
Financial Analysis Summary

28 April 2017

Issuer

AX Investments p.l.c.

Guarantor

AX Holdings Limited

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

28 April 2017

Dear Sirs

Financial Analysis Summary

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

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

- (a) Historical financial data for the three years ended 31 October 2014 to 31 October 2016 has been extracted from audited financial statements of the Company and Guarantor for the three years in question.
- (b) The forecast data of the year ending 31 October 2017 has been provided by management.
- (c) Our commentary on the results of the Guarantor and on its financial position is based on the explanations provided by management.
- (d) The ratios quoted in the Financial Analysis Summary have been computed by us applying the definitions set out in Part 4 of the Analysis.
- (e) Relevant financial data in respect of such companies included in Part 3 has been extracted from public sources such as websites of the companies concerned, financial statements filed with the Registrar of Companies or websites providing financial data.

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

Yours faithfully,



Wilfred Mallia
Director

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PART 1 – INFORMATION ABOUT THE COMPANY AND GUARANTOR

1. COMPANY'S KEY ACTIVITIES

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

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

2. GROUP'S KEY ACTIVITIES

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

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

In FY2014, the AX Group commenced development of the Simblija Care Home & Hilltop Gardens Retirement Village and by end of 2015 construction was largely complete with finishes at an advanced stage. The property was officially opened on 10 December 2015 and is being marketed as a high-end retirement property, offering independent living with access to a range of facilities and amenities, and 24-hour care when required. The Simblija Care Home & Hilltop Gardens Retirement Village also includes a nursing home which provides intensive nursing care to dependent elderly residents. The expenditure on development and plant & equipment in relation to the aforesaid project is estimated at €25 million.

In FY2016, the Group increased its shareholding in Valletta Cruise Port p.l.c. from 24% to 36% for a total consideration of €3.93 million. The aggregate value of the said investment post acquisition amounts to €8.1 million. During the aforesaid financial year, the Group acquired a property in Merchant Street, Valletta, which is currently being converted into a 21-room boutique hotel at an estimated total cost (property acquisition and development) of *circa* €4.5 million. The opening date is set for July 2017.

Furthermore, in November 2016 (FY2017), the Group acquired another property in Merchant Street, Valletta for a total consideration of €4.5 million. Subject to planning authority permits, this property will be converted into a 30-room boutique hotel by FY2018.

3. DIRECTORS AND KEY EMPLOYEES

3.1 COMPANY'S BOARD OF DIRECTORS

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

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

3.2 GUARANTOR'S BOARD OF DIRECTORS

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

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

The weekly average number of employees engaged with the companies forming part of the AX Group during FY2016 amounted to 636 persons (FY2015: 567).

4. MAJOR ASSETS OWNED BY THE GROUP

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

Group Assets	FY2014 €'000	FY2015 €'000	FY2016 €'000
The Palace Hotel	38,118	37,193	36,555
Victoria Hotel [#]	18,095	20,246	20,754
Seashells Resort at Suncrest [^]	21,767	27,617	79,219
Sunny Coast Resort & Spa [#]	16,842	19,119	19,015
Palazzo Capua ^{*^}	8,120	8,023	8,863
Grand Hotel Verdala	11,423	11,423	11,423
Simblija Care Home & Hilltop Gardens Retirement Village	23,780	37,486	42,812
Villa Vistana	3,500	3,500	3,500
Tad-Dwiemes, Marsa	3,402	3,402	3,402
Hard Rocks Warehouses [^]	1,750	1,750	2,650
Luzzu Complex	-	2,178	2,903
St. John's Boutique Hotel	-	-	2,990
Other assets [#]	6,230	8,321	8,604
	153,027	180,258	242,690

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

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

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

Source: Consolidated audited financial statements of AX Holdings Limited.

5. GROUP OPERATIONAL DEVELOPMENT

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

5.1 KEY FINANCIAL INFORMATION – THE GROUP

AX Group Divisional Analysis	FY2014 Actual	FY2015 Actual	FY2016 Actual	FY2017 Forecast
Turnover (€'000)	26,037	32,110	38,030	48,333
Hospitality & entertainment	21,268	26,343	32,131	34,293
Construction, building materials & management services	3,778	4,349	3,447	7,234
Sale of property, real estate & rental income	646	1,048	493	963
Retirement residences & nursing home			1,008	4,744
Dividend receivable	345	370	951	1,100
Gross Operating Profit (€'000)	8,593	12,083	13,886	18,366
Hospitality & entertainment	7,486	10,826	14,087	15,030
Construction, building materials & management services	704	425	463	945
Sale of property, real estate & rental income	403	832	418	823
Retirement residences & nursing home			(1,083)	1,567
Gross Operating Profit Margin (%)	33%	38%	37%	38%
Hospitality & entertainment	35%	41%	44%	44%
Construction, building materials & management services	19%	10%	13%	13%
Sale of property, real estate & rental income	62%	79%	85%	85%
Retirement residences & nursing home			n/a	33%

Source: Management information.

5.2 MARKET OVERVIEW

5.2.1 Economic Update

Economic activity in Malta is expected to remain relatively strong in the near term, supported by both demand and supply factors. In particular, the energy reforms that have taken place in recent years, new investment projects, increased labour market participation and robust services exports are the primary drivers supporting the economic expansion. Real GDP growth in 2016 was at 5.0%, and thereafter is projected to decelerate to 4.1% in 2017, 3.7% in 2018 and 3.3% in 2019.

