

## **Financial Analysis Summary**

22 November 2019

Issuer

**AX Group p.l.c. (formerly Fulcrum Services Limited)**



A division of MeDirect Bank (Malta) plc

The Directors  
AX Group p.l.c. (formerly Fulcrum Services Limited)  
Ax House, Mosta Road  
Lija LJA 9010  
Malta

22 November 2019

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 Group p.l.c. (the “**Company**” or “**AX Group**” 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 2016 to 31 October 2018 has been extracted from audited consolidated financial statements of the Company for the three years in question.
- b. The projected data for the years ending 31 October 2019 and 31 October 2020 has been provided by management.
- c. Our commentary on the results of the Company 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.

A handwritten signature in blue ink, appearing to read "Evan Mohnani".

**Evan Mohnani**  
Head – Corporate Finance

CHARTS - a division of MeDirect Bank (Malta) plc  
The Centre, Tigné Point, Sliema TPO 0001 - Tel: 2557 4400



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## PART 1 – INFORMATION ABOUT THE COMPANY

### 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 investing in other companies; acquiring, holding and disposing of immovable or movable property; and 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 home & retirement village 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. Hilltop Gardens Retirement Village achieved a 100% take up in 2018.

In FY2016, the Group increased its shareholding in Valletta Cruise Port p.l.c. from 24% to 36% for a total consideration of €3.9 million. The aggregate value of the said investment as at 31 October 2018 amounts to €10.7 million (FY2017: €9.7 million). During FY2016, the Group also acquired a property in Merchant Street, Valletta, which has now been converted into a 19-room boutique hotel at a total cost (property acquisition and development) of €5.1 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, which was developed into the 5-star Rosselli Boutique Hotel for a total cost amounting to *circa* €7.0 million. The hotel commenced operations in May 2019 and comprises 25 luxury rooms, meeting room facilities, a lounge area & restaurant and a roof-top pool.

### 3 DIRECTORS AND SENIOR MANAGEMENT

#### 3.1 BOARD OF DIRECTORS

AX Group p.l.c. is managed by a Board consisting of seven directors who are entrusted with the overall direction, administration and management of the AX Group.

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

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### 3.2. SENIOR MANAGEMENT

In the day-to-day operations of the AX Group, the executive Directors are supported by members of the Company's Executive Committee, responsible for the determination of policy and strategic guidance and management. The Executive Committee is composed of the following individuals:

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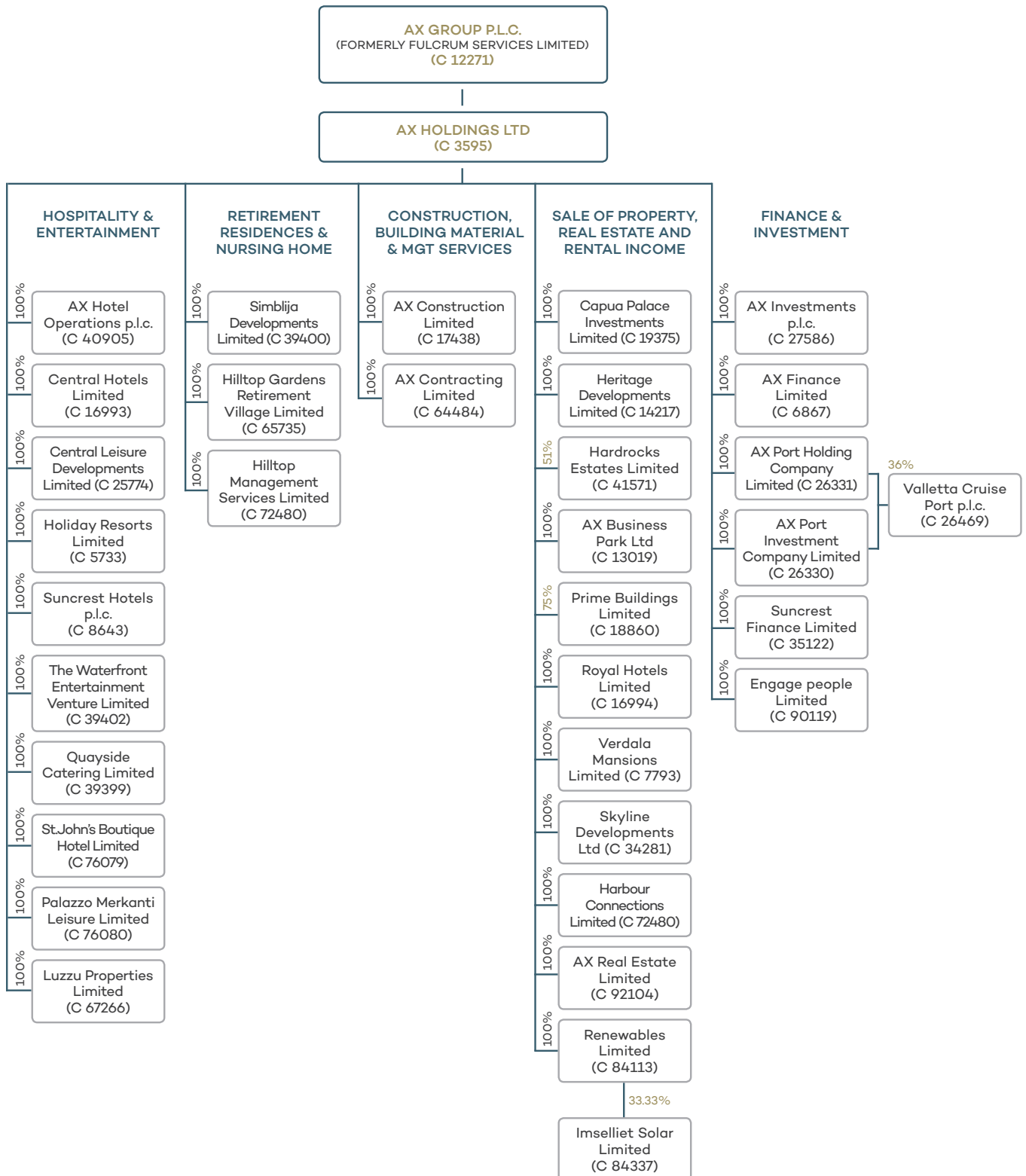
Michael Warrington	Chief Executive Officer
Albert Bonello	Chief Financial Officer
David Wain	Chief Legal Officer
Claire Zammit Xuereb	Group Hospitality Director
Denise Micallef Xuereb	Group Construction and Development Director
Charmaine Attard	General Manager, Hilltop Gardens
Joseph Vella	General Manager, Qawra Properties
Kevin Callus	General Manager, Sliema Properties
Lawrence Degabriele	Head of I.T.
Caroline Schembri	Administration Manager

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The weekly average number of employees directly engaged with the companies forming part of the AX Group during FY2018 amounted to 666 persons (FY2017: 707).

## 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.

<b>AX GROUP P.L.C. GROUP ASSETS</b>	<b>FY2016</b>	<b>FY2017</b>	<b>FY2018</b>	<b>Revaluation FY16 - FY18</b>
	<b>€'000</b>	<b>€'000</b>	<b>€'000</b>	<b>€'000</b>
The Palace Hotel	36,555	35,800	43,890	8,839
Victoria Hotel	20,754	21,274	20,940	
Seashells Resort at Suncrest	79,219	77,865	76,556	53,621
Sunny Coast Resort & Spa	19,015	19,104	19,109	
Palazzo Capua	8,863	8,793	8,699	750
Grand Hotel Verdala	11,423	11,423	28,600	16,985
Simblija Care Home & Hilltop Gardens Retirement Village	42,812	42,501	45,987	4,298
Villa Vistana	3,500	3,800	3,800	300
Tad-Dwiemes, Marsa	3,402	3,402	11,120	7,718
Hard Rocks Warehouses	2,650	5,683	5,160	2,710
Luzzu Complex	2,903	2,977	3,208	
Saint John's Boutique Hotel	2,990	4,571	4,895	
Palazzo Merkanti	-	5,024	6,402	
Targa Gap Complex, Mosta	-	3,674	4,098	3,649
Other assets	8,604	8,163	9,599	2,337
	<b>242,690</b>	<b>254,054</b>	<b>292,062</b>	<b>101,207</b>

Source: Consolidated audited financial statements of AX Group p.l.c.



## 6 GROUP OPERATIONAL DEVELOPMENT

The AX Group is principally involved in hotel operations, construction & property development, and related services, and the management of a retirement home. A divisional analysis of the Group's business is provided below.

### 6.1 KEY FINANCIAL INFORMATION – THE GROUP

AX GROUP DIVISIONAL ANALYSIS	FY2016 Actual	FY2017 Actual	FY2018 Actual	FY2019 Forecast	FY2020 Projection
<b>Turnover (€'000)</b>	<b>38,030</b>	<b>45,851</b>	<b>55,807</b>	<b>52,030</b>	<b>66,149</b>
Hospitality & entertainment	32,131	35,508	38,936	37,841	39,723
Construction, building materials & management services	3,447	5,503	8,146	7,011	9,173
Sale of property, real estate & rental income	493	588	2,740	510	9,424
Retirement residences & nursing home	1,008	3,359	4,763	5,560	6,611
Dividend receivable	951	893	1,222	1,108	1,218
<b>Gross Operating Profit (€'000)</b>	<b>13,886</b>	<b>16,593</b>	<b>19,935</b>	<b>17,882</b>	<b>27,681</b>
Hospitality & entertainment	14,087	15,759	16,901	15,812	17,404
Construction, building materials & management services	463	481	740	701	960
Sale of property, real estate & rental income	418	513	2,058	432	7,603
Retirement residences & nursing home	(1,083)	(160)	236	937	1,714
<b>Gross Operating Profit Margin (%)</b>	<b>37%</b>	<b>36%</b>	<b>36%</b>	<b>34%</b>	<b>42%</b>
Hospitality & entertainment	44%	44%	43%	42%	44%
Construction, building materials & management services	13%	9%	9%	10%	10%
Sale of property, real estate & rental income	85%	87%	75%	85%	81%
Retirement residences & nursing home	-107%	-5%	5%	17%	26%

Source: Management Information

### 6.2 MARKET OVERVIEW

#### 6.2.1 Economic Update<sup>1</sup>

Malta's economy grew by 6.7% in 2018, making it the fifth year in a row in which real GDP has grown by over 5%. The structural shift towards a fast growing, internationally-oriented services sector is the main factor behind Malta's recent economic success. Domestic demand was the main growth driver in 2018, replacing net exports. In particular, strong employment growth boosted household disposable income, resulting in record-high private consumption. In the first quarter of 2019, domestic demand was underpinned by public consumption and investment, while private consumption growth eased slightly. At the same time, net exports declined as a result of strong import growth. Consumer confidence remained above its historical average, but overall sentiment began to deteriorate in March, particularly in the services sector.

While growth momentum is expected to remain solid, GDP growth is forecast to moderate in 2019 and 2020 to 5.3% and 4.8%, respectively. This is the result of private consumption growth gradually moderating, mirroring the pace of job creation. Public expenditure is expected to increase faster than private consumption, as the government makes use of the fiscal space it has accumulated over recent years. Investment is expected to remain robust over the forecast horizon, supported by planned infrastructure and health projects. Looking at the external sector, import growth is set to pick up in parallel with investment growth, narrowing the large current account surplus. After reaching 1.7% in 2018, inflation was subdued in the first months of 2019 before accelerating in April, driven by rising food prices. Prices are expected to further increase during the peak tourism season and then slightly decelerate, pushing headline inflation to 1.8% in 2019 and 1.9% in 2020.

1 European Economic Forecast – Summer 2019 (European Commission Institutional Paper 108 July '19), pages 20 - 21

### 6.2.2. Tourism Market<sup>2</sup>

Inbound tourist trips from January to December 2018 reached nearly 2.6 million, an increase of 14.3% over the same period in 2017. Total nights spent by inbound tourists went up by 12.5%, reaching nearly 18.6 million nights. Total tourism expenditure was estimated at €2.1 billion, 8.0% higher than that recorded for 2017. Total expenditure per capita stood at €809, a decrease of 5.5% when compared to 2017. In 2018, total guests reached almost 2.0 million, an increase of 8.4% over the same period in 2017. Within the collective accommodation establishments<sup>3</sup>, the 5-star lost 4,542 guests (-1.1%), whilst the 4-star and 3-star hotels gained 80,814 guests (+10.2%), and 47,716 (+9.3%) respectively for the year 2018 when compared to a year earlier.

