
Financial Analysis Summary

27 April 2018

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

27 April 2018

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 (the “**Analysis**”) 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 2015 to 31 October 2017 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 2018 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,



Evan Mohnani

Head – Corporate Finance

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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, operates a care & retirement home and is also involved in construction & property development. The Group 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 Simblija Care Home & Hilltop Gardens Retirement Village 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 Simblija Care Home & Hilltop Gardens Retirement Village 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 amounted to *circa* €25 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. During the aforesaid financial year, the Group acquired a property in

Merchant Street, Valletta, which has now been converted into a 19-room boutique hotel (initial plans were for a 21-room property) at an estimated total cost (property acquisition and development) of *circa* €4.5 million. The Saint John Boutique Hotel commenced operations in August 2017.

In November 2016 (FY2017), the Group acquired another property in Merchant Street, Valletta for a total consideration of €4.5 million. Necessary planning authority permits have been issued for the conversion of this property into a 27-room boutique hotel (initial plans were for a 30-room property). Development costs are projected to amount to a maximum of €6.0 million and completion of works is scheduled for January 2019.

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
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

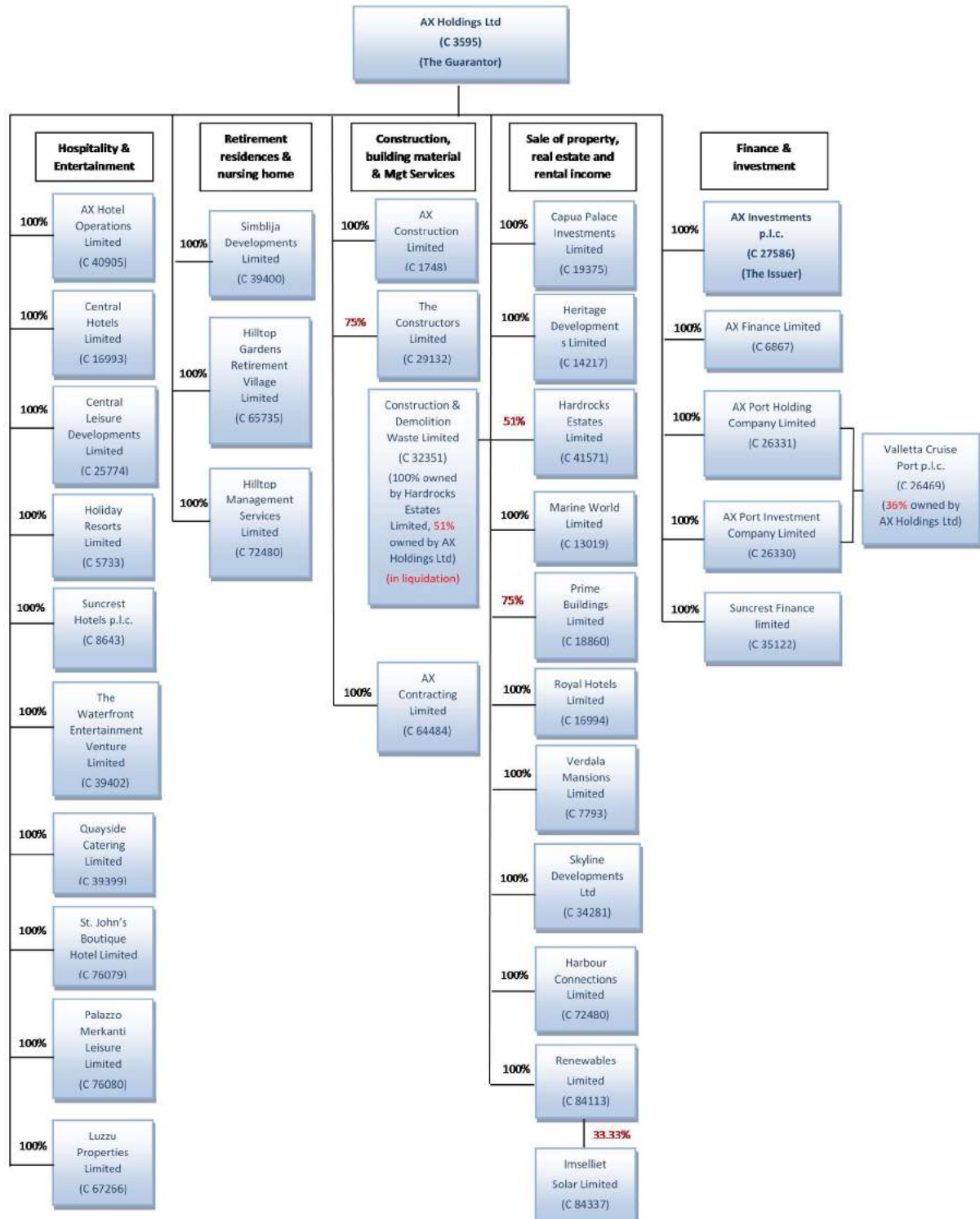
The parent company of the AX Group is AX Holdings Limited, and is managed by a Board consisting of seven directors who are responsible for the day-to-day management of the Group.

Angelo Xuereb	Chairman
Michael Warrington	Chief Executive Officer
Claire Zammit Xuereb	Group Hospitality Director
Denise Xuereb	Group Construction Director
Chris Paris	Executive Director
John Soler	Non-Executive Director
Josef Formosa Gauci	Non-Executive Director

The weekly average number of employees engaged with the companies forming part of the AX Group during FY2017 amounted to 707 persons (FY2016: 636).

4. GROUP ORGANISATIONAL STRUCTURE

The diagram hereunder illustrates the organisational structure of the Group



The Group operates in the following industry sectors, which are each described in further detail elsewhere in this report:

- Hospitality & entertainment
- Retirement residences & nursing home
- Construction, building materials & management Services
- Sale of property, real estate & rental income

5. 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.

AX Holdings Limited Group Assets	FY2015 €'000	FY2016 €'000	FY2017 €'000
The Palace Hotel	37,193	36,555	35,800
Victoria Hotel	20,246	20,754	21,274
Seashells Resort at Suncrest [^]	27,617	79,219	77,865
Sunny Coast Resort & Spa	19,119	19,015	19,104
Palazzo Capua ^{*^}	8,023	8,863	8,793
Grand Hotel Verdala	11,423	11,423	11,423
Simblija Care Home & Hilltop Gardens Retirement Village	37,486	42,812	42,501
Villa Vistana [#]	3,500	3,500	3,800
Tad-Dwiemes, Marsa	3,402	3,402	3,402
Hard Rocks Warehouses ^{^#}	1,750	2,650	5,683
Luzzu Complex	2,178	2,903	2,977
Saint John's Boutique Hotel	-	2,990	4,571
Palazzo Merkanti	-	-	5,024
Targa Gap Complex, Mosta [#]	-	-	3,674
Other assets	8,321	8,604	8,163
	180,258	242,690	254,054

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

[^]In FY2016, Seashells Resort at Suncrest, Palazzo Capua & Hardrocks Warehouses (qty 5) were revalued in line with company's policy, as follows: €52.8 million, €0.8 million and €0.9 million respectively (aggregate revaluation gain - €54.5 million).

[#]In FY2017, Warehouses 6-9 @ Hard Rocks Warehouse, Targa Gap Complex, Mosta, and Villa Vistana were revalued in line with company's policy, as follows: €1.9 million, €3.6 million and €0.3 million respectively (aggregate revaluation gain - €5.8 million).

Source: Consolidated audited financial statements of AX Holdings Limited.

6. 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.

6.1 KEY FINANCIAL INFORMATION – THE GROUP

AX Group Divisional Analysis	FY2015 Actual	FY2016 Actual	FY2017 Actual	FY2018 Forecast
Turnover (€'000)	32,110	38,030	45,851	51,005
Hospitality & entertainment	26,343	32,131	35,508	37,675
Construction, building materials & management services	4,349	3,447	5,503	5,968
Sale of property, real estate & rental income	1,048	493	588	1,405
Retirement residences & nursing home		1,008	3,359	5,079
Dividend receivable	370	951	893	878
Gross Operating Profit (€'000)	12,083	13,886	16,593	20,007
Hospitality & entertainment	10,826	14,087	15,759	16,975
Construction, building materials & management services	425	463	481	613
Sale of property, real estate & rental income	832	418	513	951
Retirement residences & nursing home		(1,083)	(160)	1,468
Gross Operating Profit Margin (%)	38%	37%	36%	39%
Hospitality & entertainment	41%	44%	44%	45%
Construction, building materials & management services	10%	13%	9%	10%
Sale of property, real estate & rental income	79%	85%	87%	68%
Retirement residences & nursing home		-107%	-5%	29%

Source: Management information.