During 2016, Gross Value Added (GVA) increased by €536.8 million when compared to the prior year (2015), to €8,693.0 million. GVA is the net result of output valued at basic prices less intermediate consumption valued at purchasers' prices. The increase in GVA was mainly generated by professional, scientific & technical activities and administrative & support services activities which increase by €116.6 million or 11.9%; arts, entertainment & recreation, repair of household goods & other services which increased by €100.8 million or 9.3%; and public administration & defence, education, human health & social work activities which increased by €90.2 million or 6.2%. A decrease of €21.0 million or -6.0% was registered in construction.

Economic growth was primarily driven by net exports of goods and services, which increased (in real terms) by €359.3 million or 63.7% from €563.8 million in 2015 to €923.1 million in 2016. Household consumption expenditure also increased on a y-o-y basis by €164.3 million or 3.9% to €4,397.1 million. On the other hand, declines in investment and government consumption were registered in 2016 when compared to a year earlier.

Inflation rose to 1.06% in December 2016, up from 0.68% in November 2016. The main upward impacts on annual inflation were recorded in the food index, the beverages and tobacco index, and the household equipment and house maintenance costs. This increase was mitigated by a reduction in the prices of fuel, clothing and transport.

5.2.2 Tourism Market

Tourism in Malta has in recent years been performing at a strong level and this trend continued in 2015 as well as in 2016. Inbound tourism from January to December 2015 amounted to 1.8 million guests, an increase of 6.0% over the same period in 2014. Although tourists residing in collective accommodation (hotels, guesthouses, hostels, B&Bs, etc) made up 71.7% of the market in 2015, preference for private accommodation has been growing in the last years at a faster pace, and actually increased by 18.2% from 2014. Tourism expenditure was estimated at €1.6 billion, 7.5% higher than that recorded for the comparable period in 2014.

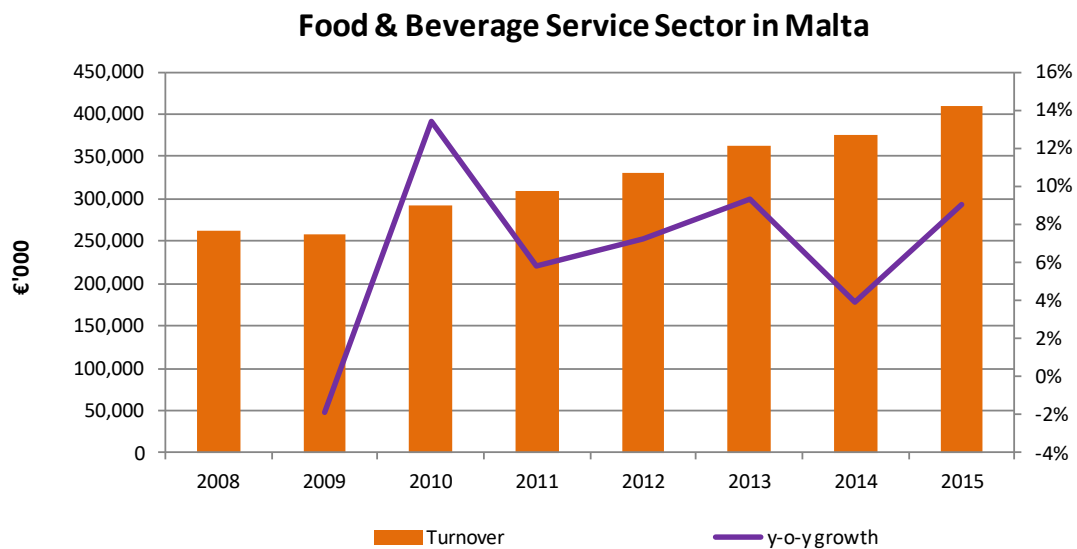
Inbound tourist trips from January to December 2016 amounted to 1.99 million, an increase of 10.2% when compared a year earlier. Total nights spent by inbound tourists went up by 5.7%, reaching almost 15.0 million nights. During 2016, total guests in collective accommodation establishments surpassed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

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

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

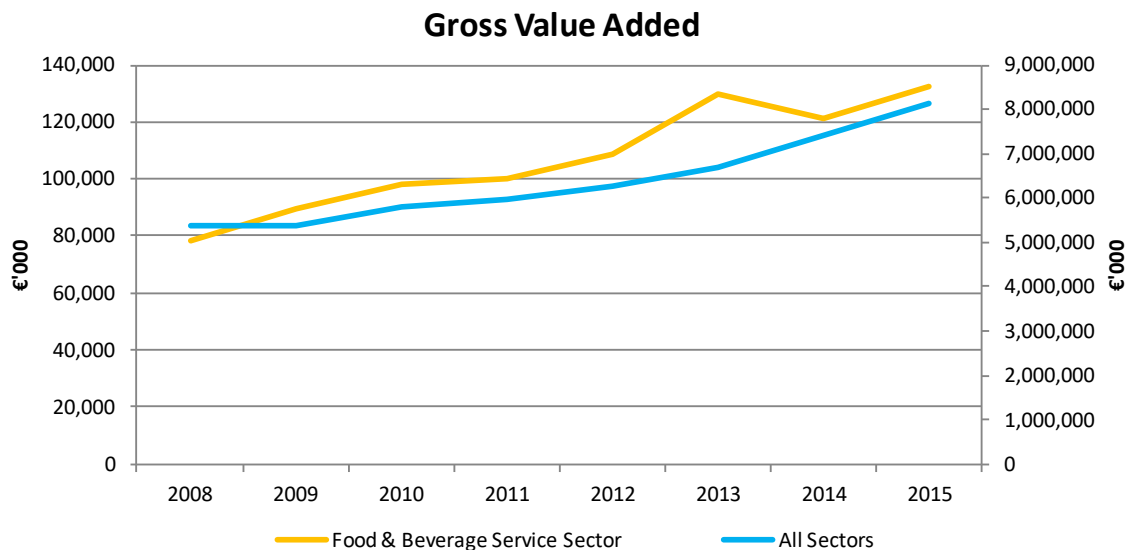
5.2.3 Food & Beverage Service Sector

The food & beverage service sector comprises restaurants & mobile food service activities and beverage serving activities. In 2015 (being the latest available statistical data), the total income from this sector in Malta amounted to €411 million, an increase of 9.1% over the previous year. The chart below illustrates the output from the food & beverage service sector in Malta for the past 8 years (2008 to 2015). As highlighted, market output has progressively increased over the reviewed period, except for 2009 when gross income decreased marginally by €4.8 million (-1.8%) when compared to the prior year. Since 2008, the food & beverage service sector grew at an annual compound rate of 6.6%.



