Sunny Coast Resort & Spa were sold as timeshare accommodation during the initial years of operation. To date, timeshare contracts comprise the equivalent of 58 apartments or 64% of the Hotel and will expire over the next 5 years (term of contract was for 30 years). Such apartments are offered to other hotel visitors when not occupied by timeshare owners. In fact, in FY2015 timeshare revenue accounted for only 38% of total accommodation income. In view of the maturing timeshare contracts, the Group has commenced identifying various options to fully utilise the property when timeshare is fully phased out.

Other than timeshare maintenance fees and accommodation income derived from non-timeshare residents, the Hotel generates 'other revenue' which principally consists of rentals of its amenities, including the leisure centre & water activities, five restaurants and the spa. Gross operating profit for FY2015 amounted to €1.2 million, an increase of €0.3 (+26%) when compared to FY2014, and registered a gross operating profit margin of 50% (FY2014: 46%). Ongoing operational growth is expected for the forecast year FY2016.

The Hotel is not entirely comparable to its competitive set, primarily because it offers only self-catering accommodation and is principally limited to timeshare. Notwithstanding, performance data of its competitive set provides the only benchmark available to access the Hotel's level of operation.

Occupancy at the Hotel remains significantly lower than the level achieved by its competitive set, reflecting the fact that the Hotel has a percentage of apartments dedicated to timeshare residents. However, the low occupancy is compensated for by relatively high average room rates. In FY2015, the rate achieved by the Hotel was 44% higher than the average room rate of its competitive set at €85. Overall, the Hotel has performed well in the last three financial years, operating broadly in line with the market. Management's strategy for the forthcoming year is to concentrate on improving the occupancy level, primarily by limiting the increase in the Hotel's average room rate.

5.2.8 Tal-Kaptan Restaurants

The AX Group operates two restaurants under the commercial name "Tal-Kaptan". The first restaurant was opened in 1987 and is located within the premises of the Seashells Resort at Suncrest, and the other outlet is situated at the Valletta Waterfront and initiated operations in 2007. The outlets offer a casual dining experience and specialise in pizza and pasta dishes.

The following table sets out the turnover and gross operating profit of the restaurants for the years indicated therein:

| Tal-Kaptan Restaurants | FY2013 Actual | FY2014 Actual | FY2015 Actual | FY2016 Forecast |
|-----------------------------------|------------------|------------------|------------------|--------------------|
| Turnover (€'000) | 1,206 | 1,096 | 1,238 | 1,464 |
| Gross operating profit (€'000) | 85 | (23) | 49 | 173 |
| Gross operating profit margin (%) | 7 | (2) | 4 | 12 |

Source: Management information.

The outlets underperformed in both FY2013 and FY2014, and this adverse performance was partly due to changes that occurred at senior management level. Furthermore, competition in the sector has increased significantly, whereby patrons have a wider choice of restaurants offering various cuisines at their disposal. In Q4 FY2014 a new management team was appointed and a rebranding exercise of the restaurant was undertaken. These changes had an immediate positive impact on FY2015 results, in which, revenue increased by 13% from €1.1 million in FY2014 to €1.2 million and the outlets converted a gross operating loss of €23,000 in FY2014 to a gross operating profit of €49,000 in the following year. It is expected that revenue in FY2016 will increase further to €1.5 million (+18% y-o-y) and the restaurant should register a gross operating profit of €173,000 as compared to €49,000 a year earlier.

5.3 CONSTRUCTION, BUILDING MATERIALS & MANAGEMENT SERVICES

5.3.1 Market Overview

The recovery that began in the construction sector in 2013 extended into 2015. This was reflected in increases in the number of permits issued for the construction of residential dwellings, as well as in the value added and investment generated by the sector. This expansion in activity, in turn, has positive effects on employment income.

The improved performance in the construction sector in 2015 was supported by measures aimed at streamlining the issue of permits. The low interest rate environment, the extension of fiscal incentives for first-time buyers, the Individual Investor Programme (IIP) which fuelled demand for top-end properties, and an inflow of foreign workers have also spurred demand for dwellings.

Over €2 billion worth of property was registered in 15,557 contracts of sale concluded in 2015, a 35% increase over 2013 figures when 12,272 contracts, worth €1.3 billion, were concluded. A total 73,402 promises of sales have been registered since 2008 with an indicated value of close to €11 billion. The lowest number of promises of sale was 7,841 in 2011 with €1.074 billion worth of property.

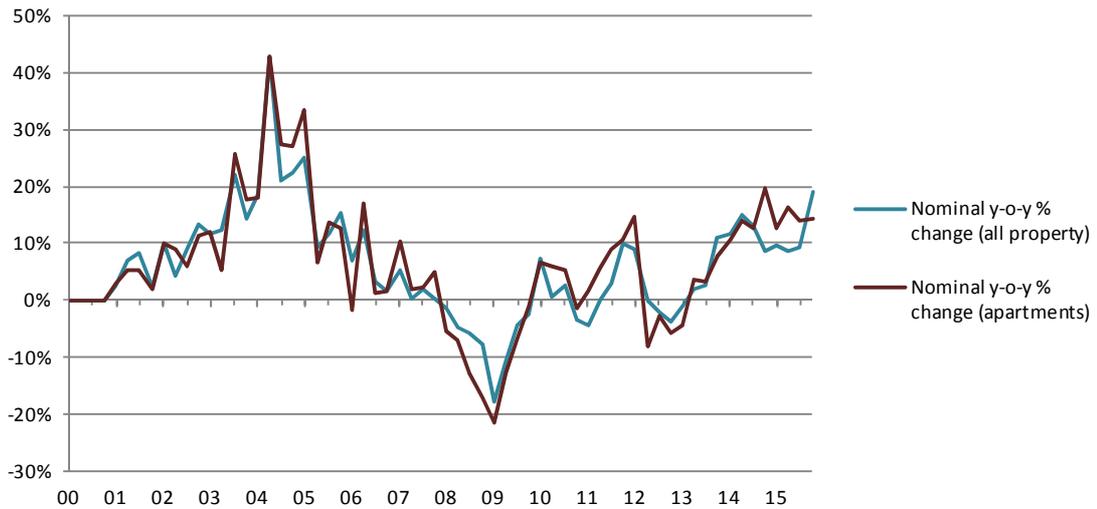
Almost 1,000 properties, worth €400 million, were sold to foreigners (having obtained an Acquisition of Immovable Property Permit (AIP)) over the last four years (2012 – 2015). In 2015, foreigners acquired 280 properties for an aggregate value of €189.5 million (2014: 208 properties, €70.7 million).