6.2 MARKET OVERVIEW

6.2.1 Economic Update¹

Real Gross Domestic Product ("GDP") grew strongly in the first three quarters of 2017 and continued to surprise on the upside, reaching 7.2%. The external sector, driven by growing services exports, remained the main driver of growth in 2017. Domestic demand was affected by a strong contraction in investment, linked to a high base effect from an extraordinary investment in transport equipment in 2016. Residential construction, by contrast, continued to increase robustly. Following a rebound in imports in the last quarter of the year, real GDP growth is expected to have reached 6.9% for 2017 as

¹ European Economic Forecast – Winter 2018 (Interim) (European Commission Institutional Paper 073 Feb'18)

a whole, above the rate recorded in 2016. The dynamics in the external sector are pushing up the current account surplus.

Economic growth is projected to slow in 2018 to 5.6%. Private consumption is expected to become the main driver of growth on the back of strong employment growth, improved consumer confidence and growing disposable income. Investment is forecast to recover, led by the residential construction sector, which is expected to continue growing strongly in 2018. Driven by domestic demand, imports of goods and services are gaining momentum, and exports are forecast to continue rising, in line with growing demand in Malta's main trading partners. Overall, the current account surplus is expected to stabilise.

In 2019, real GDP growth is projected to moderate further to 4.5%. Private consumption is projected to remain the main driver of growth, while investment is expected to increase mainly on the back of the construction sector. Net exports are expected to contribute only modestly to GDP growth, as domestic demand fuels imports.

Headline annual harmonised index of consumer prices ("HICP") inflation averaged 1.3% in 2017, slightly lower than the euro area average. Relatively moderate increases in regulated fuel prices have contained overall HICP inflation. Inflation is projected to strengthen to 1.5% in 2018 and 1.8% in 2019. Higher price growth is expected to come mainly from the services component, which is projected to rise in line with growing disposable incomes.

6.2.2 Tourism Market²

Tourism in Malta has in recent years been performing at a strong level and this trend continued in 2016 as well as in 2017. Inbound tourist trips from January to December 2016 amounted to 1.99 million, an increase of 10.2% when compared a year earlier. Total nights spent by inbound tourists went up by 5.7%, reaching almost 15.0 million nights. During 2016, total guests in collective accommodation establishments surpassed 1.6 million, an increase of 2.1% over the same period in 2015. Within the collective accommodation establishments, the 5 star and 4 star hotels gained 10,878 guests (+2.8%) and 30,779 guests (+4.5%) respectively in 2016 when compared to a year earlier, while there was a decrease of 24,042 guests (-5.7%) in the 3-star category. Tourism expenditure was estimated at €1.71 billion in 2016, an increase of 4.3% over 2015.

Inbound tourism from January to December 2017 amounted to 2.3 million, an increase of 15.7% when compared to the prior year. Total nights spent by inbound tourists went up by 10.3%, surpassing 16.5 million nights. In 2017, total guests in collective accommodation establishments surpassed 1.8 million, an increase of 13.0% over the same period in 2016. Within the collective accommodation establishments, the 5 star, 4 star and 3 star hotels gained 26,348 guests (+6.7%), 81,383 guests (+11.5%) and 82,401 (+20.7%) respectively in 2017 when compared to a year earlier. Total tourism expenditure surpassed €1.9 billion, 13.9% higher than that recorded for 2016. Total expenditure per capita stood at €856, a decrease of 1.5% when compared to 2016.

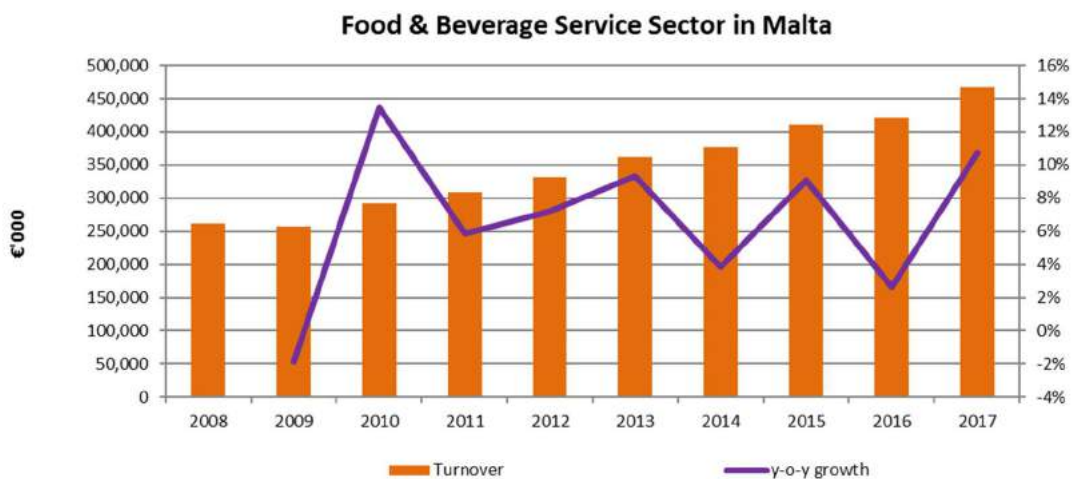
² www.nso.gov.mt

Focus will be maintained on increasing arrivals 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, Valletta serving as the European City of Culture in 2018 is expected to further increase demand for hotels and enhance Malta’s image as a tourist destination. Malta International Airport has revealed its traffic forecast and expects to register further growth in the coming year to reach a total of 6.5 million passenger movements (2016: 6.0 million passenger movements). The airport revealed that its summer schedule for 2018 features no less than 16 new routes, bringing the airport’s destination network up to a 100 routes. Meanwhile, the somewhat uncertain future of the national carrier Air Malta poses a concern to further growth whilst competition from other Mediterranean countries will likely remain strong.

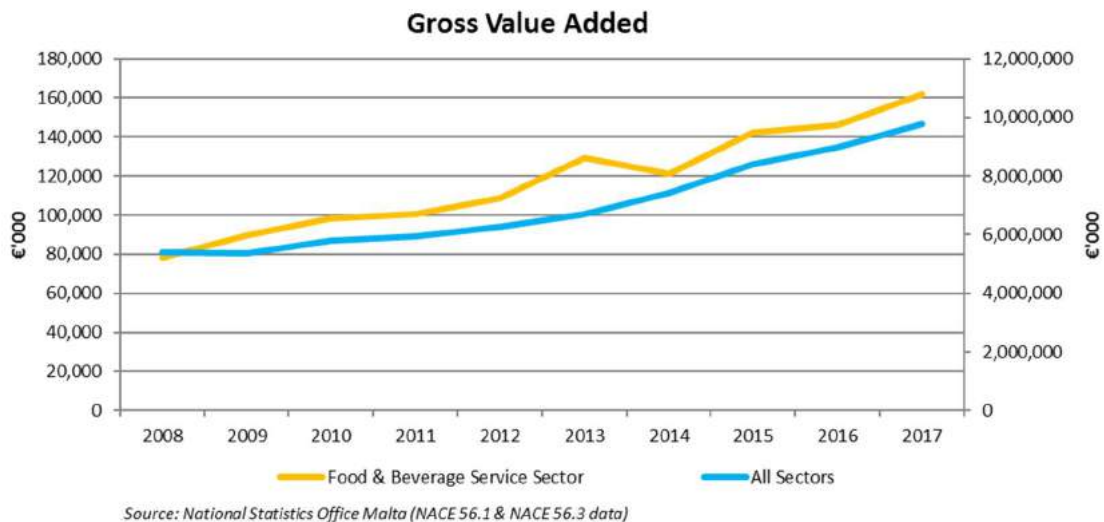
6.2.3 Food & Beverage Service Sector

The food & beverage service sector comprises restaurants & mobile food service activities and beverage serving activities. In 2017, the total income from this sector in Malta amounted to €467 million, an increase of 10.7% over the previous year. The chart below illustrates the output from the food & beverage service sector in Malta for the past 10 years (2008 to 2017). As highlighted, market output has progressively increased over the reviewed period, except for 2009 when gross income decreased marginally by €4.8 million (-1.8%) when compared to the prior year. Since 2008, the food & beverage service sector grew at an annual compound rate of 6.6%.



Source: National Statistics Office Malta (NACE 56.1 & NACE 56.3 data)

The chart hereunder shows that the gross value added generated by the food & beverage service sector in Malta has grown on a year-to-year basis from €78.1 million in 2008 to €161.7 million in 2017. The chart also highlights the sector's correlation to Malta's economic performance, since over the reported period the food & beverage service sector has maintained the same percentage of gross value added generated by the whole economy of *circa* 1.7%.