Inbound tourist trips for the initial six months of 2019 amounted to 1.2 million, an increase of 3.9% over the same period in 2018. Total nights spent by inbound tourists went up by 2.4%, reaching nearly 7.9 million nights, 44% of which were in private accommodation<sup>4</sup>. Total guests (residents and non-residents) residing in collective accommodation establishments in the first six months of 2019 amounted to 947,485, a decrease of 0.8% over the prior comparable period. Further analysis shows that 5-star and 3-star hotels registered y-o-y declines of 8.6% and 11.4% respectively, while 4-star hotels reported an increase of 6.8% when compared to the same period in 2018. Furthermore, the average length of stay continued to shorten, albeit by 1.5%. Tourists staying in hotels have spent an average of 5.5 days in Malta, which is significantly less than the 8.4 days average spent in private accommodation.

During the second quarter of 2019, 5-star hotels reported a decline in both room rates and non-accommodation revenue, whilst occupancy levels declined by 3.3%. Total revenue per available room (RevPAR) decreased by 7.3% when compared to the same quarter in 2018. In contrast, the 4-star sector maintained comparable trends to those registered in the first 3 months of the year. Occupancy levels were at par, whilst average daily rates decreased by 4.9%. As to 3-star hotels, this segment reported a 4.2% improvement in occupancy levels, and average daily rates and non-accommodation income also increased by 5.9% and 7.5% respectively. These trends contributed to an increase in revenue of 10.9% per available room.

The overall outlook for the tourism industry in 2019 is positive with the airport projecting 7.2 million passengers to pass through the terminal by the end of the calendar year, which translates to an increase of 5.8% over 2018. However, bed overcapacity may be a threat to profitability in view of the significant growth in non-collective accommodation (such as AirBnB) experienced in recent years and, to a lesser extent, hotel properties. Competition is expected to increase further in the short to medium term from ongoing development projects earmarked for the hospitality sector and others which are still at planning stage. An increase in competition is also anticipated from other countries, particularly in the southern Mediterranean region, which are reviving their respective hospitality industry as security and safety concerns abate.

### 6.2.3. Food & Beverage Service Sector

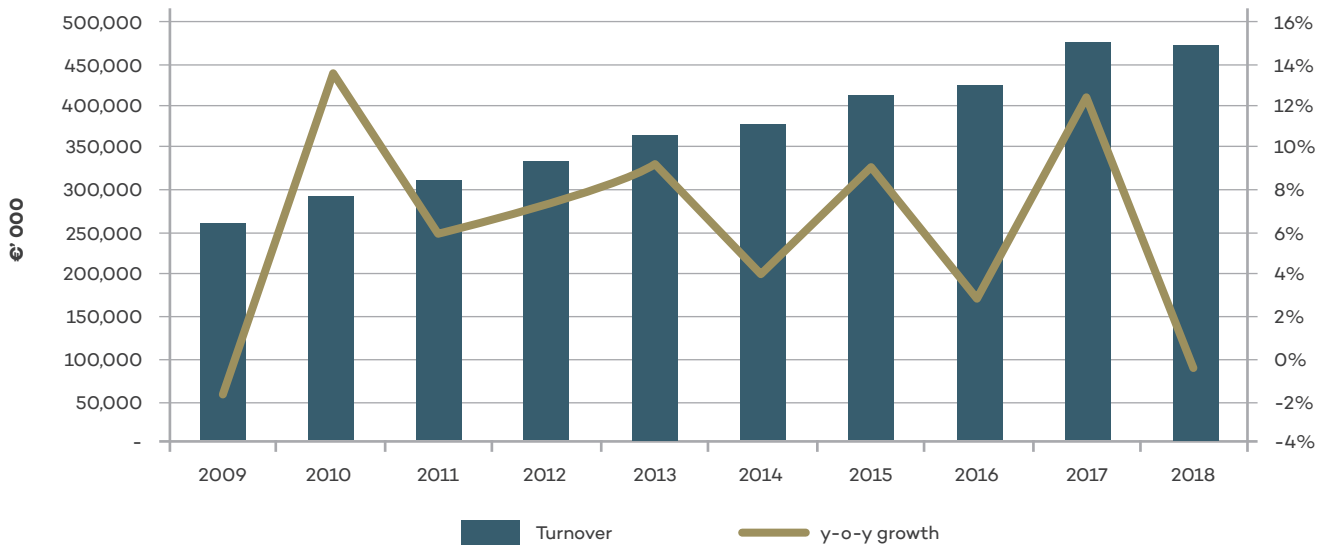
The food & beverage service sector comprises restaurants & mobile food service activities and beverage serving activities. In 2018, the total income from this sector in Malta amounted to €472.6 million, a decrease of 0.3% over the previous year (2017: €474.0 million). Between 2009 and 2017, market output had progressively increased year-on-year, and as such the year-on-year decrease in 2018 marks the first decline in the past 10 years. Albeit, it is worth noting that the 2018 marginal decline follows a 12.5% increase in 2017 over 2016. The chart below illustrates the output from the food & beverage service sector in Malta for the past 10 years (2009 to 2018). Since 2009, the food & beverage service sector grew at a compound annual growth rate of 7.0%.

<sup>2</sup> [https://nso.gov.mt/en/News\\_Releases/View\\_by\\_Unit/Unit\\_C3/Tourism\\_Statistics/Documents/2019/News2019\\_017.pdf](https://nso.gov.mt/en/News_Releases/View_by_Unit/Unit_C3/Tourism_Statistics/Documents/2019/News2019_017.pdf);  
[https://nso.gov.mt/en/News\\_Releases/View\\_by\\_Unit/Unit\\_C3/Tourism\\_Statistics/Documents/2019/News2019\\_032.pdf](https://nso.gov.mt/en/News_Releases/View_by_Unit/Unit_C3/Tourism_Statistics/Documents/2019/News2019_032.pdf); [https://nso.gov.mt/en/News\\_Releases/View\\_by\\_Unit/Unit\\_C3/Tourism\\_Statistics/Documents/2019/News2019\\_127.pdf](https://nso.gov.mt/en/News_Releases/View_by_Unit/Unit_C3/Tourism_Statistics/Documents/2019/News2019_127.pdf); [https://nso.gov.mt/en/News\\_Releases/View\\_by\\_Unit/Unit\\_C3/Tourism\\_Statistics/Documents/2019/News2019\\_135.pdf](https://nso.gov.mt/en/News_Releases/View_by_Unit/Unit_C3/Tourism_Statistics/Documents/2019/News2019_135.pdf); MHRA Q2 2019 (Hotel Survey by Deloitte).

<sup>3</sup> Collective accommodation establishments comprise hotels, apart-hotels, guest houses, hostels and tourist villages.

<sup>4</sup> Private accommodation comprises holiday furnished premises, host families, use of private residence, and staying with relatives of friends.

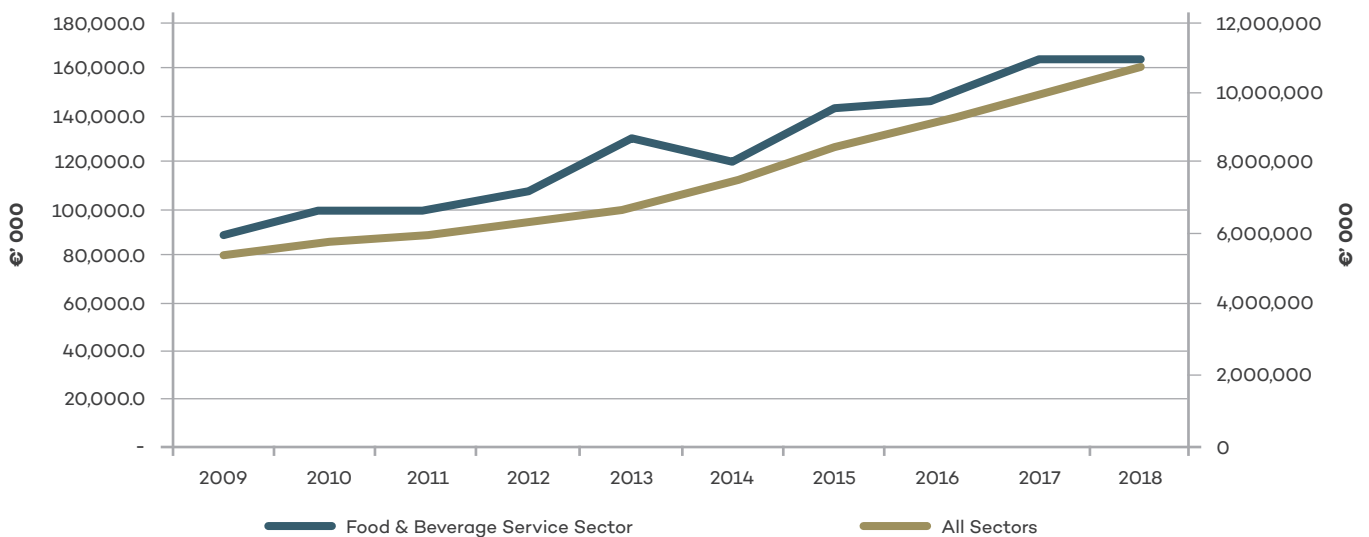
### Food & Beverage Service Sector in Malta



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 €89.5 million in 2009 to €163.8 million in 2018. 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%.

### Gross Added Value

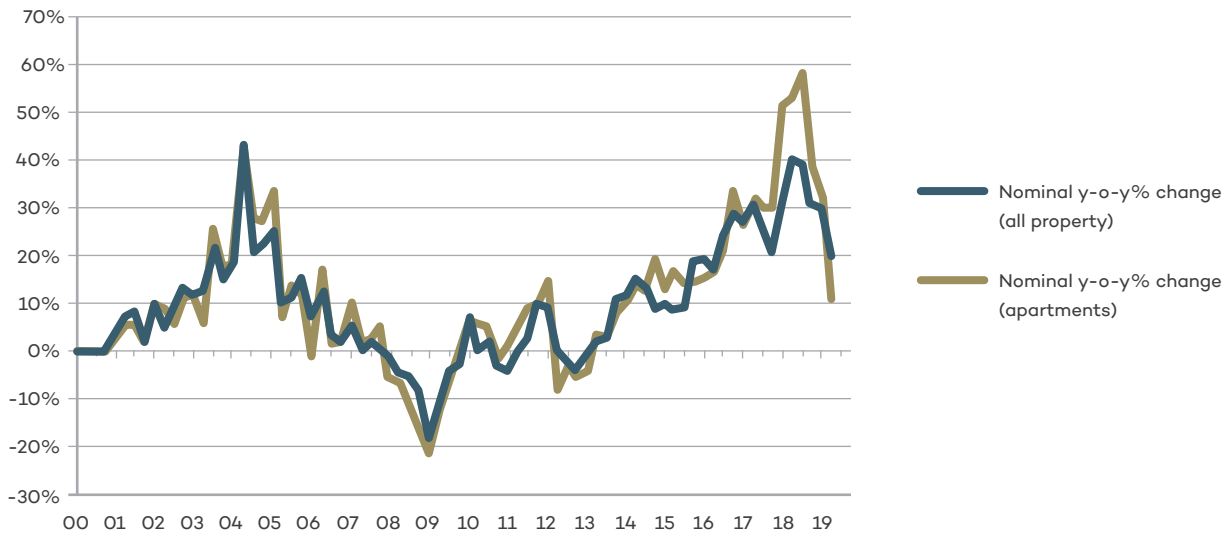


Source: National Statistics Office Malta (NACE 56.1 & NACE 56.3 data)

### 6.2.4. Property Market & Construction Sector

Property prices during the last six years (Q2 2013 to Q2 2019) increased by 78%, primarily on account of a strong economy and a robust labour market. Furthermore, as illustrated in the chart below<sup>5</sup>, the 12-month upward trend in prices (in percentage terms) increased at an accelerating rate from Q2 2013 up to Q2 2018. In the subsequent 3 quarters - Q3 2018 to Q1 2019 - property prices continued to increase albeit at a slower pace. In Q2 2019, property prices declined marginally by 0.23% when compared to Q1 2019 and apartments in particular registered a quarterly decrease of 3.9% during the same period.