| Properties Sold to Foreigners | 2012 | 2013 | 2014 | 2015 | Total |
|-------------------------------|------------|------------|------------|------------|-------------|
| Southern harbour | | | | | |
| Number of units | 11 | 20 | 21 | 29 | 81 |
| Value (€) | 3,020,121 | 3,224,753 | 5,737,720 | 24,534,356 | 36,516,950 |
| Average price (€) | 274,556 | 161,238 | 273,225 | 846,012 | 450,827 |
| Northern harbour | | | | | |
| Number of units | 112 | 111 | 111 | 148 | 482 |
| Value (€) | 36,260,476 | 25,972,957 | 40,628,063 | 72,529,586 | 175,391,082 |
| Average price (€) | 323,754 | 233,991 | 366,019 | 490,065 | 363,882 |
| Northern | | | | | |
| Number of units | 61 | 36 | 36 | 42 | 175 |
| Value (€) | 31,253,259 | 13,699,353 | 7,139,338 | 81,913,504 | 134,005,454 |
| Average price (€) | 512,349 | 380,538 | 198,315 | 1,950,322 | 765,745 |
| Other | | | | | |
| Number of units | 62 | 40 | 40 | 61 | 203 |
| Value (€) | 16,510,623 | 9,970,050 | 17,214,324 | 10,489,188 | 54,184,185 |
| Average price (€) | 266,300 | 249,251 | 430,358 | 171,954 | 266,917 |

Source: Parliamentary Question 23925

The aforementioned factors also supported the pick-up in house prices (see Chart I below). Residential property prices continued to rise during the fourth quarter of 2015. The Central Bank of Malta’s advertised property price index shows that house prices rose at an annual rate of 10.0% in the last quarter of 2015, following a 5.0% increase in the previous quarter. Prices of apartments – the major component – continued to grow strongly in Q4 2015, though at a similar pace as in the previous quarter. Although they indicate trends, advertised property prices may not accurately reflect the prices at which sales actually take place.

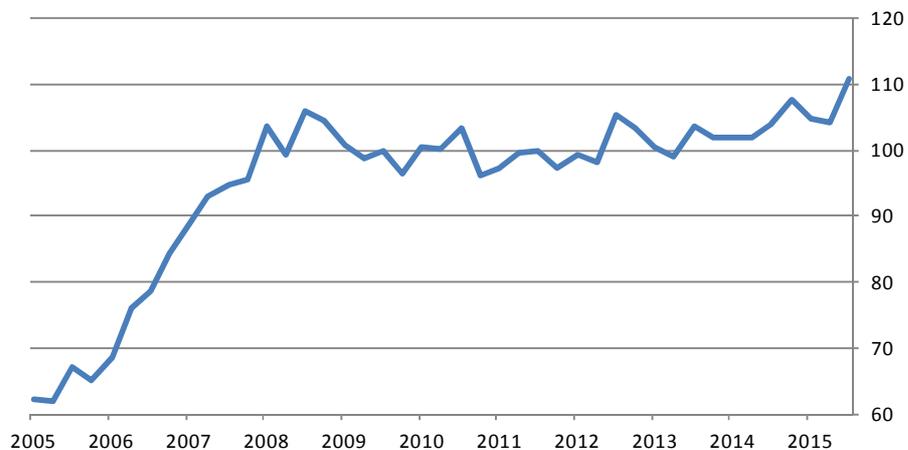
CHART I: CHANGE IN PROPERTY PRICES



Source: Central Bank of Malta

Eurostat’s House Price Index for Malta – which is based on transactions covering terraced houses, apartments and maisonettes – also indicates that residential property prices increased. The latest data available refers to Q3 2015 and shows that said prices increased by 6.7% compared with the same quarter of 2014 (*vide* Charts II below).

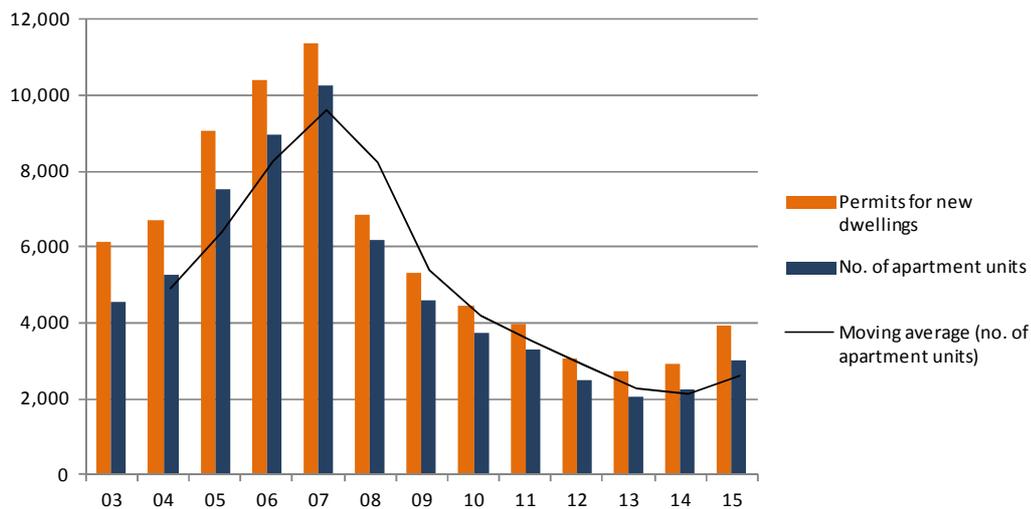
CHART II: MALTA HOUSE PRICE INDEX



Source: Eurostat

With regard to the number of permits, the Malta Environment and Planning Authority issued 3,947 permits during 2015, over one-third more than in 2014. This followed growth of 8.6% in 2014, marking two consecutive years of growth following a period of decline. The increase in permits issued in 2015 was mostly driven by the largest residential category, namely apartments, which accounted for just over three-fourths of total permits granted.

CHART III: DEVELOPMENT PERMITS FOR DWELLINGS



Source: Malta Environment & Planning Authority

The gross value added of the construction industry rose significantly, going up by 9.0% in nominal terms during 2015 (from €296 million to €322 million), following an increase of just 0.9% in 2014. This reflected robust growth in the output of the construction sector.