6.2.4 Property Market & Construction Sector

Residential property prices continued to rise during the fourth quarter of 2017 (see Chart I below) and said prices are being supported by a number of factors. Residential property prices are being supported by a number of factors, including the Government's scheme for first-time buyers and a low interest rate environment which makes property a more attractive asset. Buoyant labour market conditions and strong growth in disposable income, together with the rise in foreign workers and, to a lesser extent, the Individual Investor Programme, also continue to lift property prices. At the same time, the strong growth in residential permits recorded in recent quarters should take off some of the upward pressure on house prices, as new construction activity counters excess demand for property.

The Central Bank of Malta's advertised property price index shows that house prices rose at an annual rate of 8.8% in the last quarter of 2017. Prices of apartments – the major component – continued to grow strongly in Q4 2017 at 7.6% over the previous quarter (such data mainly provides trend information as advertised property prices may not accurately reflect the prices at which sales actually take place).

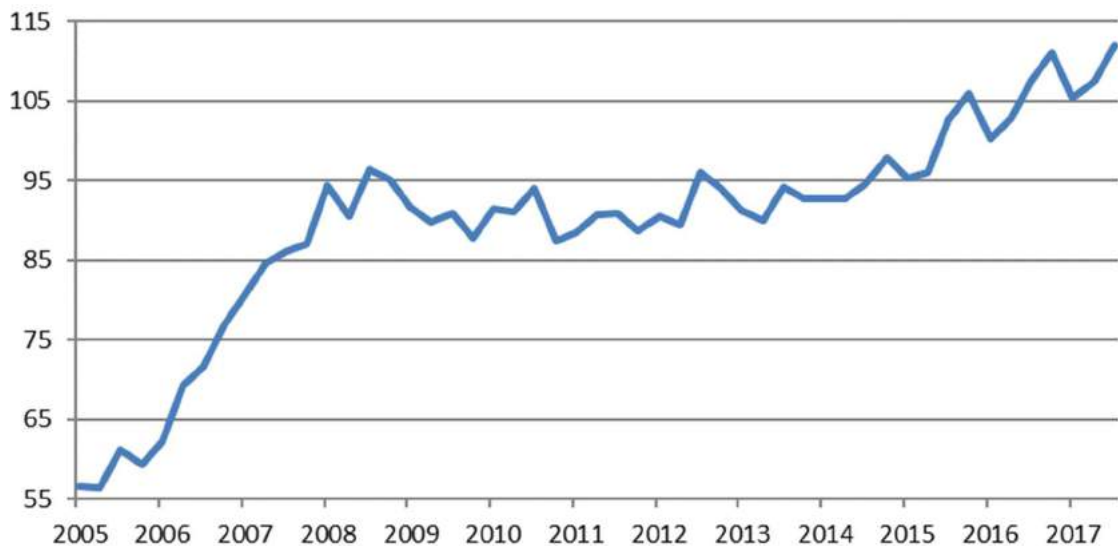
CHART I: Change in Property Prices



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 2017 and shows that said prices increased by 4.1% compared with the same quarter of 2016 (vide Charts II below).

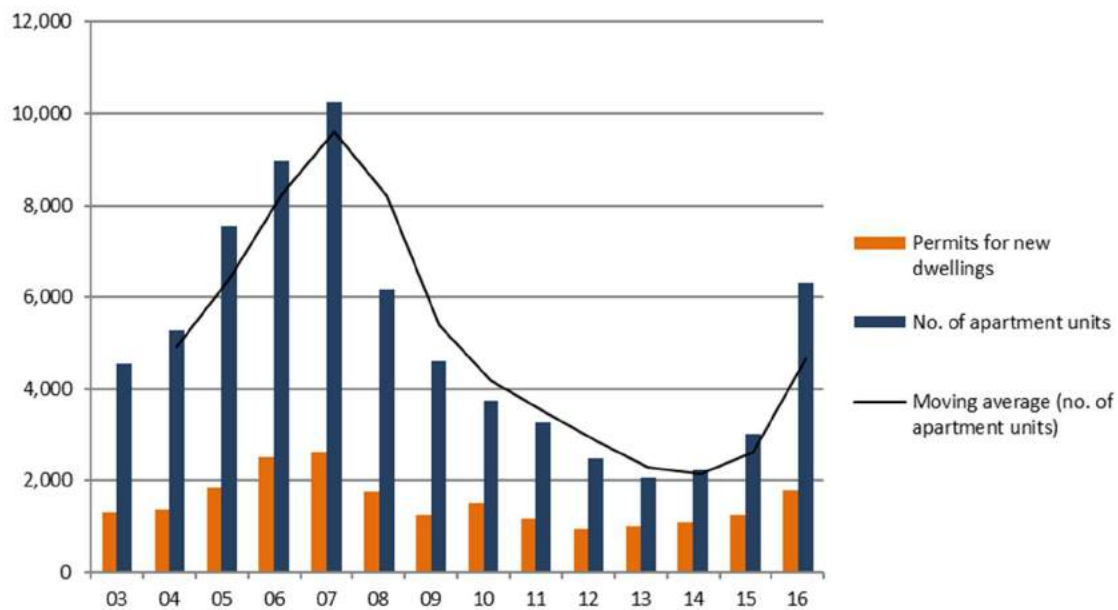
CHART II: Malta House Price Index



Source: Eurostat

With regard to the number of permits, Planning Authority issued 7,508 permits during 2016 (statistics for 2017 have yet to be published), just over 90% more than in 2015. This followed growth of 34.4% in 2014, marking three consecutive years of growth following a period of decline. The increase in permits issued in 2016 was mostly driven by the largest residential category, namely apartments, which accounted for 84.1% of total permits granted.

CHART III: Development Permits for Dwellings



Source: Planning Authority

The gross value added from the construction industry rose by 8.3% in 2017 (in nominal terms), from €328.9 million in 2016 to €356.4 million), following a marginal decrease of 0.4% in 2016. During 2015, a y-o-y increase of 8.8% or €26.7 million increase was registered.

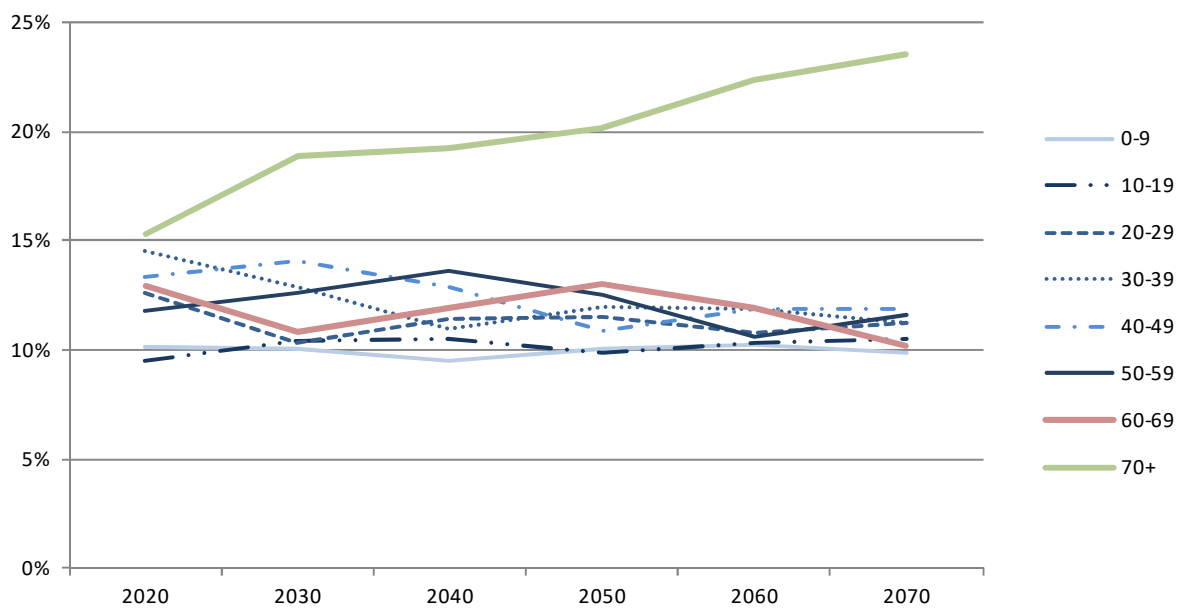
Commercial Property

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.