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

The chart hereunder shows that the gross value added generated by the food & beverage service sector in Malta has grown on a year-to-year basis from €78.1 million in 2008 to €132.4 million in 2015. 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%.



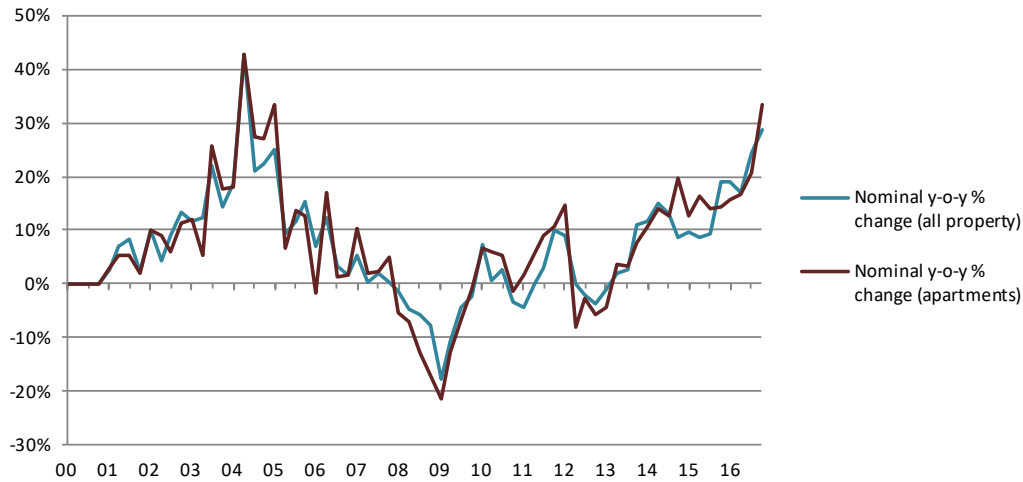
Source: National Statistics Office Malta (NACE 56.1 & NACE 56.3 data)

5.2.4 Property Market & Construction Sector

Residential property prices continued to rise during the fourth quarter of 2016 (see Chart I below) and said prices are being supported by a number of factors. The scheme for first-time buyers and a low interest rate environment make property more attractive to purchase. Demand for property is also being supported by growth in disposable income, which continues to benefit from favourable labour market conditions. These factors in turn are contributing to robust growth in lending for house purchases. The rise in foreign workers in Malta and the Individual Investor Programme, have also been supporting residential property prices.

The Central Bank of Malta’s advertised property price index shows that house prices rose at an annual rate of 13.8% in the last quarter of 2016. Prices of apartments – the major component – continued to grow strongly in Q4 2016 at 8.9% over the previous quarter (such data mainly provides trend information as advertised property prices may not accurately reflect the prices at which sales actually take place).

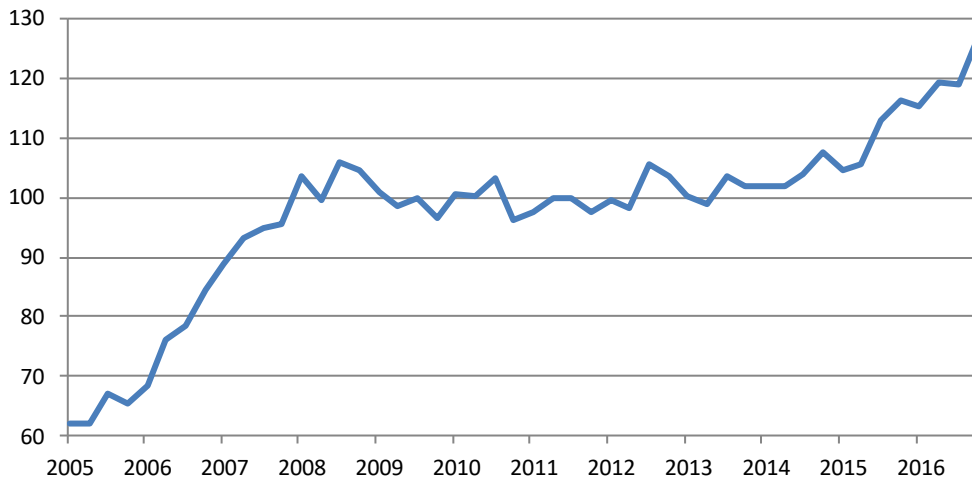
CHART I: Change in Property Prices



Source: Central Bank of Malta

Eurostat’s House Price Index for Malta – which is based on transactions covering terraced houses, apartments and maisonettes – also indicates that residential property prices increased. The latest data available refers to Q4 2016 and shows that said prices increased by 8.4% compared with the same quarter of 2015 (vide Charts II below).