As a consequence, the expansion in output in the sector was mirrored in employment data. In the first nine months of 2015, total employment in the construction sector rose compared with the corresponding period average in 2014. As a result, the industry's share in the total gainfully occupied population rose to 6.1% from 5.7% in 2014. Employee compensation in the construction sector rose by 2.5% in 2015, when compared with growth of 1.1% in 2014. Notwithstanding this, the construction sector recorded improved profitability.

| Construction Activity Indicators ¹ | 2013 | 2014 | 2015 |
|--|--------|-------|--------|
| Gross value added (€'million) | 293 | 296 | 322 |
| Share of gross value added in GDP (%) | 3.8 | 3.7 | 3.7 |
| Total employment ² | 11,488 | 9,263 | 10,376 |
| of which private employment | 8,807 | 8,962 | 9,250 |
| Share of total gainfully occupied population (%) | 7.3 | 5.7 | 6.1 |

¹ Employment data are averages for the first nine months of the year, and are sourced from administrative records.

² The decline in total employment in the construction sector in 2014 reflects the reclassification of employees within the public sector following changes in ministerial responsibilities.

Source: NSO

National statistics relating to commercial property in Malta are currently not captured and therefore it is more difficult to gauge the health of this sector. Notwithstanding the lack of such data, general business sentiment and the continued drive to promote Malta as a regional hub for the provision of business related services, notably in the financial, i-gaming, back-office services, information technology, aircraft registration and maritime has continued to generate a positive trend in the commercial property sector, in particular office space. In addition, Malta's highly skilled and competitive labour costs have also been vital in sustaining this success. This view is substantiated when assessing the lack of availability of large office and commercial space, as well as, the number of projects earmarked for development and set to commence in the near future.

In public infrastructure, the construction industry in Malta has benefited from EU funding programmes (European Regional Development Fund and Cohesion Fund) that commenced in 2007 and for which a maximum of 85% of approved projects were financed by the EU. Unlike other property sectors, public infrastructure is relatively resistant to economic shocks and cycles, as Governments recognise infrastructure investment as a prerequisite for sustainable economic growth. At EU level, this sector is set to maintain its importance as a tool to enhance economic growth and it is expected that such programmes will continue to form an integral part of the yearly budget. Furthermore, investment in public infrastructure is also driven by the need to replace ageing infrastructure, amplified by concerns over sustainability and carbon reduction.

5.3.2 Financial Information – Sector Analysis

| Construction, Building Materials & Management Services | FY2013 Actual | FY2014 Actual | FY2015 Actual | FY2016 Forecast |
|--|------------------|------------------|------------------|--------------------|
| Turnover (€'000) | 3,020 | 3,778 | 4,349 | 3,700 |
| Construction works | 990 | 2,183 | 3,050 | 3,000 |
| Construction waste management | 688 | 1,246 | 883 | 300 |
| Restoration projects | 1,342 | 349 | 416 | 400 |
| Gross operating profit (€'000) | 461 | 704 | 425 | 320 |
| Gross operating profit margin (%) | 15 | 19 | 10 | 9 |

Source: Management information.

5.3.3 Overview of Sector Activity

Construction & development is another principal activity of the AX Group and relates mainly to civil engineering works, turnkey assignments, project management and restoration works. Over the years, the construction division of the Group was entrusted with a number of major projects including the development of the Group's four hotels; the Group's head office; Verdala Mansions in Rabat, Malta; Capua Hospital in Sliema; Parliament building super structure in Valletta; and various other projects which were executed for Group companies and third party clients. During 2014 and 2015, the construction division developed the Hilltop Gardens Care Home & Residences on a site measuring *circa* 17,000 square metres, located in Simblija limits of Naxxar. In FY2015, the Group generated €3.1 million (2014: €2.2 million) in construction works, principally through its engagement in a number of turnkey projects (including third party private residences).

In recent years, the AX Group has been very active in restoration projects and has to date completed works on parts of the Valletta & Vittoriosa bastions, Fort St Angelo, Scamps Palace Building (site housing Casino di Venezia) and the Valletta Waterfront. This trend continued in FY2014 as the Group was involved in projects

valued at €2.89 million, including the restoration of St Paul's Catacombs, parts of Valletta bastions and Lascaris War Rooms in Valletta. The said projects were completed in Q3 2015. During the last quarter of FY2014, the Group was awarded the restoration of part of the Birgu bastions and the Wignacourt Tower in St Paul's Bay. In FY2015 the Group commenced works on Phase II of the St Paul's Catacombs project which was completed in Q1 FY2016. Upcoming projects for FY2016 include the restoration of Auberge d'Italie and Palazzo San Salvatore.

The AX Group is engaged in construction waste management at a site in Mgarr, which consists of the management and disposal of excavation, construction and demolition waste. Prior to FY2013, the Group was also involved in quarry operations and included the production of gravel and sand. The level of activity in waste management has been fairly modest in the last few financial years primarily due to a decrease in building projects undertaken locally, hence generating less construction waste. Moreover, the quarry is expected to be filled in the near term and as such, income derived from such operation will gradually decrease until closure of the quarry.

5.4 PROPERTY, REAL ESTATE & RENTAL INCOME

5.4.1 Financial Information – Sector Analysis

| Property, Real Estate & Rental Income | FY2013 Actual | FY2014 Actual | FY2015 Actual | FY2016 Forecast |
|---------------------------------------|------------------|------------------|------------------|--------------------|
| Turnover (€'000) | 1,291 | 646 | 1,048 | 966 |
| Sale of property & real estate | 905 | 280 | 699 | 500 |
| Rental income | 386 | 366 | 349 | 466 |
| Gross operating profit (€'000) | 1,088 | 403 | 832 | 885 |
| Gross operating profit margin (%) | 84 | 62 | 79 | 92 |

Source: Management information.

5.4.2 Overview of Sector Activity

During the three historical financial years under review, the AX Group was not involved in any major property development for resale. The most recent major project undertaken by the Group relating to the construction of apartments for resale was Verdala Mansions in 2003, which consisted of 36 upmarket apartments and which to date have all been sold to third parties.

The AX Group has been involved in constructing a number of warehouses located in an industrial zone in Burmarrad, of which, five properties are held for rental purposes and one warehouse was sold in each of FY2011, FY2012 and FY2013. In addition, the Group sold a maisonette located in Qawra and a property at Verdala Mansions in FY2012; and a parcel of land and garages in FY2013.

In FY2014, the Group generated €0.28 million from the sale of property, which included a garage at Verdala Mansions and one apartment at Virtu Heights. Revenue from property sales in FY2015 amounted to €0.7 million through the sale of one warehouse and one apartment at Virtu Heights. It is projected that the AX Group will sell one warehouse in FY2016 for a consideration of €0.5 million.