6.2.5 Long-Term Care Trend Analysis

Demand for long-term care 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 to 28% by 2020 and to 30% by 2030 (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 over 135,000 by 2030. 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 2014, National Statistics Office, Malta

6.3 HOSPITALITY & ENTERTAINMENT

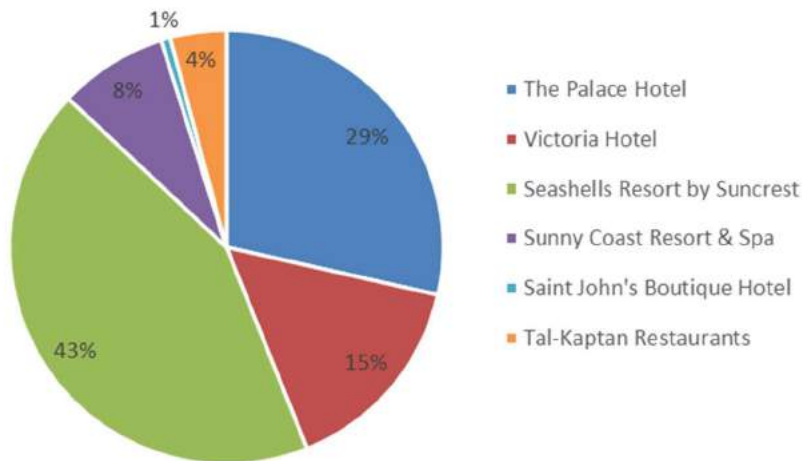
6.3.1 Financial Information – Sector Analysis

Hospitality & Entertainment	FY2015 Actual	FY2016 Actual	FY2017 Actual	FY2018 Forecast
Turnover (€'000)	26,343	32,131	35,508	37,675
The Palace Hotel	8,866	9,749	10,129	10,232
Victoria Hotel	4,721	4,927	5,469	5,871
Seashells Resort by Suncrest	9,112	13,354	15,299	15,749
Sunny Coast Resort & Spa	2,406	2,663	2,882	2,908
Saint John's Boutique Hotel			249	1,330
Tal-Kaptan Restaurants	1,238	1,438	1,480	1,585
Gross Operating Profit (€'000)	10,826	14,087	15,759	16,975
The Palace Hotel	3,620	4,280	4,580	4,659
Victoria Hotel	2,046	2,415	2,629	2,977
Seashells Resort by Suncrest	3,899	5,936	7,085	7,411
Sunny Coast Resort & Spa	1,212	1,337	1,463	1,595
Saint John's Boutique Hotel			(100)	142
Tal-Kaptan Restaurants	49	120	102	191
Gross Operating Profit Margin (%)	41%	44%	44%	45%
The Palace Hotel	41%	44%	45%	46%
Victoria Hotel	43%	49%	48%	51%
Seashells Resort by Suncrest	43%	44%	46%	47%
Sunny Coast Resort & Spa	50%	50%	51%	57%
Saint John's Boutique Hotel			-40%	11%
Tal-Kaptan Restaurants	4%	8%	7%	12%

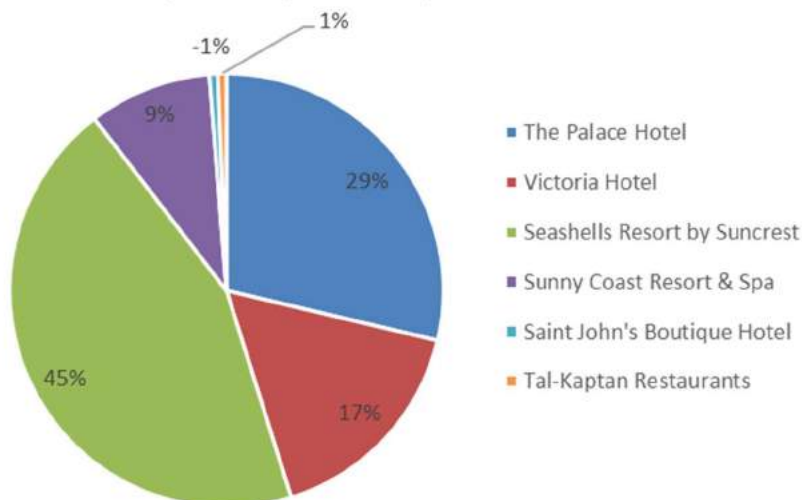
Source: Management information.

6.3.2 Aggregate Hotel Revenue and Operating Profit

% Total Revenue by Hotel - FY2017



% of Total Operating Profit by Hotel - FY2017



As illustrated above, the principal contributor to the Group’s hotel sector in terms of both revenue and gross operating profit is the Seashells Resort by Suncrest, and the second best performer is The Palace Hotel. In aggregate, both hotels generate 72% of total revenue and 74% of gross operating profit.

6.3.3 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 2017 is €35.8 million (FY2016: €36.6 million).

Operational Performance

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

The Palace Hotel	FY2015 Actual	FY2016 Actual	FY2017 Actual	FY2018 Forecast
Turnover (€'000)	8,866	9,749	10,129	10,232
Gross operating profit (€'000)	3,620	4,280	4,580	4,659
Gross operating profit margin (%)	41	44	45	46
Occupancy level (%)	92	90	91	88
Average room rate (€)	110	126	129	135
Revenue per available room (RevPAR) (€)	158	179	186	188
Benchmark performance				
Occupancy level (%)	78	75	76	n/a
Average room rate (€)	137	143	157	n/a
Revenue per available room (RevPAR) (€)	163	163	182	n/a
Revenue Generating Index	0.97	1.10	1.02	n/a

Source: Management information.

In **FY2016**, y-o-y revenue increased by €0.9 million (+10%) to €9.7 million and gross operating profit increased by €0.7 million (+18%) to €4.3 million. Gross operating profit margin improved from 41% in FY2015 to 44% FY2016.

The above-mentioned upward trend also continued in **FY2017**, with revenue increasing by €0.4 million (+4%) and gross operating profit also increasing by €0.3 million (+7%) which led to the gross operating profit margin improving further from 44% in FY2016 to 45% in FY2017.

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 (FY2015 to FY2017).

For **FY2018**, management's strategy is to continue 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.

6.3.4 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 2017 is €21.3 million (FY2016: €20.8 million).

Operational Performance

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

Victoria Hotel	FY2015 Actual	FY2016 Actual	FY2017 Actual	FY2018 Forecast
Turnover (€'000)	4,721	4,927	5,469	5,871
Gross operating profit (€'000)	2,046	2,415	2,629	2,977
Gross operating profit margin (%)	43	49	48	51
Occupancy level (%)	83	78	80	85
Average room rate (€)	76	88	95	98
Revenue per available room (RevPAR) (€)	95	95	105	113
Benchmark performance				
Occupancy level (%)	85	83	81	n/a
Average room rate (€)	79	83	85	n/a
Revenue per available room (RevPAR) (€)	94	94	92	n/a
Revenue Generating Index	1.01	1.01	1.14	n/a

Source: Management information.

Between FY2015 and FY2017, the Hotel executed a renovation programme which included the refurbishment of the rooms and common areas of the property, and the implementation of energy saving measures in all rooms. As a result of this capital expenditure, the Hotel is now in a better position to compete with other hotels, enhance RevPAR and generate higher year-on-year gross operating profits.

Revenue for **FY2016** amounted to €4.9 million, a marginal increase of €0.2 million when compared to the prior year. Gross operating profit increased by €0.4 million (+18%) from €2.0 million in FY2015 to €2.4 million in FY2016, thereby improving the gross operating profit margin by 6 percentage points to 49%.

In **FY2017**, revenue increased by 11% compared to FY2016, to €5.5 million, an increase of €0.5 million from the prior year. Gross operating profit also increased by €0.2 million (+9%) in FY2017, to €2.6 million for the year compared to €2.4 million in FY2016, however losing a percentage point on gross operating profit margin which was 48% in FY2017 compared to 49% in the prior year.

Management expects **FY2018** to be another positive year and as such, is projecting an overall improvement in results over FY2017.

As for benchmark performance, the Hotel performed broadly in line with competition in FY2015 and FY2016 mainly as a consequence of ongoing refurbishment works. In FY2017, the Hotel achieved a lower occupancy (80%) when compared to the competitive set (81%), but average room rate was higher (€95) as compared to the benchmark rate of €85. Also, the Hotel's RevPAR was higher than that of its competitive set, at €105 compared to the competitive set of €92.

6.3.5 Seashells Resort at Suncrest

Seashells Resort at Suncrest is a four-star hotel located in Qawra Malta that also offers 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 2017 is €77.9 million (FY2016: €79.2 million). In accordance with the Group's accounting policies, the property was revalued in FY2016 by €52.8 million on account of the improved operating performance described hereunder.