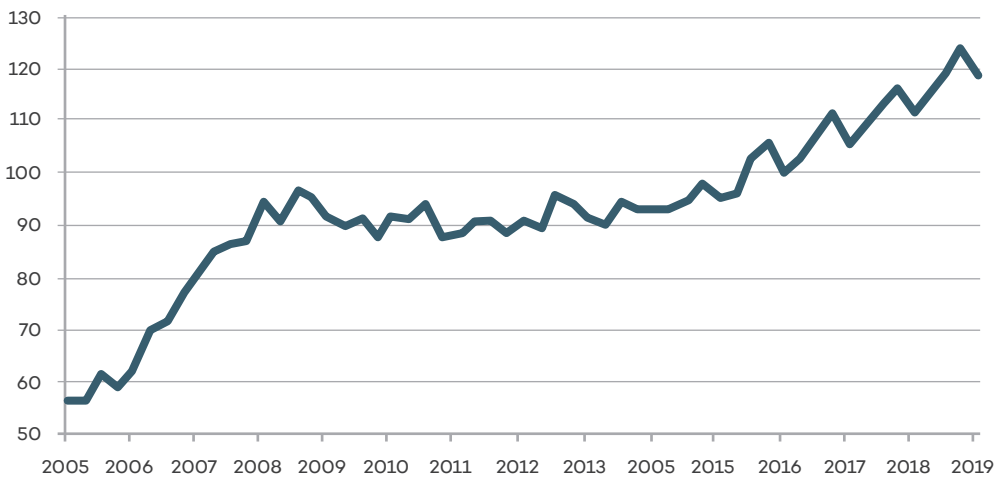
5 <https://www.centralbankmalta.org/real-economy-indicators> (property prices index based on advertised prices (base 2000 = 100)).

**CHART I: Change in Property Prices**

Source: Central Bank of Malta

The above data mainly provides trend information as advertised property prices may not accurately reflect the prices at which sales actually take place.

Eurostat's House Price Index for Malta<sup>6</sup> – which is based on transactions covering terraced houses, apartments and maisonettes – also indicates that residential property prices increased. The latest data available refers to Q1 2019 and shows that said prices increased by 6.5% compared with the same quarter of 2018 (vide Charts II below).

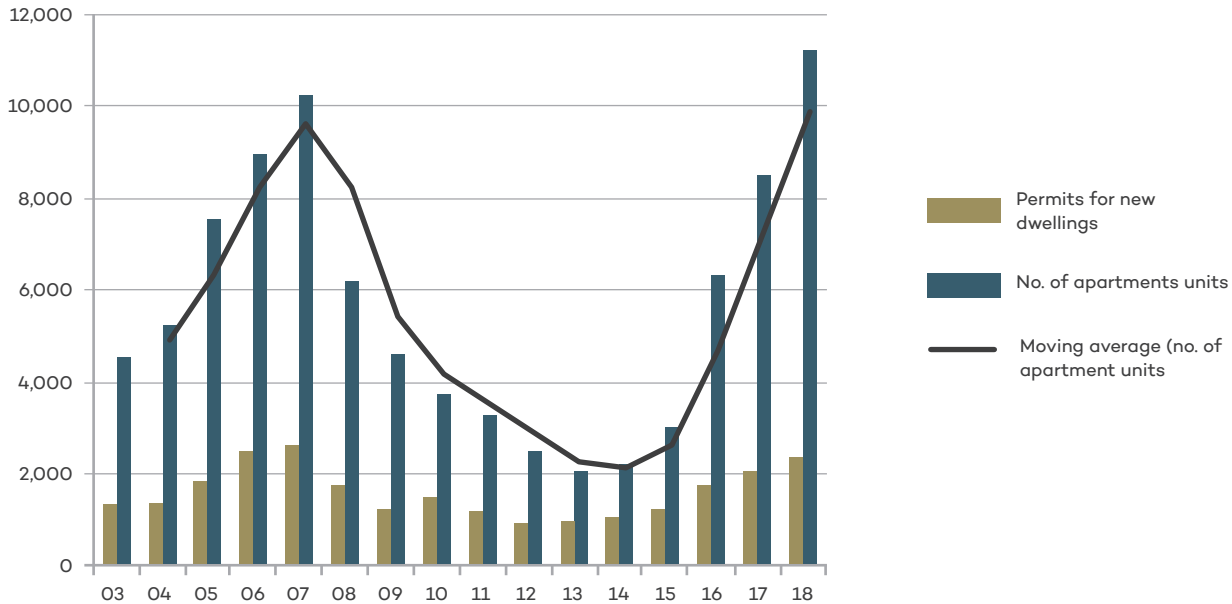
**CHART II: Malta House Price Index**

Source: Eurostat

With regard to development permits<sup>7</sup>, in 2018, Planning Authority issued 2,363 permits (2017: 2,079 permits) for the development of 12,885 units (2017: 9,822). The increase in permits during the year was mostly driven by the largest residential category, namely apartments, which accounted for 87% of total permits granted (2017: 87%). The aggregate number of units in the last 3 years (FY16 to FY18) amounted to 30,215 units, which is comparable to the 3-year period FY05 to FY07, whereby 30,833 units were at the time sanctioned for development.

<sup>6</sup> <https://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&plugin=1&language=en&pcode=tipsho40;>

<sup>7</sup> <https://www.centralbankmalta.org/real-economy-indicators> (development permits for dwellings, by type).

**CHART III: Development Permits for Dwellings**

Source: Planning Authority

## COMMERCIAL PROPERTY

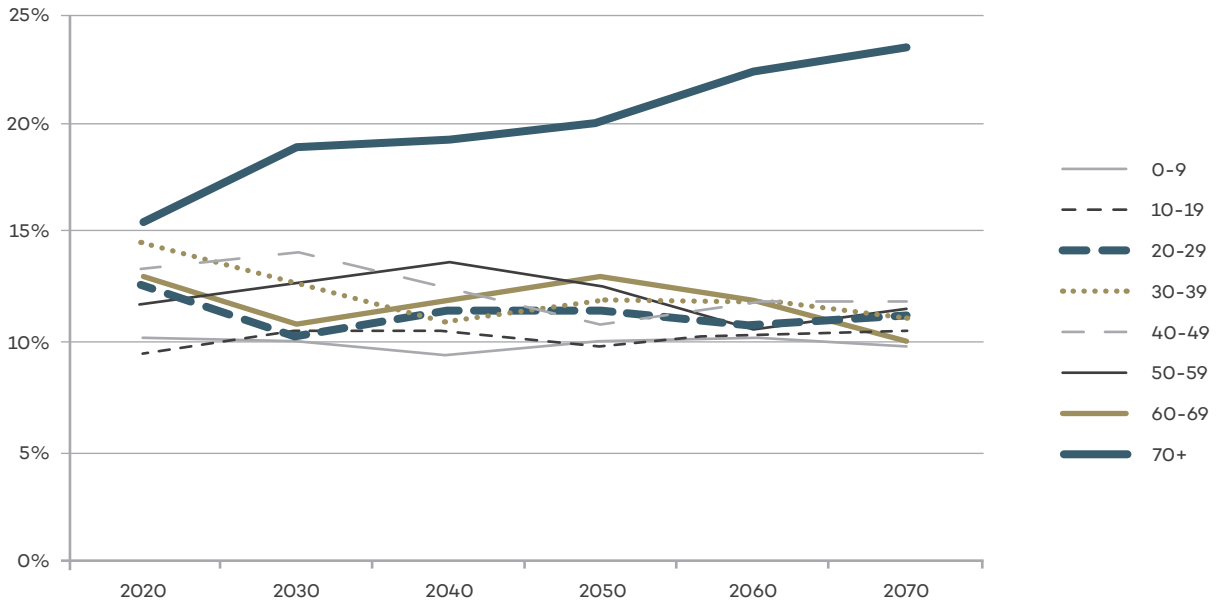
National statistics relating to commercial property in Malta are currently not captured and therefore it is more difficult to gauge the health of this sector. Notwithstanding the lack of such data, general business sentiment and the continued drive to promote Malta as a regional hub for the provision 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 also corroborated when assessing the lack of availability of large office and commercial space, as well as, the number of projects presently being developed, and others 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<sup>8</sup>, 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.

8 [https://nso.gov.mt/en/publicatons/Publications\\_by\\_Unit/Documents/C5\\_Population%20and%20Migration%20Statistics/Demographic\\_Review\\_2014.pdf](https://nso.gov.mt/en/publicatons/Publications_by_Unit/Documents/C5_Population%20and%20Migration%20Statistics/Demographic_Review_2014.pdf).

### Projected percentage distribution of total population



Source: Demographic Review 2014, National Statistics Office, Malta

### 6.3. HOSPITALITY & ENTERTAINMENT

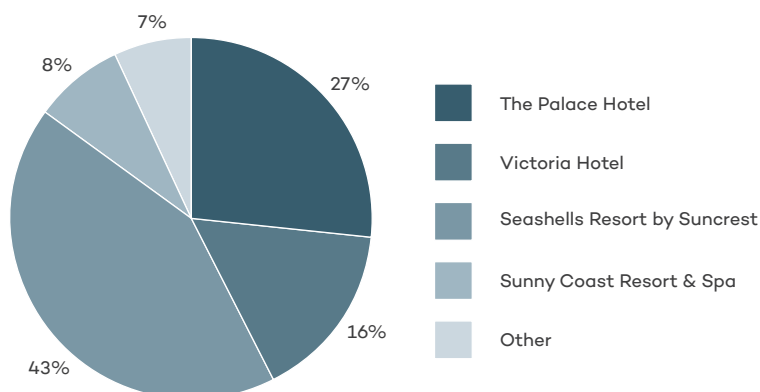
#### 6.3.1. Financial Information – Sector Analysis

HOSPITALITY & ENTERTAINMENT	FY2016 Actual	FY2017 Actual	FY2018 Actual	FY2019 Forecast	FY2020 Projection
<b>Turnover (€'000)</b>	<b>32,131</b>	<b>35,508</b>	<b>38,936</b>	<b>37,841</b>	<b>39,723</b>
The Palace Hotel	9,749	10,129	10,355	9,510	10,022
Victoria Hotel	4,927	5,469	6,239	6,305	6,501
Seashells Resort by Suncrest	13,354	15,299	16,658	16,701	17,157
Sunny Coast Resort & Spa	2,663	2,882	2,985	2,924	2,929
Saint John's Boutique Hotel	-	249	1,178	1,444	1,488
Rosselli Boutique Hotel	-	-	-	751	1,626
Tal-Kaptan Restaurants	1,438	1,480	1,521	206	-
<b>Gross Operating Profit (€'000)</b>	<b>14,087</b>	<b>15,759</b>	<b>16,901</b>	<b>15,812</b>	<b>17,404</b>
The Palace Hotel	4,280	4,580	4,558	3,929	4,632
Victoria Hotel	2,415	2,629	3,075	3,143	3,256
Seashells Resort by Suncrest	5,936	7,085	7,415	6,940	7,146
Sunny Coast Resort & Spa	1,337	1,463	1,574	1,609	1,597
Saint John's Boutique Hotel	-	(100)	180	320	322
Rosselli Boutique Hotel	-	-	-	(98)	451
Tal-Kaptan Restaurants	120	102	99	(31)	-
<b>Gross Operating Profit Margin (%)</b>	<b>44%</b>	<b>44%</b>	<b>43%</b>	<b>42%</b>	<b>44%</b>
The Palace Hotel	44%	45%	44%	41%	46%
Victoria Hotel	49%	48%	49%	50%	50%
Seashells Resort by Suncrest	44%	46%	45%	42%	42%
Sunny Coast Resort & Spa	50%	51%	53%	55%	55%
Saint John's Boutique Hotel	-	-40%	15%	22%	22%
Tal-Kaptan Restaurants	8%	7%	6%	-15%	0%

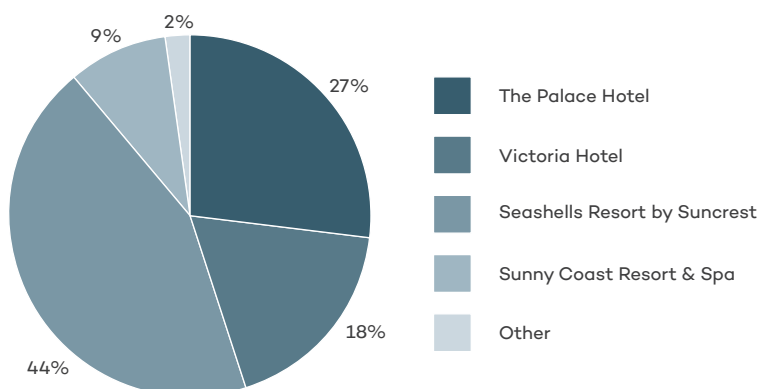
Source: Management Information

#### 6.3.2. Aggregate Hotel Revenue and Operating Profit

##### % Total Revenue by Hotel – FY2018



### % Total Operating Profit by Hotel - FY2018



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 generated in FY2018 (being the latest audited financial year) 70% of total revenue and 71% of gross operating profit.