Rental income represents proceeds derived from the leasing of Group properties to third parties, and mainly comprises: Palazzo Capua, five warehouses located in an industrial zone in Burmarrad and Vault 5 at Valletta Waterfront. As from FY2016, the Group is generating income from renting a convenience shop and child care centre situation at Hilltop Gardens.

6. HILLTOP GARDENS CARE HOME & RESIDENCES

6.1 GENERAL

The AX Group developed the Hilltop Gardens Care Home & Residences during the financial years 2014 and 2015, and officially opened the premises in December 2015. The property occupies an area of *circa* 17,000 square metres, and includes a mix of one and two bedroom apartments & penthouses, landscaped gardens and extensive facilities.

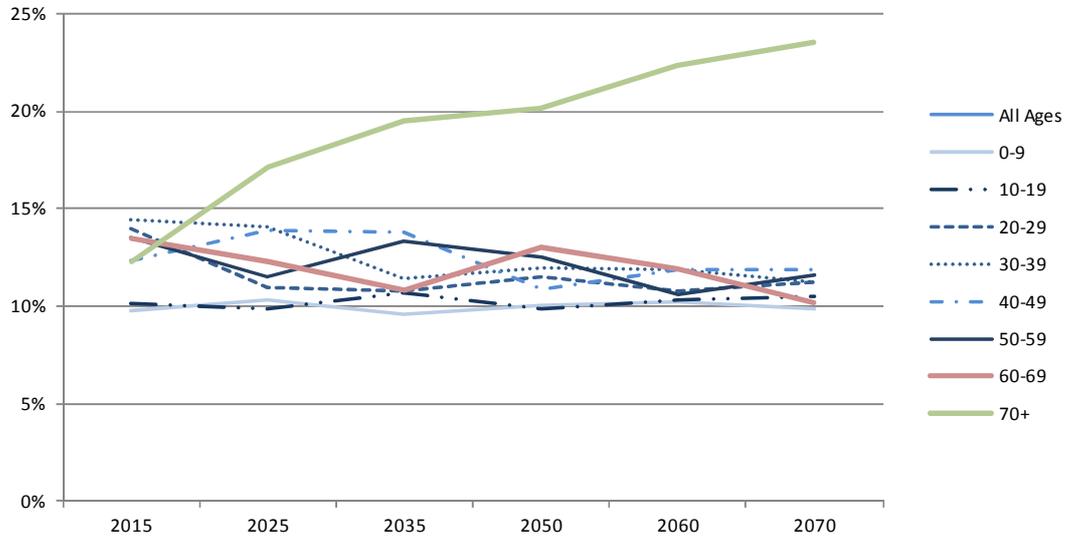
The Hilltop Gardens Care Home & Residences is currently being marketed as a high-end retirement property, offering independent living with access to a range of facilities and amenities, and 24-hour care when required. The facilities at the complex include a restaurant, spa, hair salon, swimming pool, common room and a chapel, amongst others. Hilltop Gardens offers independent living to the elderly with the security that there is on-site medical care and a support team that can take care of any ancillary services one may need (including laundry, cleaning, transportation and maintenance services). Furthermore, the complex enables residents to live within a community, and enjoy the surrounding gardens and amenities.

The Hilltop Gardens Care Home & Residences also includes a nursing home which provides intensive nursing care to dependent elderly residents.

6.2 MARKET OVERVIEW

Demand for retirement homes in Malta is expected to progressively rise in the coming years as the population ages. According to projections published by the NSO, the percentage of the Maltese population over 60 years of age is expected to increase from 26% (in 2015) to 30% by 2035 (vide population distribution chart below). In absolute figures, Malta has *circa* 110,000 seniors above the age of 60 and this is expected to grow to 140,000 by 2035. As a result of this substantial increase in elderly persons, it is envisaged that this will have a material effect on the growth in demand for care and support services provided to this category of the population.

Projected percentage distribution of total population



Source: Demographic Review 2013, National Statistics Office, Malta

The Hilltop Gardens Care Home & Residences is being primarily marketed to the higher affluent retirees who have well developed thoughts of how they want to spend time after retirement. Such persons would tend to be financially stable, well-travelled, socially connected and desire to continue living independently. While this concept may be relatively innovative for Malta, upscale retirement living has gained market share in other countries. The AX Group believes that there is a demand for high-quality senior living which will be addressed with the development of the Project. Furthermore, in view of the fact that the pricing structure of the Hilltop Gardens Care Home & Residences will be significantly lower than similar offerings in other countries, such as the UK, the AX Group is also expecting some demand from foreigners who opt to retire in Malta.

6.3 FINANCIAL INFORMATION

The expenditure on developing the Hilltop Gardens and acquisition of plant & equipment is estimated at €23 million, and consists of 133 self-catering residential units, a 152-bed nursing home, and common areas, amenities and landscaping works.

The residential units are being offered for lease on a variable basis for periods ranging between 1 and 50 years. Additional revenue is generated from the sale of consumables, maintenance fees and the provision of services. Furthermore, management offers tenants assistance in re-selling their units to third parties.

The nursing home operates with a full complement of nursing staff and care workers on a 24-hour basis, and residents are charged a daily room rate which is supplemented by a charge for additional services as required.

The following table illustrates the projected revenues and EBITDA that are expected to be generated during the initial four years of operation. Management has revised downwards its projections, when compared to be previously published projections, since demand for leasing of residential units to date has been below initial expectations. Total revenue for the years FY2016 to FY2019 has been reduced from €12.8 million to €7.9 million, and EBITDA is projected at €0.9 million as compared to the previous estimate of €6.7 million.

In view of the fact that the Hilltop Gardens is a new concept for Malta, management believes that further marketing effort is required to encourage a higher take-up of residential units. Through feedback received since commencement of operations in December 2015, the Group is in a better position to re-assess its offerings in line with demand and alter its marketing strategy accordingly.

| Projections - Hilltop Gardens Care Home & Residences | FY2016 | FY2017 | FY2018 | FY2019 |
|---|----------------|---------------|---------------|---------------|
| | €'000 | €'000 | €'000 | €'000 |
| Residences | 582 | 750 | 950 | 1,150 |
| Nursing home | 646 | 1,026 | 1,350 | 1,450 |
| Total Revenue | 1,227 | 1,776 | 2,300 | 2,600 |
| Direct costs | (1,702) | (926) | (976) | (1,099) |
| Other costs | (545) | (546) | (586) | (627) |
| EBITDA | (1,020) | 304 | 738 | 874 |

PART 2 – GROUP PERFORMANCE REVIEW

The projected financial statements detailed below relate to events in the future and are based on assumptions which the AX Group believes to be reasonable. Consequently, the actual outcome may be adversely affected by unforeseen situations and the variation between forecast and actual results may be material.