Operational Performance

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

Seashells Resort at Suncrest	FY2015 Actual	FY2016 Actual	FY2017 Actual	FY2018 Forecast
Turnover (€'000)	9,112	13,354	15,299	15,749
Gross operating profit (€'000)	3,899	5,936	7,085	7,411
Gross operating profit margin (%)	43	44	46	47
Occupancy level (%)	45	82	84	82
Average room rate (€)	74	57	66	67
Revenue per available room (RevPAR) (€)	55	81	93	95
Benchmark performance				
Occupancy level (%)	82	83	83	n/a
Average room rate (€)	59	64	70	n/a
Revenue per available room (RevPAR) (€)	81	81	85	n/a
Revenue Generating Index	0.68	1.00	1.09	n/a

Source: Management information.

Over the last few years, all external and internal areas of the Seashells Resort at Suncrest (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 resulted in a decrease in FY2015 occupancy from 52% in FY2014 to 45%, but the improvements 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 moreover, the Hotel's offerings have increased to cater for conferences and business events. During FY2017, the Group finalised the refurbishment of the Luzzu Conference Centre and Poseidon Conference Hall at an aggregate cost of *circa* €1.25 million. 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, as from **FY2016**, the Hotel refrained from the practice of closing between December and March, and commenced operating for a full year. This resulted in a marked improvement in achieved revenue, which increased by €4.2 million from €9.1 million in FY2015 to €13.4 million in FY2016. The gross operating profit margin remained stable at 44%, thus resulting in an increase in gross operating profit of €2.0 million from €3.9 million in FY2015 to €5.9 million.

In **FY2017**, the Hotel continued to perform positively, with an increase in revenue of €1.9 million (+15%) whilst increasing gross operating margin by two percentage points from FY2016, to 46% (FY2016: 44%). This calculated to a gross operating profit of €7.1 million in FY2017, an increase of €1.1 million (+19%) compared to FY2016 gross operating profit of €5.9 million.

Management has projected a y-o-y increase in revenue of 2.9% in **FY2018** to €15.7 million (FY2017: €15.3 million) and 4.6% improvement in gross operating profit to €7.4 million (FY2017: €7.1 million).

The Hotel has underperformed its competitive set in FY2015, but has matched performance in FY2016 due to the achievement of a higher RevPAR when compared to prior years. In FY2017, the Hotel has managed to match occupancy and average room rate compared to its competitive set and achieved a higher RevPAR at €93 compared to its competitive set of €85. In the near term, management will continue to focus on improving its product in order to possibly surpass the performance of its competitive set.

6.3.6 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 2017 is €19.1 million (FY2016: €19.0 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	FY2015	FY2016	FY2017	FY2018
	Actual	Actual	Actual	Forecast
Turnover (€'000)	2,406	2,663	2,882	2,908
Gross operating profit (€'000)	1,212	1,337	1,463	1,595
Gross operating profit margin (%)	50	50	51	57
Occupancy level (%)	68	78	76	80
Average room rate (€)	85	80	90	84
Revenue per available room (RevPAR) (€)	74	82	89	87
Benchmark performance				
Occupancy level (%)	82	83	83	n/a
Average room rate (€)	59	64	70	n/a
Revenue per available room (RevPAR) (€)	81	81	85	n/a
Revenue Generating Index	0.91	1.01	1.05	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 3 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 FY2017 timeshare revenue accounted for only 25% of total accommodation income (FY2016: 31%). In view of the maturing timeshare contracts, the Group is actively considering 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. Operational performance in FY2016 was broadly similar to results achieved in the prior year – revenue was up by €0.3 million (y-o-y) to €2.7 million, whilst gross operating profit increased by €0.1 million (y-o-y) to €1.3 million. During FY2017, gross operating profit increased further by €0.2 million (y-o-y) to €1.5 million (+9%). Gross operating margin also improved by one percentage point to 51% in FY2017 compared to 50% in 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 FY2017, the rate achieved by the Hotel was 29% higher than the average room rate of its competitive set at €90 and its RevPAR exceeded that of its competitive set at €89 (competitive set: €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 maintain this positive trend.

6.3.7 Saint John's Boutique Hotel

During FY2016, the Group acquired a property in Merchant Street, Valletta, which has now been converted into a 19-room boutique hotel (known as Saint John's Boutique Hotel) at an estimated total cost (property acquisition and development) of *circa* €4.5 million. The boutique hotel began operating in August 2017.

Operational Performance

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

Saint John's Boutique Hotel	FY2017	FY2018
	Actual	Forecast
Turnover (€'000)	249	1,330
Gross operating profit (€'000)	(100)	142
Gross operating profit margin (%)	(40)	11
Occupancy level (%)	67	64
Average room rate (€)	157	135
Revenue per available room (RevPAR) (€)	144	174

Source: Management information.

In FY2017, Saint John's Boutique Hotel was operational for 3 months, during which it generated revenue of €0.25 million and incurred a gross operating loss of €0.1 million. The occupancy level was at 67% and achieved average room rate amounted to €157, with a resulted RevPAR of €144. No available benchmarks are yet available for boutique hotels.

The Group is forecasting revenue of €1.3 million in FY2018 and to operate at a gross operating profit margin of 11%, which would equate to €0.14 million in gross operating profit for the year. Furthermore, a 64% occupancy is expected for FY2018 along with a room rate of €135 and a RevPAR of €174.

6.3.8 Other Assets

In November 2016 (FY2017), the Group acquired another property in Merchant Street, Valletta for a total consideration of €4.5 million. Planning authority permits have been issued for the conversion of this property into a 27-room boutique hotel. A maximum of €6.0 million is expected to be incurred in development costs. The Group plans to commence operations in January 2019.

6.3.9 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	FY2015 Actual	FY2016 Actual	FY2017 Actual	FY2018 Forecast
Turnover (€'000)	1,238	1,438	1,480	1,585
Gross operating profit (€'000)	49	120	102	191
Gross operating profit margin (%)	4	8	7	12

Source: Management information.

In Q4 FY2014, the Group appointed a new management team and undertook a rebranding exercise so as to improve the operational performance of its outlets. 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. Furthermore, the outlets converted a gross operating loss of €23,000 in FY2014 to a gross operating profit of €49,000 in the following year.

The restaurants registered a further increase in revenue and gross operating profit in FY2016 over the prior year of €0.2 million and €71,000 respectively. Revenue during FY2017 marginally increased by €0.04 million (+3%) to €1.5 million, however gross operating profit margin dropped a percentage point to 7% (FY2016: 6%). This resulted in a gross operating profit of €0.10 million in FY2017, a decrease of 15% when compared to €0.12 million registered in FY2016.

It is expected that revenue in FY2018 will increase to €1.6 million, an increase of €0.1 million compared to FY2017, and the gross operating profit margin is projected to increase by 5 percentage points to 12% (FY2017: 7%). Management is projecting a gross operating profit of €0.2 million in FY2018.

6.4 CONSTRUCTION, BUILDING MATERIALS & MANAGEMENT SERVICES

6.4.1 Financial Information – Sector Analysis

Construction, Building Materials & Management Services	FY2015 Actual	FY2016 Actual	FY2017 Actual	FY2018 Forecast
Turnover (€'000)	4,349	3,447	5,503	5,968
Construction works	3,050	1,964	4,755	4,721
Construction waste management	883	1,225	202	-
Restoration projects	416	258	546	1,247
Gross operating profit (€'000)	425	463	481	613
Gross operating profit margin (%)	10	13	9	10

Source: Management information.

6.4.2 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; is-Suq tal-Belt and various other projects which were executed for Group companies and third party clients.

During 2014 and 2015, the construction division developed the Simblija Care Home & Hilltop Gardens Retirement Village on a site measuring *circa* 17,000 square metres, located in Simblija, limits of Naxxar. In FY2017, the Group was primarily involved in the conversion and completion of is-Suq tal-Belt and Saint John's Boutique Hotel in Valletta and in FY2018, the continuation of development of another boutique hotel in Merchant Street, Valletta.

In FY2017, the Group generated €4.8 million (2016: €2.0 million) in construction works. The increase of €2.8 million (+142%) was principally due to an increase in turnkey project engagements (including third party private residences), which is broadly in line with the higher level of activity in the local construction industry.

In recent years, the AX Group has been fairly active in restoration projects and in FY2017 generated €546,000 (FY2016: €258,000) from such operations. Projects awarded to date include: Fort St Angelo, parts of the Valletta & Vittoriosa bastions, Scamps Palace Building (site housing Casino di Venezia), Valletta Waterfront, St Paul's Catacombs, Lascaris War Rooms in Valletta, Birgu bastions, Wignacourt Tower in St Paul's Bay, Auberge d'Italie and Bastions San Salvatore. The Group is anticipating to further increase its engagement in restoration projects and is thus projecting revenue for FY2018 at €1.2 million.