#### 6.3.3. The Palace Hotel

The Palace Hotel is a 144-room five-star city hotel located in Sliema, Malta and offers extensive conference and events facilities. 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. In January 2019, the hotel closed for a 3-week period in order to complete a soft refurbishment of all the rooms and the TemptAsian restaurant. Works were carried out at a cost of *circa* €1.9 million. The carrying amount of the Hotel as at 31 October 2018 is €43.9 million (FY2017: €35.8 million).

### OPERATIONAL PERFORMANCE

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

THE PALACE HOTEL	FY2016 Actual	FY2017 Actual	FY2018 Actual	FY2019 Forecast	FY2020 Projection
Turnover (€'000)	9,749	10,129	10,355	9,510	10,022
Gross operating profit (€'000)	4,280	4,580	4,558	3,929	4,632
Gross operating profit margin (%)	44	45	44	41	46
Occupancy level (%)	90	91	92	83	84
Average room rate (€)	126	129	136	135	142
Revenue per available room (RevPAR) (€)	179	186	197	181	191
<b>Benchmark performance</b>					
Occupancy level (%)	75	76	74	n/a	n/a
Average room rate (€)	143	157	162	n/a	n/a
Revenue per available room (RevPAR) (€)	163	182	180	n/a	n/a
<b>Revenue Generating Index</b>	1.10	1.02	1.09	n/a	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.

**FY2017** was another good year for the hotel as revenue increased by €0.4 million y-o-y (+4%) to €10.1 million, primarily due to an increase in average room rate from €126 in FY2016 to €129. Gross operating profit margin remained stable when compared to the prior year at 45% (FY2016: 44%) which enabled the hotel to register an increase of €0.3 million y-o-y (+7%) in gross operating profit to €4.6 million.



In **FY2018**, the hotel generated revenue amounting to €10.4 million, a marginal increase of €0.3 million (+2%) over the comparable year, whilst gross operating profit was stable at €4.6 million (FY2017: €4.6 million).

In comparison to the Hotel's competitive set, The Palace registered higher occupancy levels of *circa* 90% in each of FY2016, FY2017 and FY2018 compared to *circa* 75% for its competitive set. On the other hand, the average room rate of The Palace was consistently lower when compared to its competitive set. As a result, the Hotel's RevPAR was comparable to its competitive set in FY2017, but 9% higher in FY2018 at €197 (FY2018's RevPAR of competitive set amounted to €180).

During **FY2019**, the hotel underwent a soft refurbishment of its rooms which adversely impacted occupancy level and RevPAR. As such, revenue for the year is forecasted to decrease by €0.9 million from €10.4 million in FY2018 to €9.5 million, while gross operating profit is expected to decline by €0.7 million y-o-y to €3.9 million (FY2018: €4.6 million).

Going forward, the above-mentioned capital expenditure should enable the hotel to maintain its competitiveness in its market. Accordingly, management expects the hotel's average room rate to increase from €135 in FY2019 to €142 in **FY2020** with occupancy expected to reach 84% (FY2019: 83%). Revenue and gross operating profit are projected to increase by €0.5 million and €0.6 million respectively over the prior year to €10.0 million and €4.6 million respectively.

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 142 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 2018 is €20.9 million (FY2017: €21.3 million).

### OPERATIONAL PERFORMANCE

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

<b>VICTORIA HOTEL</b>	<b>FY2016</b>	<b>FY2017</b>	<b>FY2018</b>	<b>FY2019</b>	<b>FY2020</b>
	<b>Actual</b>	<b>Actual</b>	<b>Actual</b>	<b>Forecast</b>	<b>Projection</b>
Turnover (€'000)	4,927	5,469	6,239	6,305	6,501
Gross operating profit (€'000)	2,415	2,629	3,075	3,143	3,256
Gross operating profit margin (%)	49	48	49	50	50
Occupancy level (%)	78	80	90	89	89
Average room rate (€)	88	95	96	97	100
Revenue per available room (RevPAR) (€)	95	105	120	122	125
<b>Benchmark performance</b>					
Occupancy level (%)	83	81	82	n/a	n/a
Average room rate (€)	83	85	93	n/a	n/a
Revenue per available room (RevPAR) (€)	94	92	98	n/a	n/a
<b>Revenue Generating Index</b>	1.01	1.14	1.23	n/a	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 €0.6 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.

During **FY2018**, revenue increased by 14% compared to FY2017, to €6.2 million, an increase of €0.7 million when compared to FY2017. Gross operating profit also increased by €0.5 million (+17%) in FY2018 to €3.1 million (FY2017: €2.6 million).

Management expects the hotel's performance to be relatively stable in FY2019 and FY2020 when compared to FY2018. As such, revenue is projected to increase from €6.2 million in FY2018 to €6.3 million and €6.5 million in FY2019 and FY2020 respectively and gross operating profit margin is expected to be maintained at the 50% level.

As for benchmark performance, the Hotel performed broadly in line with competition in 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. During FY2018, the Victoria Hotel outperformed its competitive set's KPIs with an occupancy level of 90% (competitive set: 82%), average room rate of €96 (competitive set: €93) and RevPAR of €120 (competitive set: €98).

### 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. 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.

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 2,235m<sup>2</sup> 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. The Hotel was developed by the AX Group in 1988 and its carrying value as at 31 October 2018 is €76.6 million (FY2017: €77.9 million).

## OPERATIONAL PERFORMANCE

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

<b>SEASHELLS RESORT AT SUNCREST</b>	<b>FY2016</b>	<b>FY2017</b>	<b>FY2018</b>	<b>FY2019</b>	<b>FY2020</b>
	<b>Actual</b>	<b>Actual</b>	<b>Actual</b>	<b>Forecast</b>	<b>Projection</b>
Turnover (€'000)	13,354	15,299	16,658	16,701	17,157
Gross operating profit (€'000)	5,936	7,085	7,415	6,940	7,146
Gross operating profit margin (%)	44	46	45	42	42
Occupancy level (%)	82	84	84	77	77
Average room rate (€)	57	66	71	73	74
Revenue per available room (RevPAR) (€)	81	93	101	101	104
<b>Benchmark performance</b>					
Occupancy level (%)	83	83	82	n/a	n/a
Average room rate (€)	64	70	79	n/a	n/a
Revenue per available room (RevPAR) (€)	81	85	95	n/a	n/a
<b>Revenue Generating Index</b>	1.00	1.09	1.06	n/a	n/a

Source: Management Information

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 resulted in a gross operating profit of €7.1 million in FY2017, an increase of €1.2 million (+19%) compared to FY2016 gross operating profit of €5.9 million.

During **FY2018**, revenue increased by €1.4 million (+9%), but gross operating margin declined marginally by one percentage point (y-o-y) to 45%. Gross operating profit for FY2018 amounted to €7.4 million, an increase of €0.3 million (+5%) when compared to FY2017's gross operating profit of €7.1 million.

In the projected financial years **FY2019** and **FY2020**, the hotel's average room rate is expected to improve marginally from €71 in FY2018 to €73 and €74 respectively, but occupancy is projected to decrease from 84% in FY2018 to 77% primarily due to an increase in market pressures. Notwithstanding, RevPAR should be maintained above €100 (FY2020: €104).

The hotel has matched performance compared to its competitive set 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. During FY2018, achieved occupancy of 84% was two percentage points higher than its competitive set, but average room rate was comparably lower by €8 to €71. In terms of RevPAR, the hotel has performed marginally better than its competitive set in each of the reviewed financial years.

In the near term, management will continue to focus on improving RevPAR, mainly by increasing average room rate without lowering occupancy level. This is being achieved through the replacement of bookings made by groups (which typically secure discounted rates) with direct and OTA (online travel agency) bookings.

#### 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 92 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 2018 is €19.1 million (FY2017: €19.1 million).

### OPERATIONAL PERFORMANCE

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

<b>SUNNY COAST RESORT &amp; SPA</b>	<b>FY2016 Actual</b>	<b>FY2017 Actual</b>	<b>FY2018 Actual</b>	<b>FY2019 Forecast</b>	<b>FY2020 Projection</b>
Turnover (€'000)	2,663	2,882	2,985	2,924	2,929
Gross operating profit (€'000)	1,337	1,463	1,574	1,609	1,597
Gross operating profit margin (%)	50	51	53	55	55
Occupancy level (%)	78	76	78	80	78
Average room rate (€)	80	90	90	86	88
Revenue per available room (RevPAR) (€)	82	89	89	87	87
<b>Benchmark performance</b>					
Occupancy level (%)	83	83	82	n/a	n/a
Average room rate (€)	64	70	79	n/a	n/a
Revenue per available room (RevPAR) (€)	81	85	95	n/a	n/a
<b>Revenue Generating Index</b>	1.01	1.05	0.94	n/a	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 2 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 FY2018 timeshare revenue accounted for only 22% of total accommodation income (FY2017: 25%). 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 profit margin also improved by one percentage point to 51% in FY2017 compared to 50% in FY2016. During **FY2018**, revenue increased by a further €0.1 million (+4%), to €3.0 million, whilst gross operating profit also increased by €0.1 million (+8%), to €1.6 million. An improvement of 2 percentage points in gross operating profit margin was achieved during FY2018, from 51% in FY2017 to 53% in FY2018. The hotel is forecasting broadly similar performance for **FY2019** and **FY2020** when compared to FY2018.

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 FY2018, the rate achieved by the hotel was 14% higher than the average room rate of its competitive set at €90, however its RevPAR was lower than that of its competitive set at €89 (competitive set: €95). 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 a total cost (property acquisition and development) of €5.1 million. The property also features two private meeting rooms accommodating 16 in-theatre style or 8 as a board room. The Saint John's boutique hotel initiated operations in August 2017. Its carrying amount as at 31 October 2018 is €4.9 million (FY2017: €4.6 million).

## 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 Actual	FY2018 Actual	FY2019 Forecast	FY2020 Projection
Turnover (€'000)	249	1,178	1,444	1,488
Gross operating profit (€'000)	(100)	180	320	322
Gross operating profit margin (%)	(40)	15	22	22
Occupancy level (%)	67	75	78	80
Average room rate (€)	157	157	159	163
Revenue per available room (RevPAR) (€)	144	170	208	215

Source: Management Information

In **FY2017**, Saint John's Boutique Hotel ("SJBH") 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 resulting RevPAR of €144.

During **FY2018**, SJBH was operational for a full 12 months and generated turnover of €1.2 million on an occupancy level of 75%. Gross operating profit amounted to €0.2 million and the gross operating profit margin for the financial year equated to 15%. No available benchmarks are yet available for boutique hotels.

The Group is forecasting to generate revenue of €1.4 million in **FY2019** and to operate at a gross operating profit margin of 22%. As such, the Hotel is expected to report a gross operating profit for the year of €0.3 million. Occupancy level in FY2019 is projected to reach 78%, whilst RevPAR is estimated at €208 as the Hotel is budgeting to achieve an average room rate of €159. Performance in **FY2020** is expected to be broadly similar to the forecast results for FY2019.