7. FINANCIAL INFORMATION – THE ISSUER

The following financial information is extracted from the audited financial statements of AX Investments p.l.c. (the “Issuer”) for the three years ended 31 October 2013 to 31 October 2015. The financial information for the year ending 31 October 2016 has been provided by Group management.

| AX Investments p.l.c. Income Statement | | | | |
|---|---------------|---------------|---------------|-----------------|
| for the year ended 31 October | | | | |
| | 2013 | 2014 | 2015 | 2016 |
| | Actual | Actual | Actual | Forecast |
| | €'000 | €'000 | €'000 | €'000 |
| Rental income | 163 | 163 | 163 | 163 |
| Administrative expenses | (144) | (245) | (240) | (240) |
| Results from operating activities | 19 | (82) | (77) | (77) |
| Share of (loss)/profit of associated undertaking | (110) | 47 | (197) | (121) |
| Fair value movement & gain on disposal of investments | - | 2,321 | 1,628 | - |
| Net finance costs | (35) | (420) | 61 | 324 |
| Profit/(loss) before tax | (126) | 1,866 | 1,415 | 126 |
| Taxation | 31 | 356 | 105 | (112) |
| Profit/(loss) after tax | (95) | 2,222 | 1,520 | 14 |

| AX Investments p.l.c. Cash Flow Statement | | | | |
|--|---------------|---------------|---------------|-----------------|
| for the year ended 31 October | | | | |
| | 2013 | 2014 | 2015 | 2016 |
| | Actual | Actual | Actual | Forecast |
| | €'000 | €'000 | €'000 | €'000 |
| Net cash from operating activities | (8) | (682) | 1,343 | 317 |
| Net cash from investing activities | 1,309 | (25,122) | (564) | (1,317) |
| Net cash from financing activities | (1,301) | 27,711 | (1,681) | - |
| Net movement in cash and cash equivalents | - | 1,907 | (902) | (1,000) |
| Cash and cash equivalents at beginning of year | 4 | 4 | 1,911 | 1,009 |
| Cash and cash equivalents at end of year | 4 | 1,911 | 1,009 | 9 |

| AX Investments p.l.c. Balance Sheet | | | | |
|--|---------------|---------------|---------------|-----------------|
| as at 31 October | 2013 | 2014 | 2015 | 2016 |
| | Actual | Actual | Actual | Forecast |
| | €'000 | €'000 | €'000 | €'000 |
| ASSETS | | | | |
| Non-current assets | 21,307 | 31,888 | 50,740 | 51,601 |
| Current assets | 203 | 20,108 | 1,013 | 13 |
| | 21,510 | 51,996 | 51,753 | 51,614 |
| EQUITY AND LIABILITIES | | | | |
| Equity | 5,757 | 7,979 | 9,500 | 9,515 |
| Liabilities | | | | |
| Non-current liabilities | 12,648 | 40,329 | 40,322 | 39,530 |
| Current liabilities | 3,105 | 3,688 | 1,931 | 2,570 |
| | 15,753 | 44,017 | 42,253 | 42,100 |
| Total equity and liabilities | 21,510 | 51,996 | 51,753 | 51,614 |

Income Statement

The Issuer is a fully owned subsidiary of AX Holdings Limited, the parent company of the AX Group, and is principally engaged to act as a finance and investment company. During the years under review, rental income remained stable at €163,000 and was derived from the lease of Palazzo Capua to a related party.

Share of results of associated undertaking relate to the holding of 19.91% in Suncrest Hotels p.l.c., the owner of the Seashells Resort at Suncrest.

Net finance costs reflect the net difference between interest payable on bonds in issue and interest receivable from advances to Group companies.

Balance Sheet

The assets of the Issuer principally include the ownership of Palazzo Capua valued at €8.25 million (FY2014: 8.25 million), the 19.91% shareholding in Suncrest Hotels p.l.c. amounting to €2.59 million (FY2014: €2.79 million), and the on-lending of bond proceeds to related parties which amounted to €39.9 million (FY2014: €20.8 million).

The liabilities of the Issuer mainly comprise debt securities listed on the Official List of the Malta Stock Exchange.

8. FINANCIAL INFORMATION – THE GROUP

The following financial information is extracted from the audited consolidated financial statements of AX Holdings Limited (the “Group”) for the three years ended 31 October 2013 to 31 October 2015. The financial information for the year ending 31 October 2016 has been provided by Group management.

| AX Group Income Statement | | | | |
|--|---------------|---------------|---------------|-----------------|
| for the year ended 31 October | | | | |
| | 2013 | 2014 | 2015 | 2016 |
| | Actual | Actual | Actual | Forecast |
| | €'000 | €'000 | €'000 | €'000 |
| Revenue | 23,778 | 26,037 | 32,110 | 35,805 |
| Net operating expenses | (16,486) | (18,725) | (22,185) | (24,836) |
| EBITDA | 7,292 | 7,312 | 9,925 | 10,969 |
| Depreciation | (2,795) | (2,628) | (3,229) | (3,570) |
| Investment property revaluation | 7,094 | - | - | - |
| Share of results of associated undertaking | 199 | 226 | 378 | - |
| Investment income | - | 2,752 | 1,975 | - |
| Net finance costs | (2,524) | (2,615) | (3,450) | (3,743) |
| Profit before tax | 9,266 | 5,047 | 5,599 | 3,656 |
| Taxation | (2,210) | (43) | (1,411) | (1,966) |
| Profit after tax | 7,056 | 5,004 | 4,188 | 1,690 |
| Other comprehensive income | | | | |
| Gains on property revaluation | 692 | 9,261 | 6,881 | - |
| Taxation | (103) | (175) | (1,408) | - |
| | 589 | 9,086 | 5,473 | - |
| Total comprehensive income | 7,645 | 14,090 | 9,661 | 1,690 |