Up to FY2017, the AX Group was involved in construction waste management at a site in Mgarr, which consisted of the management and disposal of excavation, construction and demolition waste. The level of activity in waste management increased substantially in FY2016, which reflected the increase in construction activity in Malta over the past few years. As such, the Group generated €1.2 million in FY2016 from this business activity, an increase of €0.3 million when compared to FY2015. This activity was terminated in FY2017, during which the Group only generated income of €0.2 million. No revenue from construction waste management has been forecasted for FY2018.

6.5 PROPERTY, REAL ESTATE & RENTAL INCOME

6.5.1 Financial Information – Sector Analysis

Property, Real Estate & Rental Income	FY2015 Actual	FY2016 Actual	FY2017 Actual	FY2018 Forecast
Turnover (€'000)	1,048	493	588	1,405
Sale of property & real estate	699	-	50	898
Rental income	349	493	538	507
Gross operating profit (€'000)	832	418	513	951
Gross operating profit margin (%)	79	85	87	68

Source: Management information.

6.5.2 Overview of Sector Activity

During the three historical financial years under review, the AX Group was not engaged in any major property development for resale. The last 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 (which were all 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, nine properties are held for own use or rental purposes and one warehouse is available for sale. Forecasted revenue from sale of property & real estate has already been realised in FY2018. In fact, the warehouse available for sale has been sold as well as another plot in Mosta, for an aggregate price of €0.9 million. Gross operating profit for FY2018 is expected to amount to €951,000 as compared to €513,000 generated in FY2017. No additional disposals are being projected for FY2018.

During FY2017, AX Group was granted planning permits for the Targa Gap Complex in Mosta. This development consists of an office block, which will host the new AX Group Head Office, as well as a showroom, parking facilities and a residential block of apartments. Excavation works started in late 2017 and the Group estimates that it will take 2 years to finalise at a cost of *circa* €7 million (excluding land).

Rental income represents proceeds derived from the leasing of Group properties to third parties, and mainly comprises: Villa Vistana, five warehouses (described hereinabove) and Vault 5 at Valletta

Waterfront. As from FY2016, the Group is generating income from renting a convenience shop and child care centre situated at Simblija Care Home & Hilltop Gardens Retirement Village.

7. SIMBLIJA CARE HOME & HILLTOP GARDENS RETIREMENT VILLAGE

7.1 GENERAL

The AX Group developed the Simblija Care Home & Hilltop Gardens Retirement Village (“**Care & Retirement Home**”) 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 carrying value of this property as at 31 October 2017 amounted to €42.5 million (FY2016: €42.8 million).

The Care & Retirement Home 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 facilities at the complex include a restaurant, spa, hair salon, swimming pool, common room and a chapel, amongst others. The Care & Retirement Home 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 Care & Retirement Home also includes a nursing home which provides intensive nursing care to dependent elderly residents.

7.2 FINANCIAL INFORMATION

The expenditure on developing the Care & Retirement Home and acquisition of plant & equipment is estimated at €25 million, and consists of 133 self-catering residential units, a 153-bed nursing home, and common areas, amenities and landscaping works.

The residential units are being offered for lease on a variable basis for periods of up to a maximum of 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 actual results for the initial financial year ended 31 October 2016, full financial year ended 31 October 2017 and the forecast for FY2018.

Simblija Care Home & Hilltop Gardens Retirement Village	FY2016 Actual €'000	FY2017 Actual €'000	FY2018 Forecast €'000
Residences & other income	261	1,395	2,239
Nursing home	747	1,964	2,840
Total Revenue	1,008	3,359	5,079
Direct costs	(1,514)	(2,184)	(2,659)
Other costs	(576)	(1,335)	(952)
EBITDA	(1,083)	(160)	1,468

In FY2016, the Care & Retirement Home generated total revenue of €1.0 million but incurred an operating loss of €1.1 million. During FY2017, 109 units of the self-catering residences (out of 133 units) were either rented or leased. Lease periods range from 1 year up to 50 years, with the average lease term being 22 years, whilst rentals are for periods up to one year. The Care & Retirement Home generated €3.4 million in revenue, however still incurred an operating loss of €0.2 million.

It is projected that in FY2018, the Care & Retirement Home will continue to increase occupancy in both the residential units and the nursing home, and as a result, management is estimating revenue to increase to €5.1 million and register an EBITDA of €1.5 million.

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.

8. 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 2015 to 31 October 2017. The financial information for the year ending 31 October 2018 has been provided by Group management.

AX Investments p.l.c. Income Statement				
for the year ended 31 October				
	2015	2016	2017	2018
	Actual	Actual	Actual	Forecast
	€'000	€'000	€'000	€'000
Rental income	163	238	238	238
Administrative expenses	(240)	(179)	(185)	(185)
Results from operating activities	(77)	59	53	53
Share of (loss)/profit of associated undertaking	(197)	10,220	256	250
Revaluation of investment property	-	750	-	-
Fair value movement & gain on disposal of investments	1,628	-	-	-
Net finance costs	61	384	505	467
Profit before tax	1,415	11,413	814	770
Taxation	105	(3,797)	(203)	(194)
Profit after tax	1,520	7,615	611	576

AX Investments p.l.c. Cash Flow Statement				
for the year ended 31 October				
	2015	2016	2017	2018
	Actual	Actual	Actual	Forecast
	€'000	€'000	€'000	€'000
Net cash from operating activities	1,343	286	337	587
Net cash from investing activities	(564)	(622)	(1,007)	-
Net cash from financing activities	(1,681)	-	256	(743)
Net movement in cash and cash equivalents	(902)	(337)	(414)	(156)
Cash and cash equivalents at beginning of year	1,911	1,009	672	258
Cash and cash equivalents at end of year	1,009	672	258	102

AX Investments p.l.c. Balance Sheet				
as at 31 October				
	2015	2016	2017	2018
	Actual	Actual	Actual	Forecast
	€'000	€'000	€'000	€'000
ASSETS				
Non-current assets	50,740	62,328	63,586	63,832
Current assets	1,013	750	258	660
	51,753	63,077	63,844	64,492
EQUITY AND LIABILITIES				
Equity	9,500	17,115	17,726	18,302
Liabilities				
Non-current liabilities	40,322	44,037	44,191	44,253
Current liabilities	1,931	1,926	1,927	1,937
	42,253	45,963	46,118	46,190
Total equity and liabilities	51,753	63,077	63,844	64,492

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. In FY2016, rental income amounted to €238,000 (FY2015: €163,000) and was primarily derived from the lease of Palazzo Capua to a related party. In FY2017, the rental income remained stable at €238,360.

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. The substantial profit of €10.2 million (FY2015: loss of €197,000) is mainly due to an uplift in value of the Seashells Resort at Suncrest. During FY2017, the share of results of associated undertaking related to the 19.91% amounted to a share of profit of €255,666.

Net finance costs reflect the net difference between interest payable on bonds in issue and interest receivable from advances to Group companies, which was €121,004 higher in FY2017 at €505,136 (FY2016: 384,132).

Operational performance in FY2018 is projected to be similar to that achieved in FY2017.

Cash Flow Statement

Net cash flows from operating activities of the Issuer mainly comprises rental income, administrative expenses, movements in trade & other receivables and payables, interest paid and received, and taxation paid. On a net basis, operational cash flows in each of FY2015, FY2016 and FY2017 amounted to €1.3 million, €0.29 million and €0.34 respectively. It is estimated that net operating cash inflows in FY2018 will amount to €0.59 million.

During FY2015, the Issuer raised €18.5 million through the disposal of financial assets and advanced €19.1 million to Group companies. Net cash from investing and financing activities in FY2015, FY2016 and FY2017 amounted to -€2.2 million, -€0.6 million and -€0.7 million respectively. In FY2016, the only movement in investing and financing activities consisted of net loans to related parties of €0.6 million. In FY2017, net cash outflows relating to loans to related parties amounted to €0.7 million. Net cash used in investing activities in FY2018 is projected to be nil, whilst an amount of €0.7 million is expected to be used in financing activities.

Cash and cash equivalents at the end of FY2015, FY2016 and FY2017 amounted to €1.0 million, €0.7 million and €0.3 million respectively. Closing cash balance in FY2018 is forecasted to total €0.1 million.

Balance Sheet

The assets of the Issuer principally include the ownership of Palazzo Capua valued at €9.0 million (FY2016: €9.0 million), the 19.91% shareholding in Suncrest Hotels p.l.c. amounting to €13.1 million (FY2016: €12.8 million), and the on-lending of bond proceeds to related parties which amounted to €41.5 million (FY2016: €40.5 million).

The liabilities of the Issuer mainly comprise debt securities listed on the Official List of the Malta Stock Exchange of €39.6 million (FY2016: €39.5 million) and deferred taxation amounting to €4.6 million (FY2016: €4.5 million).