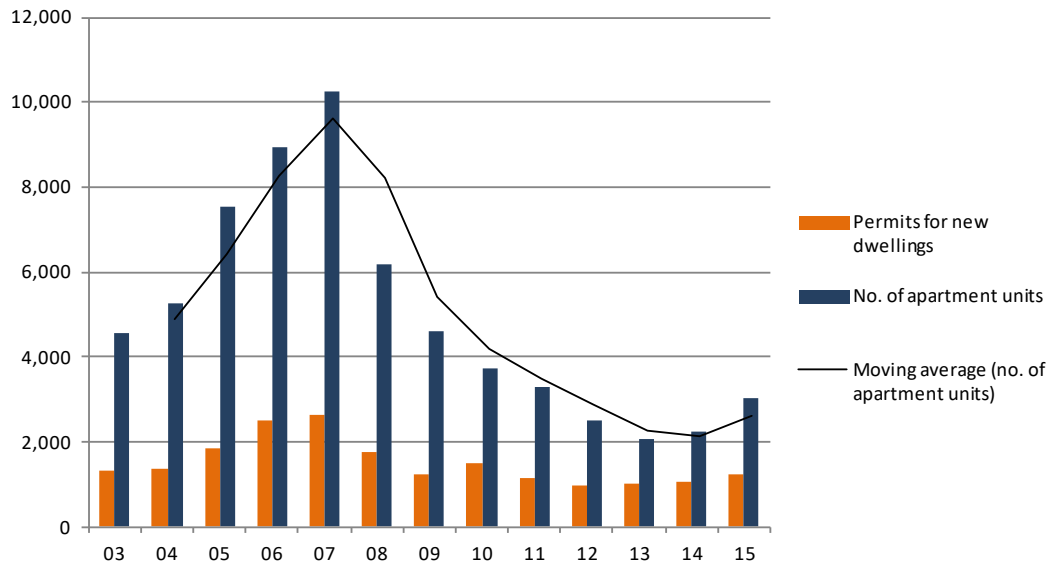
CHART II: Malta House Price Index



Source: Eurostat

With regard to the number of permits, the Malta Environment and Planning Authority issued 3,947 permits during 2015, over one-third more than in 2014 (statistics for 2016 have yet to be published). This followed growth of 8.6% in 2014, marking two consecutive years of growth following a period of decline. The increase in permits issued in 2015 was mostly driven by the largest residential category, namely apartments, which accounted for just over three-fourths of total permits granted.

CHART III: Development Permits for Dwellings



Source: Planning Authority

The gross value added from the construction industry rose significantly by 16.6% in 2015 (in nominal terms), from €301.7 million in 2014 to €351.7 million), following an increase of just 2.4% in 2014. In contrast, a y-o-y decline of €21.0 million or €6.0% was registered in 2016.

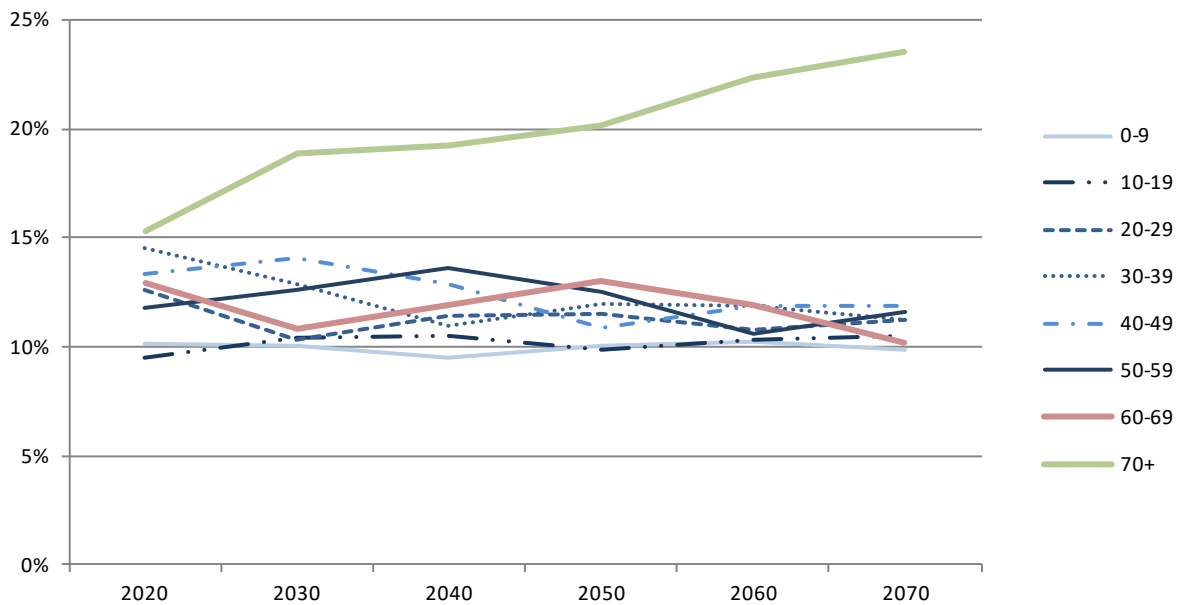
Commercial Property

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

5.2.5 Long-Term Care Trend Analysis

Demand for long-term care in Malta is expected to progressively rise in the coming years as the population ages. According to projections published by the NSO, the percentage of the Maltese population over 60 years of age is expected to increase to 28% by 2020 and to 30% by 2030 (vide population distribution chart below). In absolute figures, Malta has *circa* 110,000 seniors above the age of 60 and this is expected to grow to over 135,000 by 2030. As a result of this substantial increase in elderly persons, it is envisaged that this will have a material effect on the growth in demand for care and support services provided to this category of the population.