### 6.3.8. *Rosselli Boutique Hotel*

In November 2016 (FY2017), the Group acquired another property in Merchant Street, Valletta for a total consideration of €4.5 million. This property was developed into the 5-star Rosselli Boutique Hotel at a cost of *circa* €7.0 million and operations commenced in May 2019. The hotel includes 25 luxury rooms, meeting room facilities, a lounge area & restaurant and a roof-top splash pool.

Given the proximity of the Saint John Boutique Hotel to the Rosselli Boutique Hotel, the management team of the former hotel also manages the Rosselli Boutique Hotel, thus taking full advantage of synergies, economies of scale and cost efficiencies. The Rosselli Boutique Hotel targets affluent and business travellers and is marketed through luxury travel websites and upmarket travel agents.

#### OPERATIONAL PERFORMANCE

The following table sets out the projections for FY2019 and FY2020 for the Rosselli Boutique Hotel:

<b>ROSSELLI BOUTIQUE HOTEL</b>	<b>FY2019 Forecast</b>	<b>FY2020 Projection</b>
Turnover (€'000)	751	1,626
Gross operating profit (€'000)	(98)	451
Gross operating profit margin (%)	(13)	28
Occupancy level (%)	72	70
Average room rate (€)	167	187
Revenue per available room (RevPAR) (€)	194	178

*Source: Management Information*

Management expects to generate revenues of €0.8 million from the Rosselli Boutique Hotel as well as the property's catering operations during the initial 5-month period from 1 June 2019 to 31 October 2019. The catering offerings are expected to contribute *circa* 50% of annual revenue of the subject hotel. The occupancy level is expected to reach 72% with an average room rate of €167. RevPAR is projected to amount to €194, which takes into consideration the relatively high F&B component within the hotel's total revenue.

FY2020 will be the first full operational year for the hotel and management expects to generate €1.6 million in revenue (FY2019: €0.8 million) and €0.5 million in gross operating profit (FY2018: gross operating loss of €98,000). Average room rate is expected to increase from €167 in FY2019 to €187 in FY2020, while occupancy level is projected to decrease marginally by 2 percentage points to 70%.

### 6.3.9. *Tal-Kaptan Restaurants*

As at 31 October 2018, the AX Group operated 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, whilst the other restaurant operated at the Valletta Waterfront since 2007. In FY2018, the Tal-Kaptan restaurants generated revenue of €1.5 million, an increase of 3% compared to FY2017, however gross operating profit remained constant at €0.1 million.

During FY2019, management ceased operations of the Valletta Waterfront restaurant, which coincided with the expiration of the property lease. In consequence, Tal-Kaptan, Qawra has been merged with the Seashells Resort at Suncrest, but will continue to offer guests a casual dining experience, specialising in pizza and pasta dishes.

## 6.4. CONSTRUCTION, BUILDING MATERIALS & MANAGEMENT SERVICES

### 6.4.1. Financial Information – Sector Analysis

CONSTRUCTION, BUILDING MATERIALS & MANAGEMENT SERVICES	FY2016 Actual	FY2017 Actual	FY2018 Actual	FY2019 Forecast	FY2020 Projection
<b>Turnover (€'000)</b>	<b>3,447</b>	<b>5,503</b>	<b>8,146</b>	<b>7,011</b>	<b>9,173</b>
Construction works	1,964	4,755	7,327	6,761	8,673
Construction waste management	1,225	202	-	-	-
Restoration projects	258	546	819	250	500
Gross operating profit (€'000)	463	481	740	701	960
Gross operating profit margin (%)	13	9	9	10	10

Source: Management Information

### 6.4.1. 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 six 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; the Simblija Care Home & Hilltop Gardens Retirement Village and various other projects which were executed for Group companies and third party clients. Any related party revenue generated from construction and restoration works on the aforementioned projects are eliminated upon consolidation and as such are not included in the consolidated financial information provided in the above table.

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 the development of the Rosselli Boutique Hotel in Merchant Street, Valletta, the construction of the Hotel 1926 in Qui-Si-Sana, Sliema (previously, the Plevna Hotel), the extension and finishes of the KPMG offices, as well as the construction and development of residential blocks and villas. In FY2019, the main projects consist of the restoration and construction works at the Old Farsons Brewery, restoration works at the Old University Building in Valletta, the development of a residential block behind Falcon House, Sliema, which on completion will comprise 8 apartments and 1 penthouse, and the construction of the multi-use complex situated in Mosta (known as TG Complex).

In FY2017, the Group generated €4.8 million (FY2016: €2.0 million) from construction works, an increase of €2.8 million (+142%). Further growth in construction activity was registered in FY2018, wherein the Group generated revenue amounting to €7.3 million (FY2017: €4.8 million). The y-o-y increase of €2.5 million (+54%) was principally due to income generated from the completion of "is-Suq tal-Belt" project as well as various turnkey project engagements (including third party private residences), which is broadly in line with the higher level of activity in the local construction industry.

Management forecasts construction revenue for FY2019 to amount to €6.8 million, a decrease of €0.5 million when compared to the prior year (FY2018: €7.3 million). This expected reduction is partly due to an increase in internal projects which are not reflected on a Group basis (since intra-group transactions are eliminated on consolidation). In FY2020, revenue from the construction division is projected to increase by €1.9 million or 28% to €8.7 million (FY2019: €6.8 million), primarily on account of ongoing contracted projects which were initiated in FY2019, projects which are currently being negotiated and other projects assumed to be awarded during the year.

The AX Group was involved in a number of restoration projects during FY2018 which amounted to €0.8 million, an increase of €0.3 million from a year earlier (FY2017: €0.5 million). This business activity slowed down during FY2019 and expected revenue for the year is estimated at €0.3 million. With regard to FY2020, management is projecting to generate *circa* €0.5 million from restoration projects.

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, Bastions San Salvatore, Farsons Brewery and the Old University Building in Valletta.

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. 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.

The site in Mgarr is currently being developed into the Imselliet Solar Farm. The solar farm is expected to go live in December 2019, and should produce up to 5.4MW of electricity to be supplied to the public power grid over a period of 20 years. The Group's investment in the Imselliet Solar Farm equates to 33.33% of Imselliet Solar Limited (held through Renewables Limited).

## 6.5. PROPERTY, REAL ESTATE & RENTAL INCOME

### 6.5.1. Financial Information – Sector Analysis

PROPERTY, REAL ESTATE & RENTAL INCOME	FY2016 Actual	FY2017 Actual	FY2018 Actual	FY2019 Forecast	FY2020 Projection
<b>Turnover (€'000)</b>	<b>493</b>	<b>588</b>	<b>2,740</b>	<b>510</b>	<b>9,424</b>
Sale of property & real estate	-	50	2,198	-	8,840
Rental income	493	538	542	510	584
Gross operating profit (€'000)	418	513	2,058	432	7,603
Gross operating profit margin (%)	85	87	75	85	81

Source: Management Information

### 6.5.2. Overview of Sector Activity

Property development was a natural diversification from the construction business. This business segment acquires investment properties, identifies business and commercial uses for these properties through the AX Group sub-divisions, and undertakes such projects to operate or dispose of them, as considered appropriate, at an opportune time. Some of these investments are held on a long-term basis and operated, while others are developed and sold in the normal course of business.

The AX Group has developed a number of landmark projects that span from residential complexes, hotels, restaurants and office blocks, to large scale property development projects such as the development of Falcon House in Sliema and Verdala site in Rabat. The AX Group owns other parcels of land on which it plans to undertake quality residential developments in the coming years and is in the process of acquiring the necessary permits to execute such projects.

During FY2016 and FY2017, 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 was available for sale. During FY2018, the warehouse available for sale was sold as well another two plots in Mosta, for an aggregate price of €2.2 million. No property sales are envisaged for FY2019. In the subsequent year (FY2020), AX Group is projecting to generate €8.8 million principally from the sale of 8 residential units at Falcon House, 2 apartments at TG Complex Mosta and 11 out of 22 plots in Mosta (known as Tad-Dib) which are presently subject to promise of sale agreements.

Rental income represents proceeds derived from the leasing of Group properties to third parties, and mainly comprises: Villa Vistana and five warehouses (described hereinabove). 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. In FY2020, rental income is projected to increase from €510,000 in FY2019 to €584,000 mainly on account of lease income receivable from the Imselliet quarry in Mgarr.

## 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. Located in the area known as “Tas-Simblija”, limits of Naxxar, the property occupies an area of circa 17,000m<sup>2</sup>, 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 2018 amounted to €46.0 million (FY2017: €42.5 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. The nursing home has its own fully equipped hydrotherapy pool, dedicated services and amenities for short term respite care and convalescence as well as post-operation recovery. Furthermore, the home offers specialised support to residents suffering from dementia.

## 7.2. FINANCIAL INFORMATION

The expenditure on developing the Care & Retirement Village and acquisition of plant & equipment was of €25 million. The village consists of 133 self-catering residential units including common areas, amenities and landscaping and a 155-bed nursing home.

The residential units are to date fully occupied on leases for definite periods ranging from one month to 50 years, the majority of which are for periods up to 10 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 years ended 31 October 2017 and 31 October 2018, and the projections for FY2019 and FY2020.

<b>SIMBLIJA CARE HOME &amp; HILLTOP GARDENS RETIREMENT VILLAGE</b>	<b>FY2016 Actual €'000</b>	<b>FY2017 Actual €'000</b>	<b>FY2018 Actual €'000</b>	<b>FY2019 Forecast €'000</b>	<b>FY2020 Projection €'000</b>
Residences & other income	261	1,395	2,076	2,407	2,548
Nursing home	747	1,964	2,687	3,153	4,063
<b>Total Revenue</b>	<b>1,008</b>	<b>3,359</b>	<b>4,763</b>	<b>5,560</b>	<b>6,611</b>
Direct costs	(1,514)	(2,184)	(3,087)	(3,334)	(3,578)
Other costs	(576)	(1,335)	(1,440)	(1,289)	(1,319)
<b>EBITDA</b>	<b>(1,083)</b>	<b>(160)</b>	<b>236</b>	<b>937</b>	<b>1,714</b>

Source: Management Information

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 during FY2017 ranged from 1 year up to 50 years, with the average lease term being 22 years, whilst rentals were 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.

During **FY2018**, lease periods were shortened to a range not exceeding 10 years (previously 50 years), whilst rentals were kept for periods of up to one year. In the reviewed year, all 133 units of the self-catering residences were either rented or leased. Revenue generated from residences & other income amounted to €2.1 million, an increase of €0.7 million from a year earlier. Occupancy in the nursing home continued to improve in FY2018, whereby revenue increased by €0.7 million y-o-y to €2.7 million. Overall, the Care & Retirement Home generated €4.8 million in revenue (FY2017: €3.4 million), an increase of €1.4 million or 41%. Furthermore, the Home converted a negative EBITDA of €0.2 million in FY2017 to a positive EBITDA of €0.2 million in FY2018.

It is projected that in **FY2019** and **FY2020**, the Care & Retirement Home will continue to increase occupancy in the nursing home, and as a result, management is estimating revenue to increase to €3.2 million in FY2019 (+19%, y-o-y) and €4.1 million in FY2020 (+28%, y-o-y). Rental income is projected to grow from €2.1 million in FY2018 to €2.5 million by FY2020. Overall, management is projecting the Care & Retirement Home to improve EBITDA from €0.2 million in FY2018 to €0.9 million and €1.7 million in FY2019 and FY2020 respectively, reflecting management's endeavour to keep direct and other costs at an optimal level in order to improve EBITDA margin.



## 8 BUSINESS DEVELOPMENT STRATEGY

### 8.1. ETHOS OF THE AX GROUP

The AX Group has developed from its beginnings as a traditional family business to a professional organisation, underpinned by the Group's ethos of ensuring a proper balance between effective organisational practices and procedures, together with the investment in its human capital resources driven by a core executive management team made up of market leaders in their respective areas.

### 8.2. ORGANISATIONAL PRACTICES AND PROCEDURES

The AX Group implements a combination of organisational checks and balances designed, on the one hand, to identify, evaluate and ultimately mitigate risk and, on the other hand, to explore and exploit business opportunities.

These policies, procedures, controls and systems are reviewed from time to time in order to reflect new operational and market realities, ensuring that the AX Group evolves in tandem with the latest developments in a timely manner, seeking to pre-empt challenges and maximise potential. Business plans, financing arrangements, marketing tools and other key aspects of the day-to-day business and operations of the AX Group are prepared and evaluated by the competent members of the Executive Committee and subject to the scrutiny of the said team.