9. 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 2015 to 31 October 2017. The financial information for the year ending 31 October 2018 has been provided by Group management.

AX Group Income Statement				
for the year ended 31 October				
	2015	2016	2017	2018
	Actual	Actual	Actual	Forecast
	€'000	€'000	€'000	€'000
Revenue	32,110	38,060	46,157	51,005
Net operating expenses	(22,185)	(25,395)	(30,790)	(31,939)
EBITDA	9,925	12,666	15,367	19,066
Depreciation	(3,229)	(4,825)	(5,238)	(5,138)
Investment property revaluation	-	900	5,811	-
Share of results of associated undertaking	378	696	1,087	-
Investment income	1,975	8	11	2,175
Net finance costs	(3,450)	(3,494)	(3,460)	(3,255)
Profit before tax	5,599	5,951	13,578	12,848
Taxation	(1,411)	(1,918)	(1,674)	(3,010)
Profit after tax	4,188	4,033	11,904	9,838
Other comprehensive income				
Gains on property revaluation	6,881	53,622	-	-
Taxation	(1,408)	(5,418)	-	-
	5,473	48,204	-	-
Total comprehensive income	9,661	52,236	11,904	9,838
AX Group Cash Flow Statement				
for the year ended 31 October				
	2015	2016	2017	2018
	Actual	Actual	Actual	Forecast
	€'000	€'000	€'000	€'000
Net cash from operating activities	5,918	16,601	16,836	16,771
Net cash from investing activities	(7,773)	(16,233)	(12,084)	(8,708)
Net cash from financing activities	3,557	3,050	(4,135)	(5,060)
Net movement in cash and cash equivalents	1,702	3,418	617	3,003
Cash and cash equivalents at beginning of year	472	2,174	5,592	6,209
Cash and cash equivalents at end of year	2,174	5,592	6,209	9,212

AX Group Balance Sheet as at 31 October	2015 Actual €'000	2016 Actual €'000	2017 Actual €'000	2018 Forecast €'000
ASSETS				
Non-current assets	183,127	249,753	262,153	265,723
Current assets	22,911	20,672	24,165	27,067
	206,038	270,425	286,318	292,790
EQUITY AND LIABILITIES				
Equity				
Capital and reserves	110,034	162,319	171,890	181,660
Non-controlling interest	1,448	1,401	1,434	1,502
	111,482	163,719	173,323	183,162
Liabilities				
Non-current liabilities	70,089	82,297	83,698	84,363
Current liabilities	24,467	24,409	29,297	25,265
	94,556	106,706	112,994	109,628
Total equity and liabilities	206,038	270,425	286,318	292,790

Key Accounting Ratios	FY2015	FY2016	FY2017	FY2018
Operating profit margin (EBITDA/revenue)	31%	33%	33%	37%
Interest cover (times) (EBITDA/net finance cost)	2.88	3.62	4.44	5.86
Net profit margin (Profit after tax/revenue)	13%	11%	26%	19%
Earnings per share (€) (Profit after tax/number of shares)	20.73	19.96	58.93	48.70
Return on equity (Profit after tax/shareholders' equity)	4%	2%	7%	5%
Return on capital employed (Operating profit/total assets less current liabilities)	5%	5%	6%	7%
Return on assets (Profit after tax/total assets)	2%	1%	4%	3%

Source: Charts Investment Management Service Limited

Income Statement

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. After accounting for property revaluations, the Group's total comprehensive income amounted to €9.7 million in FY2015 (FY2014: €14.1 million).

In **FY2016**, revenue of the Group increased by €6.0 million (+19%) from €32.1 million in FY2015 to €38.1 million. The afore-mentioned increase in revenue was mainly generated from the hospitality sector as to €5.8 million (principally from Seashells Resort by Suncrest and The Palace Hotel) and the care & retirement home generated €0.9 million in its first year of operation. Revenue from construction and real estate decreased by €1.5 million when compared to FY2015, and dividends receivable from Valletta Cruise Port plc increased from €0.4 million in FY2015 to €1.0 million in FY2016.

EBITDA increased by €2.7 million (+28%), from €9.9 million in FY2015 to €12.7 million in FY2016, substantially generated from Seashells Resort by Suncrest and The Palace Hotel. After accounting for depreciation of €4.8 million (FY2015: €3.2 million), an uplift of €0.9 million (FY2015: nil) in the valuation of the Hardrocks warehouses, investment income & net finance costs of €3.5 million (FY2015: €1.5 million) and share of results of associates of €0.7 million (FY2015: 0.4 million), the Group registered a profit before tax of €6.0 million, a y-o-y increase of €0.4 million when compared to FY2015 (profit before tax: €5.6 million). In FY2016, the property valuations (net of deferred tax) of Seashells Resort by Suncrest and Palazzo Capua were revised upwards by an aggregate amount of €48.2 million, and as a consequence, the comprehensive income for FY2016 amounted to €52.2 million (FY2015: €9.7 million).

During the financial year under review (**FY2017**), revenue of the Group increased by €8.1 million (+21%), from €38.1 million in FY2016 to €46.2 million in FY2017. The year-on-year increase was spread primarily across the hospitality sector, construction sector as well as the care & retirement home (which is in its second year of operation). Revenue from sale of property, real estate and rental income increased by €0.1 million, whilst dividends receivable from Valletta Cruise Port plc decreased by €0.06 million to €0.89 million in FY2017.

In FY2017, EBITDA increased by €2.7 million (+21%) from €12.7 million in FY2016 to €15.4 million, a significant portion of which was generated from the operations of Seashells Resort by Suncrest. After accounting for depreciation of €5.2 million (FY2016: €4.8 million), investment income and net finance costs of €3.5 million (FY2016: €3.5 million), an uplift of €5.8 million (FY2016: €0.9 million), and share of results of associates of €1.0 million (FY2016: €0.7 million), the Group registered a profit before tax of €13.6 million, compared to €6.0 million in FY2016 (+128%).

Profit after tax amounted to €11.9 million in FY2017 as compared to €4.0 million in FY2016, an increase of €7.9 million (+195%). Total comprehensive income in FY2017 was unchanged at €11.9 million (FY2016: €52.2 million).

In **FY2018**, revenue is projected to increase by €4.8 million (+11%) from €46.2 million in FY2017 to €51.0 million. The principal gains are expected from Simblija Care Home & Hilltop Gardens Retirement Village, Saint John's Boutique Hotel and the sale of property & real estate. EBITDA is estimated at €19.1 million, an improvement of €3.7 million (+24%) when compared to FY2017. Overall, the Group is projected to earn a profit for the year in FY2018 of €9.8 million, a decrease of €2.0 million from a year earlier. Management has prudently assumed no investment property valuation gains for the forecasted financial year.

Balance Sheet

Total assets of the Group principally comprise hotel and other properties as detailed in section 5 above, shareholding in Valletta Cruise Port p.l.c. amounting to €9.7 million (which ownership 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 (FY2017: €24.2 million as compared to FY2016: €18.1 million), current & deferred taxation (FY2017: €20.2 million as compared to FY2016: €19.1 million) and borrowings as detailed below:

AX Group Borrowings as at 31 October	2015 Actual €'000	2016 Actual €'000	2017 Actual €'000	2018 Forecast €'000
Bank borrowings				
Central Leisure Developments Ltd	9,369	8,300	6,794	5,678
Capua Palace Inv. Ltd	1,404	1,268	1,081	884
Suncrest Hotels p.l.c.	6,568	6,195	5,365	4,630
Luzzu Properties Ltd	471	2,760	429	-
Other bank loans	33	-	-	2,500
AX Holdings Ltd	-	2,924	2,112	1,811
Palazzo Merkanti	-	-	4,157	3,966
Bank overdrafts	1,851	283	1,144	3,793
Bank borrowings	19,697	21,730	21,082	23,262
Bonds				
6% Bonds 2024	40,000	40,000	40,000	40,000
	40,000	40,000	40,000	40,000
Other borrowings				
Malta Enterprise	6,094	6,311	6,529	-
Shareholder's loan <i>(unsecured, interest free and no fixed date repayment)</i>	2,518	1,517	1,204	964
	8,612	7,828	7,733	964
Total borrowings and bonds	68,309	69,559	68,815	64,226

Key Accounting Ratios	31 Dec'15	31 Dec'16	31 Dec'17	31 Dec'18
Net assets per share (€) <i>(Net asset value/number of shares)</i>	0.55	0.81	0.86	0.91
Liquidity ratio (times) <i>(Current assets/current liabilities)</i>	0.94	0.85	0.82	1.07
Gearing ratio <i>(Net debt/net debt and shareholders' equity)</i>	37%	30%	28%	26%

Source: Charts Investment Management Service Limited

Cash Flow Statement

Net cash flows from operating activities principally relate to the operations of the AX Group, which are analysed in further detail in section 6.0 of this report under the heading "Group Operational Development".