Projected percentage distribution of total population



Source: Demographic Review 2014, National Statistics Office, Malta

5.3 HOSPITALITY & ENTERTAINMENT

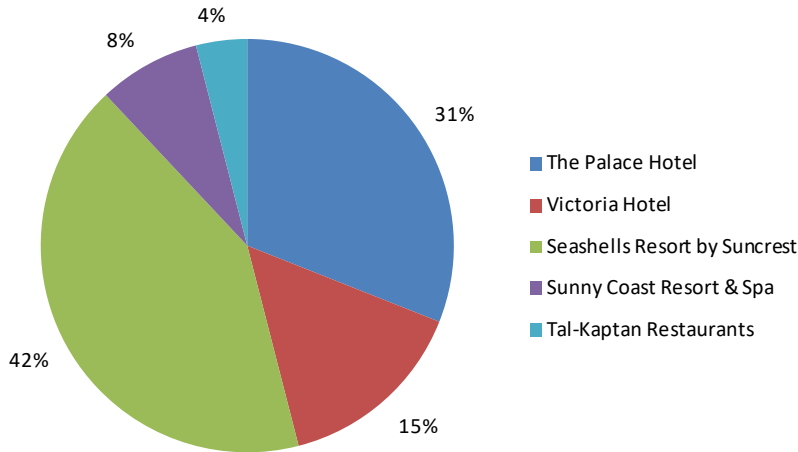
5.3.1 Financial Information – Sector Analysis

Hospitality & Entertainment	FY2014 Actual	FY2015 Actual	FY2016 Actual	FY2017 Forecast
Turnover (€'000)	21,268	26,343	32,131	34,293
The Palace Hotel	7,521	8,866	9,749	10,124
Victoria Hotel	4,229	4,721	4,927	5,115
Seashells Resort by Suncrest	6,329	9,112	13,354	14,358
Sunny Coast Resort & Spa	2,093	2,406	2,663	2,809
St. John's Boutique Hotel				376
Tal-Kaptan Restaurants	1,096	1,238	1,438	1,511
Gross Operating Profit (€'000)	7,486	10,826	14,087	15,030
The Palace Hotel	2,704	3,620	4,280	4,565
Victoria Hotel	1,629	2,046	2,415	2,472
Seashells Resort by Suncrest	2,216	3,899	5,936	6,373
Sunny Coast Resort & Spa	960	1,212	1,337	1,411
St. John's Boutique Hotel				35
Tal-Kaptan Restaurants	(23)	49	120	174
Gross Operating Profit Margin (%)	35%	41%	44%	44%
The Palace Hotel	36%	41%	44%	45%
Victoria Hotel	39%	43%	49%	48%
Seashells Resort by Suncrest	35%	43%	44%	44%
Sunny Coast Resort & Spa	46%	50%	50%	50%
St. John's Boutique Hotel				9%
Tal-Kaptan Restaurants	-2%	4%	8%	11%

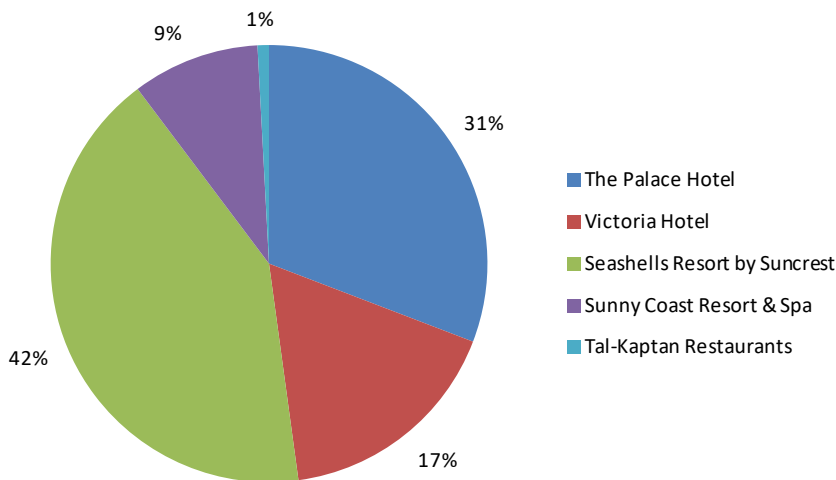
Source: Management information.

5.3.2 Aggregate Hotel Revenue and Operating Profit

% of total revenue by hotel - FY2016



% of total operating profit by hotel - FY2016



As illustrated above, the principal contributor to the Group’s hotel sector in terms of both revenue and gross operating profit is the Seashells Resort by Suncrest, and the second best performer is The Palace Hotel. In aggregate, both hotels generate 73% of total revenue and gross operating profit.

5.3.3 The Palace Hotel

The Palace Hotel is a 149-room five-star city hotel located in Sliema Malta and offers extensive conference and events facilities, and utilisation of the 200 year old Palazzo Capua. It was developed by the AX Group in 2007. The Palace Hotel also includes two restaurants (The Tabloid and TemptAsian), a spa, and an indoor & outdoor pool. The carrying amount of the Hotel as at 31 October 2016 is €36.6 million (FY2015: €37.2 million).

Operational Performance

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

The Palace Hotel	FY2014	FY2015	FY2016	FY2017
	Actual	Actual	Actual	Forecast
Turnover (€'000)	7,521	8,866	9,749	10,124
Gross operating profit (€'000)	2,704	3,620	4,280	4,565
Gross operating profit margin (%)	36	41	44	45
Occupancy level (%)	86	92	90	92
Average room rate (€)	98	110	126	135
Revenue per available room (RevPAR) (€)	139	158	179	186
Benchmark performance				
Occupancy level (%)	72	78	75	n/a
Average room rate (€)	112	137	143	n/a
Revenue per available room (RevPAR) (€)	135	163	163	n/a
Revenue Generating Index	1.03	0.97	1.10	n/a

Source: Management information.