The progressive introduction of this organisational structure has seen the AX Group develop a more objective and evidence-based approach to business opportunity and risk, based on the principle of informed-decision making practices. In addition, all contractual arrangements to be entered into by the AX Group with its business partners and other third parties are vetted by the dedicated in-house legal team of the AX Group.

### 8.3. GROWTH AND DIVERSIFICATION STRATEGY

The AX Group continues to focus its energies in strengthening its business and operating structures, particularly in its core hospitality operations. Furthermore, the hospitality division of the Group has diversified its markets and business delivery, and marketing strategies have been developed and implemented for each of its hotels depending on the location and nature of the property.

On recognition of the importance of e-commerce for the hospitality industry, the Group has invested in internet marketing to improve its information systems and now has a dedicated team of key personnel who focus on this channel; together they manage more than 24 websites owned by the Group as well as 70 other social media channels. The Group will continue to invest in the latest technologies and techniques to keep abreast with developments in this dynamic sector and optimise its business.

The Group is optimistic that the hotel industry in Malta will continue to perform positively in the coming years and believes that the Group's hospitality properties have the right management and resources to successfully grow the business units and potentially take on others. AX Hotel Operations p.l.c. continues to actively seek new hotel properties to operate and will be seeking opportunities to take on engagements to manage third party owned properties, subject to the right conditions being agreed to and the property matching the AX Hotels brand standards.

An important aspect of the Group's ongoing strategy is the acquisition of a number of sites in strategic locations and in close proximity to one other, and their subsequent consolidation in order to form larger sites to enable the Group to undertake large developments. This can be said for the property the Group owns in Qawra, where the first property acquired was the AX Sunny Coast Resort and Spa site, followed by the sites of AX Seashells Resort at Suncrest and the Luzzu complex site and recently another property adjacent to the AX Sunny Coast Resort and Spa. This strategy has allowed the consolidation of a large tract of prime land along the Qawra shore.

This same process was repeated in Sliema on the sites where AX The Victoria Hotel, AX The Palace Hotel and Palazzo Capua were built, which are all contiguous to each other, and the Hilltop Gardens Retirement Village, where the current property footprint of over 17,000m<sup>2</sup> was achieved through acquisitions of several properties over a period of time. The recent acquisitions and development of two boutique properties in the heart of Valletta is also in furtherance of this same objective.

This strategy of operating hotels in clusters yields various value-adding advantages such as the allocation of single management teams per location, providing efficiency through the reduction of overlap in areas such as marketing, maintenance, accounting and procurement.

The construction division of the Group has grown rapidly following a restructuring of the business and has, during the past two years, seen its turnover improve at a rate in excess of 25% compound annual growth rate (CAGR). This growth is supported by the strong performance at a national level of the construction and development sectors as well as specific measures taken in order to respond to the continuing challenges involved in operating in the construction industry.

Due to the unveiling of a large number of prestigious national projects having a strong restoration element over recent years, the AX Group invested in the skills and expertise required to take on sensitive restoration projects and has been successful in contributing significantly to the restoration of our built heritage. The construction division has also introduced contracting and project management strategies which aim to capitalise on the quality, efficiency and experience which are ingrained in the AX Group's culture. This investment in skills and organisational measures has also been augmented by a significant continuing investment in plant, equipment, tools and systems to improve productivity and efficiency and to further strengthen its management and operating teams in anticipation of larger and more demanding projects.

The AX Group owns a number of properties for which it has pending development applications. It continues to actively seek approval from the relevant authorities to undertake the development of the former 'Grand Hotel Verdala' site, located on the Rabat promontory. Other properties include the Marsa business park, which measures *circa* 6,000m<sup>2</sup> and a significant parcel of land in Mosta to be offered for sale to third parties as properties ready for development.

The AX Group is also currently developing another site in Mosta, which site shall house the AX Group's new state-of-the-art head office as well as a number of residential units.

#### 8.4. HUMAN RESOURCE MANAGEMENT

The AX Group believes that human resource management practices based on the acquisition and retention of talent are conducive to achieving its business objectives. In today's business climate the recruitment and training of employees is crucial and the retention of key talent has been at the core of the Group's philosophy since inception.

In furtherance of the aforesaid objectives, the AX Group has launched the 'AX Academy' specialising in training and development of its personnel, and set up its own recruitment agency focused on long-term human resources planning and finding the appropriate candidates to further strengthen its leadership and operating teams in anticipation of an increase in volume of business across the divisions of the Group.

The Executive Committee reviews the performance of all operating entities within the AX Group as well as its investments on a periodic basis. The Executive Committee foresees that the AX Group will be strongly focused on executing the Verdala Site project in the near term, but also envisages that it has the required resources and capacity to undertake a number of other investments during the coming years such as the extensions to Hilltop Gardens Retirement Village and the AX Seashells Resort at Suncrest, the development of offices and residential units in Mosta and offices in Floriana, and the redevelopment of the AX Sunny Coast Resort and Spa.

## 9 FUTURE INVESTMENTS

The Group has made and expects to continue making significant investments in the acquisition, development and improvement of its existing and new properties as deemed appropriate, as a major thrust of its business. Indeed, the majority of the proceeds from the Bond Issue (in terms of a prospectus dated 22 November 2019) are to be used by the Company for the purpose of part financing the acquisition of land situated in Marsa, which land is earmarked for development into a mixed office, residential and commercial complex (the "**Marsa Project**") and the Group's acquisition and development of '41, Merchant Street' situated in Merchant Street, Valletta ("**Valletta Project**"), as further described below.

#### 9.1. MARSА PROJECT

On 11 April 2019, the Group acquired a site measuring approximately 620m<sup>2</sup>, including its overlying airspace and underlying subsoil, pursuant to a sale agreement entered into by and between third party vendors and AX Business Park Limited (C13019), as purchaser, for a consideration of €600,000. This land is adjacent to a plot measuring *circa* 5,500m<sup>2</sup> owned by AX Group and known as "Tad-Dwiemes".

Subject to obtaining the necessary development permit, the Group plans to consolidate the aforementioned land with an adjacent area in Marsa known as "Tas-Sienja".

In furtherance of this, a promise of sale agreement dated 24 October 2017 was entered into by and between Salv. Bezzina & Sons Ltd (C350), as vendor and AX Business Park Limited (C13019), as purchaser, pursuant to which the vendor bound itself to sell and transfer to the purchaser, which accepted and bound itself to purchase and acquire 2 parcels of land with buildings situated thereon measuring in aggregate approximately 7,600m<sup>2</sup> (developable area being *circa* 6,600m<sup>2</sup>) for a consideration of €7 million. The promise of sale agreement shall remain valid and effective up to 23 October 2020.

The Group does not envisage that this site will be developed in the foreseeable future and, in any case, the development of the land situated in Marsa is only expected to take place after the maturity date of the Bonds. At the date of this report, the Board has

merely commissioned studies regarding the optimal use of the Marsa site and will only proceed to re-activate an application for a development permit previously submitted on 21 February 2018 for the development of the portion of land in Marsa known as “Tas-Sienja” (already owned by the Group), which was suspended on 8 May 2018 given the potential arising, shortly prior to such date, of an opportunity to acquire the aforementioned adjacent piece of land, upon conclusion and evaluation of the necessary studies.

## 9.2. VALLETTA PROJECT

A promise of sale agreement dated 4 July 2019 was entered into by and between Confident Limited (C78162), in its capacity as the vendor (the “**Vendor**”) and AX Holdings Limited (C3595), in its capacity as the purchaser (the “**Purchaser**”), pursuant to which the Vendor bound itself to sell and transfer to the Purchaser, which accepted and bound itself to purchase, the ‘Palazzo’, bearing official number forty-one (41) in Merchant Street, corner with Saint Lucy Street, Valletta for a consideration of €5,500,000. The promise of sale agreement shall remain valid and effective up to 15 January 2020 (the “**41, Merchant Street**”). Following the conclusion of the deed of sale for the acquisition of the 41, Merchant Street, and subject to obtaining the necessary development permits, the Group is intent on converting the property into a self-catering accommodation which shall comprise nine luxury apartments, scheduled to start operating in 2021.

## 9.3. OTHER PROJECTS

In addition to the Marsa Project and the Valletta Project, the key developments to which the Group is committed to in the foreseeable future include the following:

Expected Year of Commencement and Completion	Development	Status	Investment
2019 - 2020	Development of luxury units on Falcon House land, Sliema - The Group is currently developing a block of residential units at the Falcon House site in Sliema (adjacent to the existing Falcon House Complex) which shall comprise eight luxury apartments and a penthouse.	Relevant planning permits have been obtained and the land in question is currently being developed.	€1.5 million
2019 - 2020	Development of offices and residential units at Tal-Qares, Mosta (Targa Gap Complex) – A plot of land in Targa Gap, Mosta is currently being developed by the Group into a mixed use development. The development will comprise the Group’s new head office, residential units held for sale or lease to third parties, a showroom and four levels of underground parking. Development is planned to be completed in FY20.	Relevant planning permits have been obtained and the land in question is currently being developed.	€7.5 million
2021 - 2022	Development of office space in Floriana – The Group entered into a promise of sale agreement for the acquisition of three properties in Floriana which the Group is planning to consolidate and convert into office space for lease to third parties. The acquisition is planned to be completed in FY20, and the development is planned to commence in FY21.	The Group is in the process of submitting the relevant planning permit application.	€3.8 million
2020 - 2023	Verdala Site, Rabat - The Group plans to develop a 40-suite boutique hotel and 19-serviced apartments to be managed as one operation by AX Hotel Operations p.l.c. The hotel and serviced apartments are projected to commence operations in FY23.  The Group also plans to develop 100 luxury apartments on the same site, earmarked for sale to third parties. Development of the said apartments is projected to be completed during FY23.	Outline application stage	€37 million

<b>2021 – 2023</b>	The extension of the Hilltop Gardens Retirement Village - The Group plans on adding 71 units for lease or rental at the Hilltop Gardens Retirement Village.	Permit application submitted – pending approval	<i>circa</i> €6 million
<b>2023 – 2024</b>	The redevelopment of the AX Sunny Coast Resort and Spa, Qawra – The Group plans to demolish and rebuild the Sunny Coast Resort & Spa in Qawra.	Permit application submitted – pending approval	<i>circa</i> €18 million
<b>2025 – 2026</b>	The extension of AX Seashells Resort at Suncrest, Qawra – The Group plans to extend the AX Seashells Resort at Suncrest by an additional two floors, adding a total of 200 rooms. The entire hotel and lido area is also planned to be refurbished and redecorated.	Permit application submitted – pending approval	<i>circa</i> €13 million

## PART 2 – GROUP PERFORMANCE REVIEW

### 10. FINANCIAL INFORMATION RELATING TO AX GROUP PLC

The following financial information is extracted from the audited consolidated financial statements of AX Group p.l.c. for the three years ended 31 October 2016 to 31 October 2018. The financial information for the years ending 31 October 2019 and 31 October 2020 have been provided by Group management.

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

#### PRIOR YEAR ADJUSTMENT

A prior year adjustment was passed to properly account for share of profits resulting from investments in associates which was overstated in previous years. The following balance sheet items were affected by such adjustment.

