COMPANY ANNOUNCEMENT

The following is a Company Announcement issued by AX Group p.l.c. (the "**Company**") pursuant to the Capital Market Rules as issued by the Malta Financial Services Authority:

Quote

The Board of Directors of AX Group p.l.c. makes reference to the company announcements 'Approval of the final consolidated audited annual accounts – YE2021' (AXG40/2022) and 'Publication of annual report – YE2021' (AXG41/2022) dated 18th February 2022 and 23rd February 2022, respectively.

The published 'Annual Report and Consolidated and Separate Financial Statements' included a disclosure which was not updated in the Notes to the financial statements. Specifically, in Note 18 Investment Properties, certain valuation inputs were not updated and a disclosure explaining the changes in valuation techniques used compared to 2020 was omitted. However, the fair value of the investment properties was correctly reported.

The updated 'Note 18 – Investment Properties' is being reproduced hereunder.

The Company apologizes for any inconvenience caused.

Unquote

Dr. Edmond Zammit Laferla
Company Secretary

27 July 2022

Company Announcement
AXG45/2022

Notes to the Financial Statements

18. INVESTMENT PROPERTIES

	Group EUR	Company EUR
Fair value		
At 31 October 2019	58,804,763	-
Additions	16,841,636	-
At 31 October 2020	**75,646,399**	**-**
At 31 October 2020	75,646,399	-
Effect of merger	-	4,550,000
Additions	1,814,933	23,484
Revaluation	4,964,812	1,532,855
Transfers (to) / from property, plant and equipment (i)	(5,748,780)	4,180,079
Transfers to inventory (ii)	(23,945,407)	(750,000)
Total investment properties	**52,731,957**	**9,536,418**
Less: classified as held for sale	(4,286,418)	(4,286,418)
At 31 October 2021	**48,445,539**	**5,250,000**

The transfers (to) / from property, plant and equipment and inventory during the current year relates to the transfer of properties resulting from a change in use, following management's assessment of whether the property meets, or ceases to meet, the definition of investment property.

(i) Details of the transfers to / from investment property to / from property, plant and equipment:

	Group EUR	Company EUR
Commencement of owner-occupation	(4,247,173)	-
Commencement of development with a view to owner-occupation	(5,681,686)	-
End of owner-occupation	4,180,079	4,180,079
	(5,748,780)	4,180,079

(ii) Details of the transfers to / from investment property to inventory:

	Group EUR	Company EUR
Commencement of development with a view to sale	(23,195,407)	-
Transfer to inventory with a view to sale	(750,000)	(750,000)
	(23,945,407)	(750,000)

Valuation process

The Group's land and buildings are classified as either property, plant and equipment or investment properties depending on their intended use. Land and buildings are revalued by professionally qualified architects or surveyors on the basis of assessments of the fair value of the property in accordance with the international valuation standards and professional practice.

Notes to the Financial Statements – continued

18. INVESTMENT PROPERTIES – continued

In the years where a valuation is not obtained, management verifies all major inputs to the independent valuation report, assesses any property valuation movements when compared to the prior year valuation report and hold discussions with the independent valuer, as necessary.

For all properties, their current use equates to the highest and best use.

The Group has no restrictions on the realisability of its investment properties and no contractual obligations to purchase, construct or develop investment properties or for repairs, maintenance and enhancements.

The Group's property has been determined to fall within level 3 of the fair value hierarchy. The different levels in the fair value are defined in Note 5.10.

Details of the investment properties and land and buildings and information about their fair value hierarchy as at the end of the year:

(i) Investment Properties

Type of Property	Level 3 EUR	Total EUR	Date of Valuation
Land	18,757,836	18,757,836	06/01/2019
	5,827,678	5,827,678	31/10/2020
Commercial property	9,970,035	9,970,035	31/10/2021
Residential	3,839,000	3,839,000	28/01/2019
	410,990	410,000	31/10/2020
	9,640,000	9,640,000	31/10/2021
Total	**48,445,539**	**48,445,539**	

(ii) Land and Buildings

Type of Property	Level 3 EUR	Total EUR	Date of Valuation
Commercial property	9,025,159	9,025,159	19/12/2020
Commercial property	234,730,621	234,730,621	31/10/2021
Total	**243,755,780**	**243,755,780**	

The Group's policy is to recognise transfers into and out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer. There were no transfers between levels during the year.

Description of valuation techniques used and key inputs to valuation of lands and buildings and investment properties

For investment properties categorized under Level 3 of the fair value hierarchy, the valuation was determined by a combination of the market approach, the replacement cost approach and the income capitalization approach as applicable.

Notes to the Financial Statements – continued

18. INVESTMENT PROPERTIES – continued

i. Investment Properties

Type of Property	Valuation Technique	Inputs	Sensitivity
Residential property amounting to EUR3,839,000	Income capitalisation approach	Income capitalization approach: total projected EBITDA of €520,800 using an average growth of 2%, discount rate of future income of 11.83%, estimated terminal land value, capitalisation yield of 4.5% and discount rate of 5%.	The higher the capitalisation rate, the lower the fair value. The higher the rental income and growth rate the higher the fair value.
Commercial property amounting to EUR9,970,035 (i)	Income capitalisation approach	The inputs used to calculate the total value of the property is an annual return in the range of EUR40 and EUR177 per square meter at a capitalisation rate of 6%	The higher the capitalisation rate, the lower the fair value. The higher the rental income and growth rate the higher the fair value.
Land amounting to EUR18,757,836	Income capitalisation approach	The inputs used to calculate the total value of the property on completion is an annual return of EUR 145 per square meter at a capitalisation rate of 5%.	The higher the capitalisation rate, the lower the fair value.The higher the annual return per square meter the higher the fair value.
Land amounting to EUR5,827,678	Market approach	Market transaction	The higher the rates, the higher the fair value.
Residential property amounting to EUR410,990 (ii)	Market approach	Based on prices of similar property	The higher the market rates, the higher the fair value
Residential property amounting to EUR5,250,000	Replacement Cost Approach	This method takes into account the actual physical building fabric constituting the facility, together with an estimated land value. The valuation relies on estimated going rates of the various components of the existing building.	The higher the rates for construction, finishings, services and fittings the higher the fair value.
Residential property amounting to EUR4,390,000	Market approach	The valuation of investment property was based on market rates for comparable advertised properties taking into account the size, fit out of the subject units, location of the property and current situation of the residential and commercial property market.	The higher the market rates, the higher the fair value.