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

The above-mentioned upward trend also continued in FY2016, as y-o-y revenue increased by €0.9 million (+10%) to €9.7 million and gross operating profit increased by €0.7 million (+18%) to €4.3 million. Gross operating profit margin improved from 41% in FY2015 to 44% FY2016.

The Hotel's competitive set also recorded positive results in recent years, which is a reflection of the present buoyant tourism market in Malta. As such, the Hotel performed broadly at par with its competition in each of the historical years (FY2014 to FY2016).

For FY2017, 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.

5.3.4 Victoria Hotel

The Victoria Hotel was developed by the AX Group in 1996. It is a four-star hotel consisting of 137 rooms and is situated a few metres away from The Palace in Sliema Malta. The Hotel, together with the adjoining 200 year old Palazzo Capua, features a range of conference and meeting facilities. The carrying amount of the Victoria Hotel as at 31 October 2016 is €20.8 million (FY2015: €20.2 million).

Operational Performance

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

Victoria Hotel	FY2014	FY2015	FY2016	FY2017
	Actual	Actual	Actual	Forecast
Turnover (€'000)	4,230	4,721	4,927	5,115
Gross operating profit (€'000)	1,629	2,046	2,415	2,472
Gross operating profit margin (%)	39	43	49	48
Occupancy level (%)	85	83	78	79
Average room rate (€)	67	76	88	91
Revenue per available room (RevPAR) (€)	83	95	95	99
Benchmark performance				
Occupancy level (%)	80	85	83	n/a
Average room rate (€)	66	79	83	n/a
Revenue per available room (RevPAR) (€)	77	94	94	n/a
Revenue Generating Index	1.08	1.01	1.01	n/a

Source: Management information.

The Victoria Hotel registered an increase in revenue of €0.5 million (+12%) in FY2015 from €4.2 million in the prior year to €4.7 million. Such increase was reflected in gross operating profit, which increased by €0.4 million (+26%) from €1.6 million in FY2014 to €2.0 million. Occupancy level in FY2015 was marginally lower than FY2014 at 83%, but the Hotel managed to achieve a 13% increase in average room rate to €76 (in FY2015).

During FY2015 and FY2016, 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 should be in a better position to compete with other hotels in the near term, enhance RevPAR and generate higher year-on-year gross operating profits.

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%. Management expects FY2017 to be another positive year and as such, is projecting the year's performance to improve marginally over FY2016's results.

As for benchmark performance, the Hotel achieved better occupancy and RevPAR than its competitive set in FY2014, but performed broadly in line with competition in the subsequent year mainly as a consequence of ongoing refurbishment works. In FY2016, the Hotel achieved a lower occupancy (78%) when compared to the competitive set (83%), but average room rate was higher (€88) as compared to the benchmark rate of €83. Overall, the Hotel's RevPAR matched that of its competitive set.

5.3.5 Seashells Resort at Suncrest

Seashells Resort at Suncrest is a four-star hotel located in Qawra Malta that also offers all-inclusive packages. It features 452 rooms designed in a contemporary style; the Carisma Spa and Wellness International Centre; a large outdoor swimming pool; and various food and beverage operations. The Hotel was developed by the AX Group in 1988 and its carrying value as at 31 October 2016 is €79.2 million (FY2015: €27.6 million). In accordance with the Group's accounting policies, the property was revalued in FY2016 by €52.8 million on account of the improved operating performance described hereunder.

Operational Performance

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

Seashells Resort at Suncrest	FY2014	FY2015	FY2016	FY2017
	Actual	Actual	Actual	Forecast
Turnover (€'000)	6,329	9,112	13,354	14,358
Gross operating profit (€'000)	2,216	3,899	5,936	6,373
Gross operating profit margin (%)	35	43	44	44
Occupancy level (%)	52	45	82	82
Average room rate (€)	39	74	57	61
Revenue per available room (RevPAR) (€)	38	55	81	87
Benchmark performance				
Occupancy level (%)	73	82	83	n/a
Average room rate (€)	52	59	64	n/a
Revenue per available room (RevPAR) (€)	66	81	81	n/a
Revenue Generating Index	0.58	0.68	1.00	n/a

Source: Management information.

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

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

In addition to the above, as from FY2016, the Hotel refrained from the practice of closing between December and March, and commenced operating for a full year. This resulted in a marked improvement in achieved revenue, which increased by €4.2 million from €9.1 million in FY2015 to €13.4 million in FY2016. The gross operating profit margin remained stable at 44%, thus resulting in an increase in gross operating profit of €2.0 million from €3.9 million in FY2015 to €5.9 million.

Management has projected a y-o-y increase in revenue of 7.5% in FY2017 to €14.4 million (+€1.0 million) and a 7.4% improvement in gross operating profit to €6.4 million (+€0.4 million).

The Hotel has underperformed its competitive set in both FY2014 and FY2015, but has matched performance in FY2016 due to the achievement of a higher RevPAR when compared to prior years. In the near term, management will continue to focus on improving its product in order to possibly surpass the performance of its competitive set.

5.3.6 Sunny Coast Resort & Spa

The Sunny Coast Resort & Spa commenced operations in 1983 and was the first hotel developed by the AX Group. It is a four-star hotel situated in Qawra Malta and includes 91 rooms offered on a self-catering basis. The Hotel features five restaurants, external and heated indoor pools, spa and leisure facilities, and a squash court. The carrying amount of the Sunny Coast Resort & Spa as at 31 October 2016 is €19.0 million (FY2015: €19.1 million).