| AX Group Cash Flow Statement | | | | |
|--|----------------|---------------|---------------|-----------------|
| for the year ended 31 October | | | | |
| | 2013 | 2014 | 2015 | 2016 |
| | Actual | Actual | Actual | Forecast |
| | €'000 | €'000 | €'000 | €'000 |
| Net cash from operating activities | 3,376 | 3,526 | 5,918 | 3,886 |
| Net cash from investing activities | (941) | 6,851 | (7,773) | (7,500) |
| Net cash from financing activities | (1,445) | (8,303) | 3,557 | 3,148 |
| Net movement in cash and cash equivalents | 990 | 2,074 | 1,702 | (466) |
| Cash and cash equivalents at beginning of year | (2,592) | (1,602) | 472 | 2,174 |
| Cash and cash equivalents at end of year | (1,602) | 472 | 2,174 | 1,708 |

| AX Group Balance Sheet | | | | |
|-------------------------------------|----------------|----------------|----------------|-----------------|
| as at 31 October | | | | |
| | 2013 | 2014 | 2015 | 2016 |
| | Actual | Actual | Actual | Forecast |
| | €'000 | €'000 | €'000 | €'000 |
| ASSETS | | | | |
| Non-current assets | 141,039 | 154,496 | 183,127 | 186,769 |
| Current assets | 13,935 | 33,882 | 22,911 | 22,798 |
| | 154,974 | 188,378 | 206,038 | 209,567 |
| EQUITY AND LIABILITIES | | | | |
| Equity | | | | |
| Capital and reserves | 86,559 | 100,723 | 110,034 | 111,532 |
| Non-controlling interest | 1,468 | 1,449 | 1,448 | 1,448 |
| | 88,027 | 102,172 | 111,482 | 112,980 |
| Liabilities | | | | |
| Non-current liabilities | 44,162 | 65,119 | 70,089 | 69,750 |
| Current liabilities | 22,785 | 21,087 | 24,467 | 26,837 |
| | 66,947 | 86,206 | 94,556 | 96,587 |
| Total equity and liabilities | 154,974 | 188,378 | 206,038 | 209,567 |

The key accounting ratios are set out below:

| Key Accounting Ratios | FY2013 | FY2014 | FY2015 | FY2016 |
|--|---------------|---------------|---------------|---------------|
| Operating profit margin (EBITDA/revenue) | 31% | 28% | 31% | 31% |
| Interest cover (times) (EBITDA/net finance cost) | 2.89 | 2.80 | 2.88 | 2.93 |
| Net profit margin (Profit after tax/revenue) | 30% | 19% | 13% | 5% |
| Earnings per share (€) ¹ (Profit after tax/number of shares) | 34.93 | 24.77 | 20.73 | 8.37 |
| Return on equity (Profit after tax/shareholders' equity) | 8% | 5% | 4% | 1% |
| Return on capital employed (Operating profit/total assets less current liabilities) | 6% | 4% | 5% | 6% |
| Return on assets (Profit after tax/total assets) | 5% | 3% | 2% | 1% |

¹ Earnings per share calculation set out above has been based on the current number of shares in issue of AX Holdings Limited of 202,000 shares of €2.329373 each.

Source: Charts Investment Management Service Limited

The Group derives most of its revenue from hospitality & entertainment and in FY2015 this sector generated €26.3 million (FY2014: €21.3 million), equivalent to 82% (FY2014: 82%) of total revenue. In FY2015, total revenue increased by €6.1 million (+23%) from €26.0 million in FY2014 to €32.1 million as a result of growth registered principally at Seashells Resort by Suncrest, The Palace Hotel and in construction. EBITDA for the year under review amounted to €9.9 million, an increase of €2.6 million (+36%) when compared to FY2014. Profit before tax amounted to €5.6 million (+11%) after accounting for gains on investments of €2.0 million. The Group registered a profit for the year of €4.2 million as compared to €5.0 million a year earlier.

In FY2016, revenue is projected to increase by €3.7 million (+12%) from €32.1 million in FY2015 to €35.8 million. The principal contributor is Seashells Resort by Suncrest which is expected to grow revenues by €2.5 million y-o-y. In line with the continued positive trend in tourism locally, the other hotels are also expected to increase revenue, albeit at a marginal rate. The Hilltop Gardens is forecasted to generate €1.2 million in its first full year of operations. EBITDA is estimated at €11.0 million, which when compared to FY2015, takes into account an operating loss projected for Hilltop Gardens at €1.0 million and a positive movement of €2.0 million for the other Group sectors (particularly hospitality & entertainment). Overall, the Group is projected to earn a profit for the year in FY2016 of €1.7 million, being a decline of €2.5 million from a year earlier.

Total assets of the Group principally comprise hotel and other properties as detailed in section 4 above, shareholding in Valletta Cruise Port p.l.c. amounting to €4.1 million (which increased from 24% to 36% in FY2016 for a total consideration of a further €3.9 million), inventories, receivables and other assets.

Total liabilities represent trade and other payables (FY2015: €13.8 million), deferred taxation (FY2015: €12.1 million) and borrowings as detailed below:

| AX Group Borrowings as at 31 October | 2013 Actual €'000 | 2014 Actual €'000 | 2015 Actual €'000 | 2016 Forecast €'000 |
|---|----------------------------------|----------------------------------|----------------------------------|------------------------------------|
| Bank borrowings | | | | |
| Central Leisure Developments Ltd | 11,474 | 10,506 | 9,369 | 8,350 |
| Verdala Mansions Ltd | 4,241 | - | - | - |
| Capua Palace Inv. Ltd | 1,783 | 1,620 | 1,404 | 1,222 |
| Suncrest Hotels p.l.c. | - | 645 | 6,568 | 5,875 |
| Luzzu Properties Ltd | - | - | 471 | 2,760 |
| Other bank loans | 2,175 | - | 33 | 13 |
| AX Holdings Ltd | - | - | - | 2,557 |
| Bank overdrafts | 2,722 | 2,243 | 1,851 | 1,317 |
| Bank borrowings | 22,395 | 15,014 | 19,697 | 22,094 |
| Bonds | | | | |
| 4% Bonds 2013 | 2,027 | - | - | - |
| 6.7% Bonds 2014-2016 | 11,587 | 1,673 | - | - |
| 6% Bonds 2024 | - | 40,000 | 40,000 | 40,000 |
| | 13,614 | 41,673 | 40,000 | 40,000 |
| Other borrowings | | | | |
| Malta Enterprise | 5,659 | 5,876 | 6,094 | 6,311 |
| Shareholder's loan <i>(unsecured, interest free and no fixed date repayment)</i> | 5,522 | 3,904 | 2,518 | 2,518 |
| | 11,181 | 9,780 | 8,612 | 8,829 |
| Total borrowings and bonds | 47,190 | 66,467 | 68,309 | 70,923 |

The key accounting ratios are set out below:

| Key Accounting Ratios | 31 Dec'13 | 31 Dec'14 | 31 Dec'15 | 31 Dec'16 |
|--|------------------|------------------|------------------|------------------|
| Net assets per share (€) ¹ <i>(Net asset value/number of shares)</i> | 0.44 | 0.51 | 0.55 | 0.56 |
| Liquidity ratio (times) <i>(Current assets/current liabilities)</i> | 0.61 | 1.61 | 0.94 | 0.85 |
| Gearing ratio <i>(Net debt/net debt and shareholders' equity)</i> | 34% | 38% | 37% | 39% |

¹ Net assets per share calculation set out above has been based on the current number of shares in issue of AX Holdings Limited of 202,000 shares of €2.329373 each.