In FY2015, the Group disposed of financial assets which resulted in a cash inflow of €18.5 million and invested the amount of €23.6 million in fixed assets, principally in relation to the development of the Simblija Care Home & Hilltop Gardens Retirement Village. Net cash inflows from bank borrowings and other loans amounted to €3.9 million in FY2015 and during the same year, the Group paid dividends amounting to €350,000.

In FY2016, net cash inflows from financing activities amounted to €3.0 million. During the said year, the Group invested €12.5 million in fixed assets and acquired financial assets totalling €3.7 million.

During FY2017, the Group acquired and sold €12.9 million and €1.2 million, respectively, in fixed assets as well as acquired €0.3 million in investment property. The Group also had a net cash outflow of €4.1 million used in financing activities, which was mainly due to a net movement in bank borrowings of €1.7 million and the payment of €2.3 million in interim dividends.

Overall, net cash balances as at the end of FY2015, FY2016 and FY2017 amounted to €2.2 million, €5.6 million and €6.2 million respectively.

On 30 November 2017, the court of first instance decided the case filed by Malta Enterprise in relation to the property owned by Royal Hotels Limited and Heritage Developments Limited. Both subsidiary companies had appealed the decision. In March 2018, the Group reached an out of court settlement, wherein AX Group agreed to repay the principal amount of the loan due to Malta Enterprise of €3.0 million. As such, the difference between the outstanding loan balance in borrowings of €6.5 million and the afore-mentioned €3 million (principally representing accrued interest payable) has been reversed in the current financial year (FY2018). In this respect, an income of €2.2 million has been accounted for under investment income in the income statement, whilst the remaining balance has been charged to fixed assets in the balance sheet.

Cash and cash equivalents for the year ending 31 October 2018 is forecasted at €9.2 million.

Variance Analysis

AX Group Income Statement for the year ended 31 October	2017 Actual €'000	2017 Forecast €'000	Variance €'000
Revenue	46,157	48,394	(2,237)
Net operating expenses	<u>(30,790)</u>	<u>(31,198)</u>	408
EBITDA	15,367	17,196	(1,829)
Depreciation	(5,238)	(4,992)	(247)
Investment property revaluation	5,811	-	5,811
Share of results of associated undertaking	1,087	-	1,087
Investment income	11	-	11
Net finance costs	<u>(3,460)</u>	<u>(3,723)</u>	263
Profit before tax	13,578	8,481	5,097
Taxation	<u>(1,674)</u>	<u>(3,059)</u>	1,385
Profit after tax	11,904	5,422	6,482
Other comprehensive income			
Gains on property revaluation	-	-	-
Taxation	<u>-</u>	<u>-</u>	<u>-</u>
	<u>-</u>	<u>-</u>	<u>-</u>
Total comprehensive income	11,904	5,422	6,482

As presented in the above table, the Group generated lower revenue in FY2017 than forecasted by €2.2 million, principally due to a lower than expected performance in construction and retirement home operations of an aggregate of €3.3 million, which was partly mitigated by a better than expected performance in hospitality operations of €1.4 million. This decrease in revenue negatively affected EBITDA, which was lower by €1.8 million when compared to the projected amount.

Profit for the year was higher than expected by €6.5 million, primarily due to an uplift in investment property valuation of €5.8 million, share of profits of associate amounting to €1.1 million and lower than expected net finance costs of €0.3 million. Such increases were partly offset by a higher than expected depreciation charge amounting to €0.2 million.

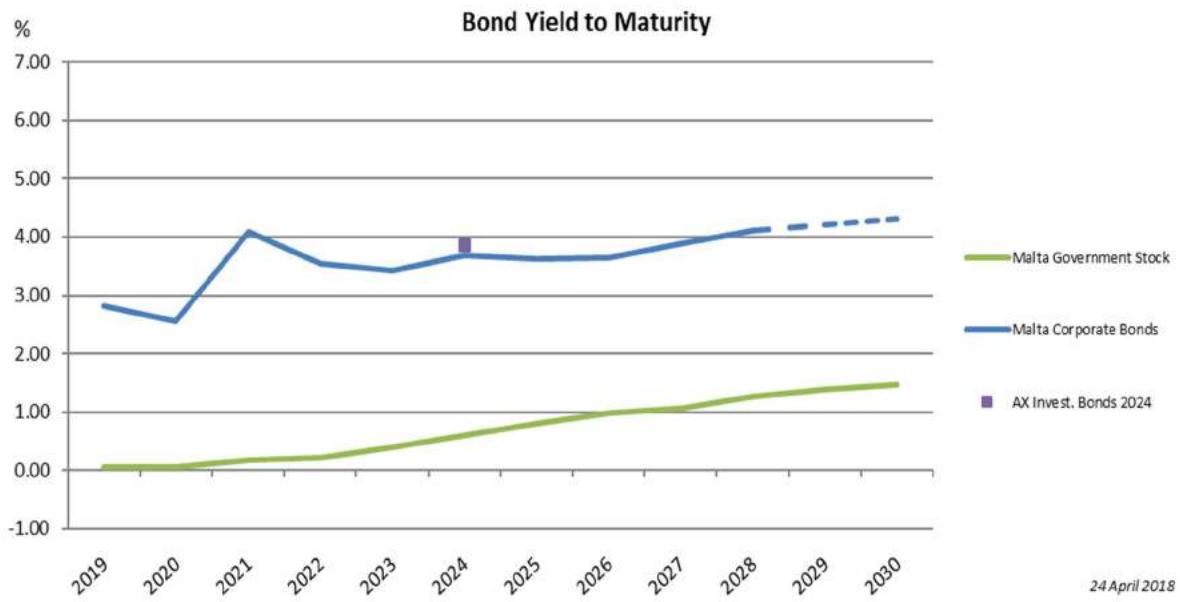
PART 3 – COMPARABLES

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. 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 Group's business and that of other issuers, the comparative analysis provides an indication of the financial performance and strength of the Group.

Comparative Analysis	Nominal Value (€)	Yield to Maturity (%)	Interest Cover (times)	Total Assets (€'000)	Net Asset Value (€'000)	Gearing Ratio (%)
5.5% Pendergardens Dev. plc Secured € 2020 Series I	15,000,000	2.55	1.49	63,273	11,488	63.23
6% Pendergardens Dev. plc Secured € 2022 Series II	27,000,000	3.55	1.49	63,273	11,488	63.23
4.25% Gap Group plc Secured € 2023	40,000,000	3.43	2.48	57,086	6,004	86.39
5.3% United Finance Plc Unsecured € Bonds 2023	8,500,000	4.16	2.05	18,153	3,796	73.85
6% AX Investments Plc Unsecured € 2024	40,000,000	3.86	4.44	286,318	173,323	26.09
5.3% Mariner Finance plc Unsecured € 2024	35,000,000	3.68	4.25	72,117	30,380	52.06
5% Hal Mann Vella Group plc Secured Bonds € 2024	30,000,000	4.06	3.05	107,801	39,813	54.01
5.1% 1923 Investments plc Unsecured € 2024	36,000,000	4.38	1.59	71,711	4,751	89.91
4.5% Hili Properties plc Unsecured € 2025	37,000,000	3.63	1.40	97,042	28,223	66.81
4.25% Corinthia Finance plc Unsecured € 2026	40,000,000	3.52	1.86	1,389,627	665,357	42.18
4.0% International Hotel Invest. plc Secured € 2026	55,000,000	3.57	2.46	1,220,254	646,822	36.39
4.0% MIDI plc Secured € 2026	50,000,000	3.64	0.59	203,780	67,359	40.62
3.75% Premier Capital plc € Unsecured Bonds 2026	65,000,000	3.19	7.60	193,351	41,630	58.76
4.35% Hudson Malta plc Unsecured 2026	12,000,000	4.35	39.11	17,088	5,835	30.63
4.35% SD Finance plc € Unsecured Bonds 2027	65,000,000	3.88	5.46	217,599	65,698	47.74
4.0% Eden Finance plc Unsecured 2027	40,000,000	3.48	3.98	165,496	92,620	34.60
4% Stivala Group Finance plc Secured 2027	45,000,000	3.44	6.21	199,560	121,041	31.54

24 April '18

Source: Malta Stock Exchange, Audited Accounts of Listed Companies, Charts Investment Management Service Limited



To date, there are no corporate bonds which have a redemption date beyond 2027 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; care and retirement home operations; 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 dividing a hotel's total revenue by the total number of available rooms in the period being measured. 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.