Operational Performance

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

Sunny Coast Resort & Spa	FY2014 Actual	FY2015 Actual	FY2016 Actual	FY2017 Forecast
Turnover (€'000)	2,093	2,406	2,663	2,809
Gross operating profit (€'000)	960	1,212	1,337	1,411
Gross operating profit margin (%)	46	50	50	50
Occupancy level (%)	64	68	78	76
Average room rate (€)	73	85	80	85
Revenue per available room (RevPAR) (€)	64	74	82	86
Benchmark performance				
Occupancy level (%)	73	82	83	n/a
Average room rate (€)	52	59	64	n/a
Revenue per available room (RevPAR) (€)	66	81	81	n/a
Revenue Generating Index	0.97	0.91	1.01	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 4 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 FY2016 timeshare revenue accounted for only 31% of total accommodation income (FY2015: 38%). 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. Gross operating profit for FY2015 amounted to €1.2 million, an increase of €0.3 (+26%) when compared to FY2014, and registered a gross operating profit margin of 50% (FY2014: 46%). 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.

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 FY2016, the rate achieved by the Hotel was 25% higher than the average room rate of its competitive set at €80. 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.

5.3.7 Other Assets

In FY2016, the Group acquired a property in Merchant Street, Valletta, which is currently being converted into a 21-room boutique hotel at an estimated total cost (property acquisition and development) of *circa* €4.5 million. The opening date is set for July 2017 and management expects to generate revenue amounting to €0.4 million in the initial 4 months to 31 October 2017.

Furthermore, in November 2016 (FY2017), the Group acquired another property in Merchant Street, Valletta for a total consideration of €4.5 million. Subject to planning authority permits, this property will be converted into a 30-room boutique hotel by FY2018. In view of the close proximity of both properties, it is the intention of the Group to operate the two boutique hotels under one management and administrative team so as to keep costs to a minimum.

5.3.8 Tal-Kaptan Restaurants

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

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

Tal-Kaptan Restaurants	FY2014 Actual	FY2015 Actual	FY2016 Actual	FY2017 Forecast
Turnover (€'000)	1,096	1,238	1,438	1,511
Gross operating profit (€'000)	(23)	49	120	174
Gross operating profit margin (%)	(2)	4	8	11

Source: Management information.

During the historical years under review, the outlets underperformed when compared to management's expectations. Competition in the sector has increased significantly and as such, patrons have a wider choice of restaurants at their disposal. In Q4 FY2014 a new management team was appointed and a rebranding exercise was undertaken. These changes had an immediate positive impact on FY2015 results, in which revenue increased by 13% from €1.1 million in FY2014 to €1.2 million. Furthermore, the outlets converted a gross operating loss of €23,000 in FY2014 to a gross operating profit of €49,000 in the following year. The restaurants registered a further improvement in revenue and gross operating profit in FY2016 over the prior year of €0.2 million and €71,000 respectively. It is expected that revenue in FY2017 will increase to €1.5 million (+5% y-o-y) and the restaurants should register a gross operating profit of €174,000 as compared to €120,000 a year earlier.

5.4 CONSTRUCTION, BUILDING MATERIALS & MANAGEMENT SERVICES

5.4.1 Financial Information – Sector Analysis

Construction, Building Materials & Management Services	FY2014 Actual	FY2015 Actual	FY2016 Actual	FY2017 Forecast
Turnover (€'000)	3,778	4,349	3,447	7,234
Construction works	2,183	3,050	1,964	5,431
Construction waste management	1,246	883	1,225	250
Restoration projects	349	416	258	1,553
Gross operating profit (€'000)	704	425	463	945
Gross operating profit margin (%)	19	10	13	13

Source: Management information.

5.4.2 Overview of Sector Activity

Construction & development is another principal activity of the AX Group and relates mainly to civil engineering works, turnkey assignments, project management and restoration works. Over the years, the construction division of the Group was entrusted with a number of major projects including the development of the Group's four hotels; the Group's head office; Verdala Mansions in Rabat, Malta; Capua Hospital in Sliema; Parliament building super structure in Valletta; and various other projects which were executed for Group companies and third party clients. During 2014 and 2015, the construction division developed the Simblija Care Home & Hilltop Gardens Retirement Village on a site measuring *circa* 17,000 square metres, located in Simblija, limits of Naxxar. In the current financial year and FY2018, the Group will be primarily involved in the conversion of the two newly acquired properties in Valletta to boutique hotels.

In FY2016, the Group generated €2.0 million (2015: €3.1 million) in construction works, principally through its engagement in a number of turnkey projects (including third party private residences).

In recent years, the AX Group has been fairly active in restoration projects and in FY2016 generated €258,000 (FY2015: €416,000) from such operations. Projects awarded to date include: Fort St Angelo, parts of the Valletta & Vittoriosa bastions, Scamps Palace Building (site housing Casino di Venezia), Valletta Waterfront, St Paul's Catacombs, Lascaris War Rooms in Valletta, Birgu bastions, Wignacourt Tower in St Paul's Bay, Auberge d'Italie and Bastions San Salvatore. The Group is anticipating to further increase its engagement in restoration projects and is thus projecting revenue for FY2017 at €1.6 million.

The AX Group is involved in construction waste management at a site in Mgarr, which consists of the management and disposal of excavation, construction and demolition waste. The level of activity in waste management increased substantially in FY2016, which reflects the increase in construction activity in Malta over the past few years. As such, the Group generated €1.2 million in FY2016 from this business activity, an increase of €0.3 million when compared to FY2015. However, the quarry is expected to be filled in the current financial year and consequently, income for FY2017 is expected to decrease to €250,000.