Source: Charts Investment Management Service Limited

Variance Analysis

| AX Group Income Statement for the year ended 31 October | 2015 Actual €'000 | 2015 Forecast €'000 | Variance €'000 |
|--|----------------------------------|------------------------------------|---------------------------|
| Revenue | 32,110 | 29,531 | 2,579 |
| Net operating expenses | (22,185) | (19,655) | (2,530) |
| EBITDA | 9,925 | 9,876 | 49 |
| Depreciation | (3,229) | (2,317) | (912) |
| Investment property revaluation | - | - | - |
| Share of results of associated undertaking | 378 | 250 | 128 |
| Investment income | 1,975 | 1,872 | 103 |
| Net finance costs | (3,450) | (3,372) | (78) |
| Profit before tax | 5,599 | 6,309 | (710) |
| Taxation | (1,411) | (1,553) | 142 |
| Profit after tax | 4,188 | 4,756 | (568) |
| Other comprehensive income | | | |
| Gains on property revaluation | 6,881 | - | 6,881 |
| Taxation | (1,408) | - | (1,408) |
| | 5,473 | - | 5,473 |
| Total comprehensive income | 9,661 | 4,756 | 4,905 |

As presented in the above table, the Group generated higher revenue in FY2015 than forecasted by €2.6 million due to better than expected performance by its hotels. However, there was no corresponding positive effect on EBITDA since net operating expenses were higher than projected by €2.5 million. Profit for the year was lower than projected by €0.6 million as a consequence of a higher than expected depreciation charge amounting to €0.9 million.

PART 3 – COMPARABLES

The table below compares the Company and its bond issue to other debt issuers listed on the Malta Stock Exchange and their respective debt securities. The list includes all issuers (excluding financial institutions) that have listed bonds maturing in the medium term. Although there are significant variances between the activities of the Company and other issuers (including different industries, principal markets, competition, capital requirements etc), and material differences between the risks associated with the Company's business and that of other issuers, the comparative analysis provides an indication of the financial performance and strength of the Company.

| Comparative Analysis | Nominal Value (€'000) | Yield to Maturity (%) | Interest Cover (times) | Total Assets (€'million) | Net Asset Value (€'million) | Gearing Ratio (%) |
|----------------------------------|--------------------------|--------------------------|---------------------------|-----------------------------|--------------------------------|----------------------|
| 6.0% S. Farsons Cisk plc 2017/20 | 15,000 | 3.91 | 10.44 | 148.76 | 100.24 | 16.48 |
| 4.9% Gasan Finance plc 2019/21 | 25,000 | 3.65 | 2.74 | 187.81 | 83.93 | 37.68 |
| 6.0% Pendergardens Dev. Plc 2022 | 27,000 | 4.05 | n/a | 58.10 | 11.73 | 61.87 |
| 6.0% AXI plc 2024 | 40,000 | 3.80 | 2.88 | 206.04 | 111.48 | 36.65 |
| 5.3% Mariner Finance plc 2024 | 35,000 | 3.79 | 4.58 | 60.03 | 20.91 | 62.44 |
| 5.0% Tumas Investments plc 2024 | 25,000 | 3.61 | 4.49 | 274.89 | 98.84 | 49.14 |
| 5.0% Hal Mann Vella plc 2024 | 30,000 | 4.03 | 0.46 | 77.29 | 30.14 | 55.04 |
| 5.1% PTL Holdings plc 2024 | 36,000 | 4.00 | 1.04 | 72.48 | 6.13 | 87.51 |
| 4.5% Hili Properties plc 2025 | 37,000 | 3.68 | 1.59 | 91.89 | 25.94 | 65.67 |

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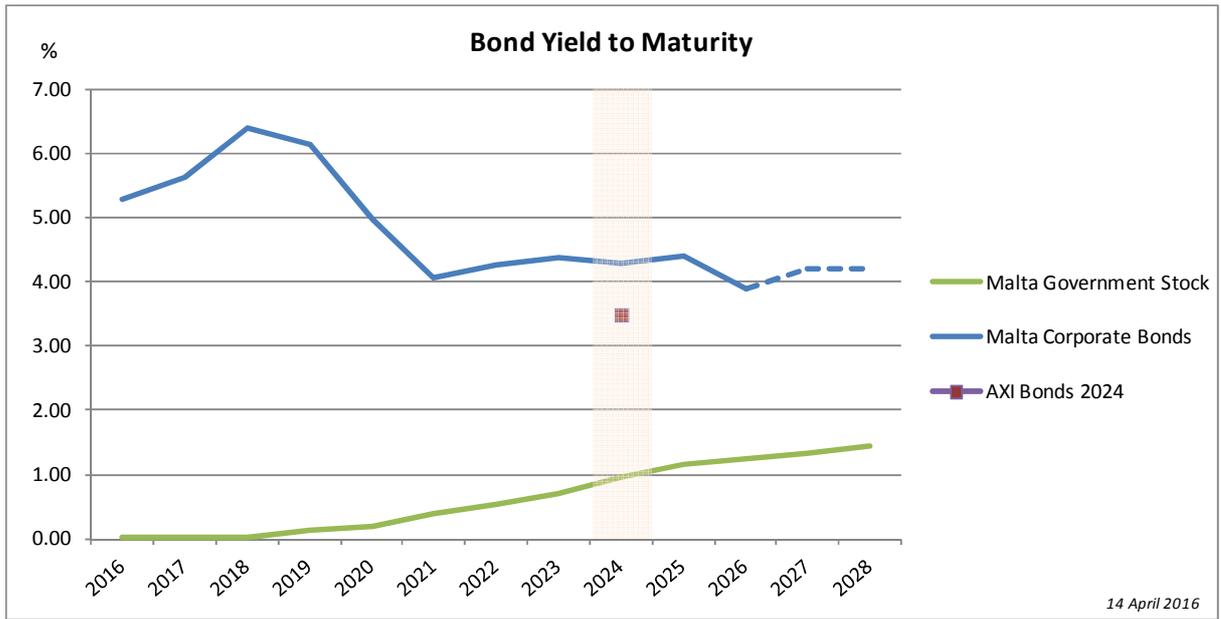
Source: Malta Stock Exchange, Charts Investment Management Service Limited