	€'000
<b>Investments in associates</b>	
<b>At 01.11.2016, as previously stated</b>	<b>8,586</b>
Prior year adjustment	(1,603)
At 01.11.2016, as restated	6,983
Share of profits, as previously stated	1,087
Prior year adjustment	(574)
	<b>513</b>
<b>At 31.10.2017, as restated</b>	<b>7,495</b>
<b>Retained earnings</b>	
<b>At 01.11.2016, as previously stated</b>	<b>16,673</b>
Prior year adjustment	(1,603)
At 01.11.2016, as restated	15,070
Profit for the year, as previously stated	12,252
Prior year adjustment	(574)
Profit for the year, as restated	11,678
Dividends paid	(2,300)
Revaluation of investment property, net of tax	(5,561)
<b>At 31.10.2017, as restated</b>	<b>18,887</b>

**AX GROUP P.L.C.**  
**CONSOLIDATED INCOME STATEMENT**

FOR THE YEAR ENDED 31 OCTOBER	2016 Actual €'000	2017 Restated €'000	2018 Actual €'000	2019 Forecast €'000	2020 Projection €'000
Revenue	38,060	46,157	56,776	52,389	66,482
Net operating expenses	(25,397)	(30,793)	(35,832)	(36,362)	(41,033)
<b>EBITDA</b>	<b>12,663</b>	<b>15,364</b>	<b>20,944</b>	<b>16,027</b>	<b>25,449</b>
Depreciation	(4,825)	(5,238)	(5,348)	(5,895)	(5,875)
Investment property revaluation	900	6,211	26,589	-	-
Share of results of associated undertaking	696	513	3	383	359
Investment income	8	11	1	-	-
Net finance costs	(3,494)	(3,459)	(3,007)	(3,164)	(3,965)
<b>Profit before tax</b>	<b>5,949</b>	<b>13,401</b>	<b>39,182</b>	<b>7,351</b>	<b>15,968</b>
Taxation	(1,918)	(1,690)	(8,228)	4,929	(3,297)
<b>Profit after tax</b>	<b>4,030</b>	<b>11,711</b>	<b>30,954</b>	<b>12,280</b>	<b>12,671</b>
<b>Other comprehensive income</b>					
Gains on property revaluation	53,622	-	13,136	-	-
Taxation	(5,418)	-	(1,384)	-	-
	<b>48,204</b>	<b>-</b>	<b>11,752</b>	<b>-</b>	<b>-</b>
<b>Total comprehensive income</b>	<b>52,234</b>	<b>11,711</b>	<b>42,706</b>	<b>12,280</b>	<b>12,671</b>

**AX GROUP P.L.C.**  
**CASH FLOW STATEMENT**

FOR THE YEAR ENDED 31 OCTOBER	2016 Actual €'000	2017 Restated €'000	2018 Actual €'000	2019 Forecast €'000	2020 Projection €'000
Net cash from operating activities	17,564	17,516	15,164	8,849	14,288
Net cash from investing activities	(16,853)	(12,084)	(4,890)	(10,130)	(24,280)
Net cash from financing activities	2,708	(4,816)	(10,190)	(3,031)	61,916
<b>Net movement in cash and cash equivalents</b>	<b>3,419</b>	<b>616</b>	<b>84</b>	<b>(4,312)</b>	<b>51,924</b>
Cash and cash equivalents at beginning of year	2,174	5,593	6,209	6,293	1,981
<b>Cash and cash equivalents at end of year</b>	<b>5,593</b>	<b>6,209</b>	<b>6,293</b>	<b>1,981</b>	<b>53,905</b>

**AX GROUP P.L.C.**  
**STATEMENT OF FINANCIAL POSITION**

	31 Oct'16 Actual €'000	31 Oct'17 Restated €'000	31 Oct'18 Actual €'000	31 Oct'19 Forecast €'000	31 Oct'20 Projection €'000
<b>ASSETS</b>					
<b>Non-current assets</b>					
Property, plant & equipment	218,791	223,930	235,045	243,673	250,863
Investment property	24,395	30,969	58,722	31,526	42,742
Investments in associates	8,586	7,495	7,499	7,882	8,241
Deferred tax asset & other non-current assets	-	-	-	7,208	7,172
	<b>251,772</b>	<b>262,394</b>	<b>301,266</b>	<b>290,289</b>	<b>309,018</b>
<b>Current assets</b>					
Inventories	2,721	2,971	2,370	25,260	27,596
Trade & other receivables	11,162	12,258	13,046	11,406	11,968
Cash at bank and in hand	5,876	7,353	6,852	1,981	53,905
	<b>19,759</b>	<b>22,582</b>	<b>22,268</b>	<b>38,647</b>	<b>93,469</b>
<b>Total assets</b>	<b>271,531</b>	<b>284,976</b>	<b>323,534</b>	<b>328,936</b>	<b>402,487</b>
<b>EQUITY</b>					
Share capital	1,165	1,165	1,165	1,165	1,165
Reserves	145,440	151,901	186,358	185,058	185,059
Retained earnings	16,673	17,987	23,724	33,280	42,139
Non-controlling interest	1,401	1,434	1,503	1,515	1,577
	<b>164,679</b>	<b>172,487</b>	<b>212,750</b>	<b>221,018</b>	<b>229,940</b>
<b>LIABILITIES</b>					
<b>Non-current liabilities</b>					
Borrowings & debt securities	60,429	57,357	53,149	52,964	121,092
Trade & other payables	3,281	6,578	11,591	12,745	11,983
Deferred tax liabilities	18,731	19,256	24,823	24,695	24,695
	<b>82,441</b>	<b>83,191</b>	<b>89,563</b>	<b>90,404</b>	<b>157,770</b>
<b>Current liabilities</b>					
Borrowings	9,022	10,500	2,919	2,346	-
Trade & other payables	15,389	18,798	18,302	15,168	14,777
	<b>24,411</b>	<b>29,298</b>	<b>21,221</b>	<b>17,514</b>	<b>14,777</b>
<b>Total liabilities</b>	<b>106,852</b>	<b>112,489</b>	<b>110,784</b>	<b>107,918</b>	<b>172,547</b>
<b>Total equity and liabilities</b>	<b>271,531</b>	<b>284,976</b>	<b>323,534</b>	<b>328,936</b>	<b>402,487</b>

KEY ACCOUNTING RATIOS	FY2016 Actual	FY2017 Restated	FY2018 Actual	FY2019 Forecast	FY2020 Projection
Operating profit margin (EBITDA/revenue)	33%	33%	37%	31%	38%
Interest cover (times) (EBITDA/net finance cost)	3.62	4.44	6.97	5.07	6.42
Net debt to EBITDA (years) (Net debt/EBITDA)	5.02	3.94	2.35	3.33	2.64
Net profit margin (Profit after tax/revenue)	11%	25%	55%	23%	19%
Earnings per share (€) (Profit after tax/number of shares)	3.46	10.06	26.58	10.54	10.88
Return on equity (Profit after tax/shareholders' equity)	2%	7%	15%	6%	6%
Return on capital employed (EBITDA/total assets less current liabilities)	5%	6%	7%	5%	7%
Return on assets (Profit after tax/total assets)	1%	4%	10%	4%	3%

Source: Charts | A Division of MeDirect Bank plc

## INCOME STATEMENT

During **FY2016**, revenue of the Group increased by €6.0 million (+19%) from €32.1 million in FY2015 to €38.1 million. The aforementioned 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 p.l.c. increased from €0.4 million in FY2015 to €1.0 million in FY2016.

EBITDA increased by €2.8 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 €5.9 million, a y-o-y increase of €0.3 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).

In **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 p.l.c. decreased by €0.06 million to €0.89 million in FY2017.

During 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 €6.1 million (FY2016: €0.9 million), and share of results of associates of €0.5 million (FY2016: €0.7 million), the Group registered a profit before tax of €13.4 million, compared to €5.9 million in FY2016 (+125%).

Profit after tax amounted to €11.7 million in FY2017 as compared to €4.0 million in FY2016, an increase of €7.7 million (+191%). Total comprehensive income in FY2017 was unchanged at €11.7 million (FY2016: €52.2 million).

During **FY2018**, total revenue generated by the Group increased by €10.6 million (+23%), from €46.2 million in FY2017 to €56.8 million in FY2018. The year-on-year increase was spread primarily across all sectors with the hospitality sector registering the highest increase in terms of value (+€3.4 million, y-o-y). The construction sector and sale of property, real estate and rental income registered positive increases of €2.6 million and €2.2 million, respectively. Revenue from the retirement home increased by €1.4 million, whilst dividends receivable from Valletta Cruise Port p.l.c. increased by €0.3 million to €1.2 million in FY2018.

During FY2018, EBITDA increased by €5.5 million (+36%) from €15.4 million in FY2017 to €20.9 million, a fair amount of which was generated from the sale of property as well as the aggregate increases in revenue in the sub-divisions of the hospitality & entertainment sector. After accounting for depreciation of €5.3 million (FY2017: €5.2 million), investment income and net finance costs of €3.0 million (FY2017: €3.5 million), and an investment property revaluation uplift of €26.6 million (FY2017: €5.8 million), the Group registered a profit before tax of €39.2 million, compared to €13.4 million in FY2017 (+192%). The afore-mentioned revaluation of €26.6 million related to uplifts in the fair value of the Verdala site in Rabat, a plot of land in Marsa (known as Tad-Dwiemes) and the Virtu Apartments in Rabat.

Profit after tax amounted to €30.9 million in FY2018 as compared to €11.7 million in FY2017, an increase of €19.2 million (+164%). Total comprehensive income in FY2018 increased to €42.7 million (FY2017: €11.7 million) due to gains on property revaluation net of tax of €11.8 million (FY2017: nil) in relation to The Palace Hotel and Simblija Care Home & Hilltop Gardens Retirement Village.

In **FY2019**, revenue is forecasted to decrease by €4.4 million from €56.8 million in FY2018 to €52.4 million. Revenue generated by the hospitality & entertainment division is expected to decline by €1.1 million (y-o-y) due to the temporary closure of The Palace Hotel for a refurbishment exercise, which will not be compensated by an increase in RevPAR. As a result of rising competition in the local tourism market, particularly from non-hotel self-catering accommodation properties, management's ability to increase room rates is somewhat limited.

The construction and property divisions are also expected to register a y-o-y decline, from an aggregate of €10.9 million in FY2018 to €7.5 million, in view of the fact that no property sales are forecasted for FY2019. In contrast, revenue from the retirement home is forecasted to increase by €0.8 million (+17%, y-o-y) to €5.6 million in FY2019.

EBITDA in FY2019 is estimated at €16.0 million, a decrease of €4.9 million (-23%) when compared to FY2018. The Group is forecasted to register a profit before tax in FY2019 of €7.4 million, a decrease of €31.8 million from a year earlier. This decrease is mainly attributable to the fact that management has prudently assumed no investment property valuation gains will be accounted for in FY2019, compared to a gain of €26.6 million in FY2018. In FY2019 Sunny Coast Resort & Spa in Qawra and The Victoria Hotel in Sliema will be revalued in line with the ongoing property revaluation programme of the Group. After accounting for a tax credit of €4.9 million (as a result of the recognition of a deferred tax asset from an investment tax credit on the retirement home), total comprehensive income in FY2019 is projected to amount to €12.3 million (FY2018: €42.7 million).

Revenue in **FY2020** is projected to increase substantially by €14.1 million (+27%, y-o-y) to €66.5 million, primarily on account of expected disposal of various properties amounting to €8.8 million. The remaining balance is projected to be generated from the other divisions of the Group. The surge in revenue is expected to result in a €9.4 million increase in EBITDA, from €16.0 million in FY2019 to €25.4 million. Similarly, profit before tax is projected to increase y-o-y by €8.6 million as no property fair value uplifts are being assumed. Overall, total comprehensive income in FY2020 is projected at €12.7 million, compared to €12.3 million being forecasted for FY2019.

## STATEMENT OF FINANCIAL POSITION

Non-current assets of the Group principally comprise property, plant & equipment (mainly hotel properties and the Simblija Care Home & Hilltop Gardens Retirement Village), investment property (mainly Verdala site and a plot of land in Marsa) and a 36% shareholding in Valletta Cruise Port p.l.c. (investment in associates). In FY2018, non-current assets increased by €38.9 million to €301.3 million (FY2017: €262.4 million) primarily on account of uplifts in fair value of assets. Current assets as at 31 December 2018 amounted to €22.3 million compared to €22.6 million in FY2017. Current assets mainly include trade & other receivables and cash & bank balances.

During the projected years (FY2019 and FY2020), property, plant & equipment is expected to increase by €15.8 million (from €235.0 million in FY2018 to €250.9 million in FY2019), primarily in relation to the completion of the Rosselli Hotel and development works at TG Complex in Mosta, as well as ongoing capital expenditure at the Group's properties.

With regard to investment property, in FY2019, the portion of the Verdala site earmarked for the development of residential units and which will be available on the market for sale will be transferred to inventories. As such, inventories (current asset) are set to increase from €2.4 million in FY2018 to €25.3 million in FY2019 and investment property (non-current asset) will decrease by a corresponding amount.