(i) The valuation technique used to determine the fair value of these properties was changed from the market approach in prior year to the income capitalisation approach in current year. The income capitalisation approach takes into consideration the rental agreements in place on these properties. Management deemed this approach to be more appropriate since it is in line with the Group's strategy to continue to lease out such properties.

(ii) This amount includes an amount of EUR410,990 which was acquired during the year and for which cost is deemed to be equal to fair value.

Notes to the Financial Statements – continued

18. INVESTMENT PROPERTIES – continued

ii. Land and Buildings

Type of Property	Valuation Technique	Inputs	Sensitivity
Commercial property amounting to EUR7,703,880 (i)	Income capitalisation approach	The inputs used to calculate the total value of the property is an annual return in the range of EUR40 and EUR270 per square meter at a capitalisation rate in the range of 5.75%-6%.	The higher the capitalisation rate, the lower the fair value. The higher the rental income and growth rate the higher the fair value.
Commercial property amounting to EUR39,601,504 (ii)	Average of profits method; income capitalisation approach and replacement cost approach	Profits method: EBIDTA of €2,189,955, EBITDA multipliers ranging between 11.7 times to 16.5 times, estimated terminal land value based on current land value, capitalisation yield of 4.5% and discount rate of 5%.	Profits method: The higher the EBITDA multiples and capitalisation yield, the higher the fair value.
		Income capitalization approach: EBIDTA of €1,596,000 using an average growth of 2%, discount rate of future income ranging from 7.5% to 11.83%, estimated terminal land value based on current land value, capitalisation yield of 4.5% and discount rate of 5%.	Income capitalization approach: The higher the EBITDA and capitalisation yield, the higher the fair value.
		Replacement cost approach: taking into account the actual physical building fabric constituting the facility, together with an estimated land value. The valuation relies on estimated going rates of the various components of the existing building.	Replacement cost approach: The higher the rates for construction, finishings, services and fittings, the higher the fair value
Commercial property amounting to EUR4,790,000 (iii)	Income capitalisation approach	Income capitalization approach: EBITDA of €1,215,200 using an average growth of 2%, discount rate of future income of 11.83%, estimated terminal land value, capitalisation yield of 4.5% and discount rate of 5%.	The higher the capitalisation rate, the lower the fair value. The higher the rental income and growth rate the higher the fair value.
Commercial property amounting to EUR182,601,740	Average of income capitalisation approach and replacement cost approach	Income capitalization approach: EBIDTA range between €1,136,310 and €7,496,738, capitalisation yield of 8.33%, land appreciation of 4.5% per annum, discount rate for commercial property sale at termination 6% and discount rate for future income of 11.83% Replacement cost approach: This method takes into account the actual physical building fabric constituting the facility, together with an estimated land value. The valuation relies on estimated going rates of the various components of the existing building.	Income capitalization approach: The higher the EBITDA and capitalisation yield, the higher the fair value. Replacement cost approach: The higher the rates for construction, finishings, services and fittings, the higher the fair value.
Commercial property amounting to EUR9,025,159	Replacement cost approach	This method takes into account the actual physical building fabric constituting the facility, together with an estimated land value. The valuation relies on estimated going rates of the various components of the existing building to which a multiplication factor was applied to factor-in the property's unique characteristics. The main inputs used were EUR250/sqm for shell construction, EUR200/sqm for building services, EUR200/sqm to EUR250/sqm for finishing depending on the area.	The higher the rates for construction, finishing, services and fittings, the higher the fair value.

(i) The valuation technique used to determine the fair value of these properties was changed from the market approach in prior year to the income capitalisation approach in current year. The income capitalisation approach takes into consideration the rental agreements in place on these properties. Management deemed this approach to be more appropriate since it is in line with the Group's strategy to continue to lease out such properties.

Notes to the Financial Statements – continued

18. INVESTMENT PROPERTIES – continued

ii. Land and Buildings - continued

(ii) The valuation technique used to determine the fair value of this property changed from that used in the previous year. In the previous year, fair value was determined as the sum of three parts, valued separately using the income capitalization approach, the market approach and the replacement cost approach respectively. In the current year's valuation of the property, fair value measurement of the whole property was determined as the average of three methods – the profits method; income capitalisation approach and replacement cost approach. Management deem that the latest valuation methodology adopted better reflects certain planning constraints attributable to the use of the property.

(iii) The valuation technique used to determine the fair value of these properties was changed from the market approach in prior year to the income capitalisation approach in current year. The change was as a result of a development permit obtained during the year permitting a planned hotel development to commence on the land and therefore for the valuation to be based on the forecasted financial performance of the planned hotel.

During the year the Group used the same valuation techniques used in the previous year for the rest of the properties except for those mentioned above.