Annual Accounts:

Simonds Farsons Cisk plc (YE 31/01/2015), Gasan Group Limited (YE 31/12/2014), Pendergardens Developments plc (YE 31/12/2015),

AX Holdings Ltd (YE 31/10/2015), Mariner Finance plc (YE 31/12/2014), Tumas Group Company Ltd (YE 31/12/2014),

Hal Mann Vella Group plc (YE 31/12/14), PTL Holdings plc (YE 31/12/14), Hili Properties plc (Forecast YE 31/12/15)



To date, there are no corporate bonds which have a redemption date beyond 2026 and therefore a trend line has been plotted (denoted in the above chart by the dashed line). The Malta Government Stock yield curve has also been included since it is the benchmark risk-free rate for Malta.

PART 4 – EXPLANATORY DEFINITIONS

| Income Statement | |
|---|---|
| Revenue | Total revenue generated by the Group from its business activities during the financial year, including hospitality and entertainment; construction works, building materials and management services; sale of property and real estate; and rental income. |
| Direct costs | Direct costs include cost of food, beverages, consumables, labour expenses and all other direct expenses. |
| Gross profit | Gross profit is the difference between revenue and direct costs. It refers to the profit made by the Group before deducting depreciation & amortisation, finance costs, impairment provisions, share of profits from associate and affiliate companies and other operating costs. |
| Operating costs | Operating costs include all operating expenses other than direct costs. |
| EBITDA | EBITDA is an abbreviation for earnings before interest, tax, depreciation and amortisation. EBITDA can be used to analyse and compare profitability between companies and industries because it eliminates the effects of financing and accounting decisions. |
| Share of results of associated undertakings | The AX Group owns minority stakes in a number of companies (less than 50% plus one share of a company's share capital). The results of such companies are not consolidated with the subsidiaries of the Group, but the Group's share of profit is shown in the profit and loss account under the heading 'share of results of associated undertakings'. |
| Profit after tax | Profit after tax is the profit made by the Group during the financial year both from its operating as well as non-operating activities. |
| Occupancy level | Occupancy level is the percentage of available rooms that were sold during a given period of time. It is calculated by dividing the number of rooms sold by total number of rooms available. |
| Average room rate | Average room rate is calculated by dividing hotel room revenue by rooms sold. Hotels use this measure to calculate the average price at which they are booking hotel rooms each night. |

| Key Performance Indicators | |
|-------------------------------------|--|
| Revenue per available room (RevPAR) | RevPAR is calculated by multiplying a hotel's average room rate by its occupancy rate. A hotel uses this indicator as a performance measure with other hotels in the same category or market. |
| Revenue generating index | A revenue generating index measures a hotel's fair market share of its segment's (competitive set, market, etc) revenue per available room. If a hotel is capturing its fair market share, the index will be 1; if capturing less than its fair market share, a hotel's index will be less than 1; and if capturing more than its fair market share, a hotel's index will be greater than 1. |
| Profitability Ratios | |
| Operating profit margin | Operating profit margin is operating income or EBITDA as a percentage of total revenue. |
| Net profit margin | Net profit margin is profit after tax achieved during the financial year expressed as a percentage of total revenue. |
| Efficiency Ratios | |
| Return on equity | Return on equity (ROE) measures the rate of return on the shareholders' equity of the owners of issued share capital, computed by dividing profit after tax by shareholders' equity. |
| Return on capital employed | Return on capital employed (ROCE) indicates the efficiency and profitability of a company's capital investments, estimated by dividing operating profit by capital employed. |
| Return on Assets | Return on assets (ROA) is computed by dividing profit after tax by total assets. |
| Equity Ratios | |
| Earnings per share | Earnings per share (EPS) is the amount of earnings per outstanding share of a company's share capital. It is computed by dividing net income available to equity shareholders by total shares outstanding as at balance sheet date. |
| Cash Flow Statement | |
| Cash flow from operating activities | Cash generated from the principal revenue-producing activities of the Group. |
| Cash flow from investing activities | Cash generated from activities dealing with the acquisition and disposal of long-term assets and other investments of the Group. |
| Cash flow from financing activities | Cash generated from the activities that result in change in share capital and borrowings of the Group. |

| Balance Sheet | |
|----------------------------------|---|
| Non-current assets | Non-current asset are the Group's long-term investments, which full value will not be realised within the accounting year. Non-current assets are capitalised rather than expensed, meaning that the Group allocates the cost of the asset over the number of years for which the asset will be in use, instead of allocating the entire cost to the accounting year in which the asset was purchased. Such assets include investment properties; property, plant & equipment; and investments accounted for using the equity method. |
| Current assets | Current assets are all assets of the Group, which are realisable within one year from the balance sheet date. Such amounts include accounts receivable, inventory (food, beverages, consumables, construction materials, etc), property for resale, cash and bank balances. |
| Current liabilities | All liabilities payable by the Group within a period of one year from the balance sheet date, and include accounts payable and short-term debt. |
| Non-current liabilities | The Group's long-term financial obligations that are not due within the present accounting year. The Group's non-current liabilities include long-term borrowings, bonds and long term lease obligations. |
| Total equity | Total equity includes share capital, reserves & other equity components, retained earnings and minority interest. |
| Financial Strength Ratios | |
| Liquidity ratio | The liquidity ratio (also known as current ratio) is a financial ratio that measures whether or not a company has enough resources to pay its debts over the next 12 months. It compares a company's current assets to its current liabilities. |
| Interest cover | The interest coverage ratio is calculated by dividing a company's operating profit of one period by the company's interest expense of the same period. |
| Debt service cover ratio | The debt service cover ratio measures a company's ability to service its current debts by comparing its EBITDA with its total debt service obligations. |
| Gearing ratio | The gearing ratio indicates the relative proportion of shareholders' equity and debt used to finance a company's assets, and is calculated by dividing a Group's net debt by shareholders' equity plus net debt. |