Total liabilities represent trade and other payables (FY2018: €29.9 million as compared to FY2017: €25.4 million), deferred taxation (FY2018: €24.8 million as compared to FY2017: €19.3 million) and borrowings as provided hereinafter.



**AX GROUP P.L.C.**  
**GROUP BORROWINGS**

	31 Oct'16 Actual €'000	31 Oct'17 Restated €'000	31 Oct'18 Actual €'000	31 Oct'19 Forecast €'000	31 Oct'20 Projection €'000
<b>Bank borrowings</b>					
Bank loans	21,681	19,937	15,226	15,266	6,461
Bank overdrafts	283	1,144	559	-	-
	<b>21,964</b>	<b>21,081</b>	<b>15,785</b>	<b>15,266</b>	<b>6,461</b>
<b>Bonds</b>					
6% Bonds 2024	39,540	39,394	39,456	39,516	39,631
3.25% Bonds 2026/3.75% Bonds 2029					74,470
	<b>39,540</b>	<b>39,394</b>	<b>39,456</b>	<b>39,516</b>	<b>114,101</b>
<b>Other borrowings</b>					
Malta Enterprise	6,311	6,634	-	-	-
Other loans	119	211	590	-	-
Shareholder's loan <i>(unsecured, interest free and no fixed date repayment)</i>	1,517	537	237	528	530
	<b>7,947</b>	<b>7,382</b>	<b>827</b>	<b>528</b>	<b>530</b>
<b>Total borrowings and bonds</b>	<b>69,451</b>	<b>67,857</b>	<b>56,068</b>	<b>55,310</b>	<b>121,092</b>

KEY ACCOUNTING RATIOS	31 Oct'16 Actual	31 Oct'17 Restated	31 Oct'18 Actual	31 Oct'19 Forecast	31 Oct'20 Projection
Net assets per share (€) <i>(Net asset value/number of shares)</i>	141	148	183	190	197
Liquidity ratio (times) <i>(Current assets/current liabilities)</i>	0.81	0.77	1.05	2.21	6.33
Gearing ratio <i>(Net debt/net debt and shareholders' equity)</i>	28%	26%	19%	19%	23%

Source: Charts | A Division of MeDirect Bank plc

During FY2020, the Group will be raising €25 million from 2 bond issues, in terms of the Prospectus dated 22 November 2019, the proceeds thereof shall be utilised to acquire the properties referred to in sections 9.1 and 9.2 of this report (the "Marsa Project" and the "Valletta Project"). In addition, an amount of €4.5 million shall be used to re-finance bank loan facilities and a further €4 million shall be utilised for general corporate funding purposes.

Subject to approval from the relevant authorities to undertake the development of the Verdala site, the Company is intent on issuing €50 million in bonds, the majority of the aggregate proceeds of which are earmarked for the purposes of financing the development of the Verdala site. Simultaneously with the issuance of the said €50 million bonds, the existing shareholders are minded to launch an offer to the public of 25% of their shareholding in the Company. As at the date hereof, the Company's shareholders intend to reinvest part of the proceeds from the share offer in the Company by way of subscription for the majority of the €50 million bonds. The remaining balance of bonds will be offered to the general public.

**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 FY2019, net cash from operating activities is expected to decrease from €15.2 million in FY2018 to €8.8 million, primarily due to an expected decline in revenue (explained in further detail elsewhere in this report), the reversal of interest expensed in FY2018 in relation to previous years and not repeated in FY2019 and adverse movement in working capital changes. In FY2020, operating cash inflows are projected to increase y-o-y by €5.4 million to €14.3 million, mainly from the disposal of various properties.

Net cash from investing activities principally relate to the acquisition and disposal of properties and annual capital expenditure on the Group properties. In this regard, between FY2016 and FY2018, the AX Group utilised a net amount of €33.8 million. During FY2019 and FY2020, the Group is projecting to utilise in aggregate €34.4 million (being net of proceeds from disposals), mainly to complete outstanding projects, to acquire the Marsa and Valletta properties (described in section 6 above) and for the purposes of ongoing capital expenditure.

Financing activities principally comprise movement on bank and other borrowings, issuance of debt securities and payment of dividends. In FY2018, the Group utilised €7.7 million of loan facilities and paid dividends to shareholders of €2.5 million (total of €10.2 million). In FY2019, net cash outflows from financing activities are expected to amount to €3.0 million, mainly comprising dividend payments. In the subsequent year (FY2020), the Group is projecting to raise *circa* €75 million from bond issues and during same year plans to repay €8.8 million of bank loans and distribute €3.8 million by way of dividends to shareholders.

#### DEBT SECURITIES ISSUED BY GROUP COMPANIES

AX Investments p.l.c. is a member of the AX Group and has the following outstanding debt securities:

- €40 million AX Investments p.l.c. 6% Unsecured € Bonds 2024 (ISIN MT0000081233)

### PART 3 – COMPARABLES

The table below compares the Company and its bonds 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.

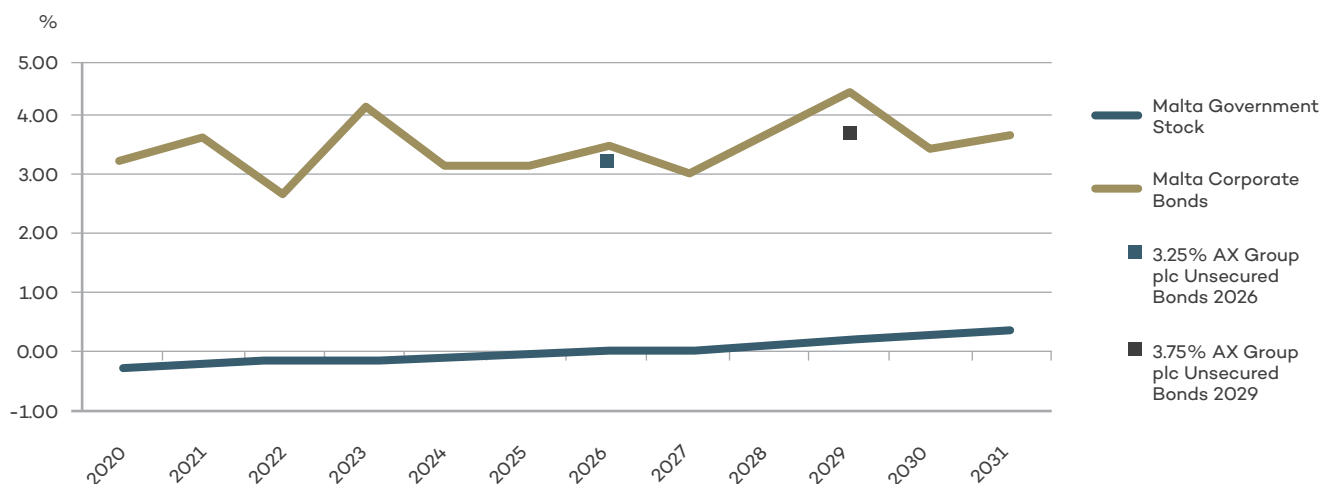
COMPARATIVE ANALYSIS	Nominal Value (€)	Yield to Maturity (%)	Interest Cover (times)	Total Assets (€'000)	Net Asset Value (€'000)	Gearing Ratio (%)
5.50% Pendergardens Dev. plc Secured € 2020 Series I	14,711,300	3.26	1.23	80,052	25,712	48.95
6.00% Pendergardens Dev. plc Secured € 2022 Series II	26,921,200	2.34	1.23	80,052	25,712	48.95
3.65% GAP Group plc Secured 2022	40,000,000	2.72	4.45	55,237	9,869	71.82
5.30% United Finance Plc Unsecured € Bonds 2023	8,500,000	4.22	0.76	27,159	6,916	62.72
6.00% AX Investments Plc Unsecured € 2024	40,000,000	2.52	6.97	325,243	214,590	18.66
5.30% Mariner Finance plc Unsecured € 2024	35,000,000	3.24	5.33	83,223	44,177	43.99
5.00% Hal Mann Vella Group plc Secured Bonds € 2024	30,000,000	3.64	2.29	112,006	43,514	51.65
4.25% Best Deal Properties Holding plc Secured 2024	16,000,000	3.40	4.02	25,986	3,432	82.64
5.10% 1923 Investments plc Unsecured € 2024	36,000,000	4.84	1.41	120,794	38,318	52.41
4.50% Hili Properties plc Unsecured € 2025	37,000,000	3.84	1.55	154,742	52,242	61.72
5.10% 6PM Holdings plc Unsecured € 2025	13,000,000	4.50	2.09	5,499	-19,741	-
4.25% Corinthia Finance plc Unsecured € 2026	40,000,000	3.63	2.74	1,784,681	908,883	40.11
4.00% International Hotel Invest. plc Secured € 2026	55,000,000	3.58	3.27	1,617,853	877,620	36.63
4.00% International Hotel Invest. plc Unsecured € 2026	40,000,000	3.60	3.27	1,617,853	877,620	36.63
4.00% MIDI plc Secured € 2026	50,000,000	3.50	9.80	220,613	97,440	31.83
3.75% Premier Capital plc € Unsecured Bonds 2026	65,000,000	3.14	12.63	179,451	48,701	54.42
4.35% Hudson Malta plc Unsecured 2026	12,000,000	3.60	13.74	28,166	6,135	60.96
4.35% SD Finance plc € Unsecured Bonds 2027	65,000,000	3.44	8.48	316,563	132,582	31.98
4.00% Eden Finance plc Unsecured 2027	40,000,000	3.10	5.68	185,717	103,511	31.82
4.00% Stivala Group Finance plc Secured 2027	45,000,000	3.44	3.73	202,425	115,827	32.23
3.85% Hili Finance Company plc Unsecured 2028	40,000,000	3.71	3.44	455,113	86,390	73.98
3.80% Hili Finance Company plc Unsecured 2029	80,000,000	3.77	3.44	455,113	86,390	73.98
<b>3.25% AX Group Plc Unsecured € 2026*</b>	<b>25,000,000</b>	<b>3.25</b>	<b>6.96</b>	<b>323,534</b>	<b>212,750</b>	<b>18.79</b>
<b>3.75% AX Group Plc Unsecured € 2029*</b>	<b>25,000,000</b>	<b>3.75</b>	<b>6.96</b>	<b>323,534</b>	<b>212,750</b>	<b>18.79</b>

\* The Bond Issue is for an aggregate amount of €25M in any one or a combination of the stated bonds.

19 September '19

Source: Malta Stock Exchange, Audited Accounts of Listed Companies, Charts | A division of MeDirect Bank (Malta) plc

### Bond Yield to Maturity



Source: Malta Stock Exchange, Central Bank of Malta, Charts | A division of MeDirect Bank (Malta) plc

19 September 2019

To date, there are no corporate bonds which have a redemption date beyond 2031. The Malta Government Stock yield curve has also been included since it is the benchmark risk-free rate for Malta.

The 2026 bonds have been priced at a yield of 3.25%, which is *circa* 25 basis points below other corporate bonds maturing in the same year. The premium over FY2026 Malta Government Stock is 325 basis points.

The 2029 bonds have been priced at a yield of 3.75%, which is *circa* 68 basis points lower when compared to other corporate bonds maturing in 2029. The premium over FY2029 Malta Government Stock is 352 basis points.

## PART 4 – EXPLANATORY DEFINITIONS

### INCOME STATEMENT

<b>Revenue</b>	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.
<b>Direct costs</b>	Direct costs include cost of food, beverages, consumables, labour expenses and all other direct expenses.
<b>Gross profit</b>	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.
<b>Operating costs</b>	Operating costs include all operating expenses other than direct costs.
<b>EBITDA</b>	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.
<b>Share of results of associated undertakings</b>	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'.
<b>Profit after tax</b>	Profit after tax is the profit made by the Group during the financial year both from its operating as well as non-operating activities.
<b>Occupancy level</b>	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.

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**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.

**Net debt to EBITDA**

The net debt to EBITDA ratio is a measurement of leverage, calculated as a company's interest bearing liabilities minus cash or cash equivalents, divided by its EBITDA. This ratio shows how many years it would take for a company to pay back its debt if net debt and EBITDA are held constant.

**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.

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