5.5 PROPERTY, REAL ESTATE & RENTAL INCOME

5.5.1 Financial Information – Sector Analysis

Property, Real Estate & Rental Income	FY2014 Actual	FY2015 Actual	FY2016 Actual	FY2017 Forecast
Turnover (€'000)	646	1,048	493	963
Sale of property & real estate	280	699	-	510
Rental income	366	349	493	453
Gross operating profit (€'000)	403	832	418	823
Gross operating profit margin (%)	62	79	85	85

Source: Management information.

5.5.2 Overview of Sector Activity

During the three historical financial years under review, the AX Group was not engaged in any major property development for resale. The last major project undertaken by the Group relating to the construction of apartments for resale was Verdala Mansions in 2003, which consisted of 36 upmarket apartments (which were all sold to third parties).

The AX Group has been involved in constructing a number of warehouses located in an industrial zone in Burmarrad, of which, nine properties are held for own use or rental purposes and one warehouse is available for sale. It is projected that the AX Group will sell the aforesaid warehouse in FY2017 for a consideration of €0.5 million.

Rental income represents proceeds derived from the leasing of Group properties to third parties, and mainly comprises: Palazzo Capua, five warehouses (described hereinabove) and Vault 5 at Valletta Waterfront. As from FY2016, the Group is generating income from renting a convenience shop and child care centre situation at Simblija Care Home & Hilltop Gardens Retirement Village.

6. SIMBLIJA CARE HOME & HILLTOP GARDENS RETIREMENT VILLAGE

6.1 GENERAL

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

The 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.

6.2 FINANCIAL INFORMATION

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

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

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

The following table illustrates the actual results for the initial financial year ended 31 October 2016 and the forecast for FY2017.

Simblija Care Home & Hilltop Gardens Retirement Village	FY2016 Actual €'000	FY2017 Forecast €'000
Residences & other income	261	1,761
Nursing home	747	2,983
Total Revenue	1,008	4,744
Direct costs	(1,514)	(2,378)
Other costs	(576)	(799)
EBITDA	(1,083)	1,567

In FY2016, the Care & Retirement Home generated total revenue of €1.0 million but incurred an operating loss of €1.1 million. It is projected that in the current financial year, the Care & Retirement Home will increase considerably occupancy in both the residential units and the nursing home, and as a result, management is estimating revenue to increase to €4.7 million and register an EBITDA of €1.6 million.

PART 2 – GROUP PERFORMANCE REVIEW

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

7. FINANCIAL INFORMATION – THE ISSUER

The following financial information is extracted from the audited financial statements of AX Investments p.l.c. (the “**Issuer**”) for the three years ended 31 October 2014 to 31 October 2016. The financial information for the year ending 31 October 2017 has been provided by Group management.

AX Investments p.l.c. Income Statement				
for the year ended 31 October				
	2014	2015	2016	2017
	Actual	Actual	Actual	Forecast
	€'000	€'000	€'000	€'000
Rental income	163	163	238	238
Administrative expenses	(245)	(240)	(179)	(179)
Results from operating activities	(82)	(77)	59	59
Share of (loss)/profit of associated undertaking	47	(197)	10,220	690
Revaluation of investment property	-	-	750	-
Fair value movement & gain on disposal of investments	2,321	1,628	-	-
Net finance costs	(420)	61	384	208
Profit before tax	1,866	1,415	11,413	957
Taxation	356	105	(3,797)	(325)
Profit after tax	2,222	1,520	7,615	632

AX Investments p.l.c. Cash Flow Statement				
for the year ended 31 October				
	2014	2015	2016	2017
	Actual	Actual	Actual	Forecast
	€'000	€'000	€'000	€'000
Net cash from operating activities	(682)	1,343	286	516
Net cash from investing activities	(25,122)	(564)	(622)	(271)
Net cash from financing activities	27,711	(1,681)	-	-
Net movement in cash and cash equivalents	1,907	(902)	(337)	245
Cash and cash equivalents at beginning of year	4	1,911	1,009	672
Cash and cash equivalents at end of year	1,911	1,009	672	917

AX Investments p.l.c. Balance Sheet				
as at 31 October	2014	2015	2016	2017
	Actual	Actual	Actual	Forecast
	€'000	€'000	€'000	€'000
ASSETS				
Non-current assets	31,888	50,740	62,328	63,159
Current assets	20,108	1,013	750	1,021
	51,996	51,753	63,077	64,179
EQUITY AND LIABILITIES				
Equity	7,979	9,500	17,115	17,821
Liabilities				
Non-current liabilities	40,329	40,322	44,037	44,037
Current liabilities	3,688	1,931	1,926	2,321
	44,017	42,253	45,963	46,358
Total equity and liabilities	51,996	51,753	63,077	64,179

Income Statement

The Issuer is a fully owned subsidiary of AX Holdings Limited, the parent company of the AX Group, and is principally engaged to act as a finance and investment company. In FY2016, rental income amounted to €238,000 (FY2015: €163,000) and was primarily derived from the lease of Palazzo Capua to a related party.

Share of results of associated undertaking relate to the holding of 19.91% in Suncrest Hotels p.l.c., the owner of the Seashells Resort at Suncrest. The substantial profit of €10.2 million (FY2015: loss of €197,000) is mainly due to an uplift in value of the Seashells Resort at Suncrest.

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

Balance Sheet

The assets of the Issuer principally include the ownership of Palazzo Capua valued at €9.0 million (FY2015: €8.25 million), the 19.91% shareholding in Suncrest Hotels p.l.c. amounting to €12.8 million (FY2015: €2.6 million), and the on-lending of bond proceeds to related parties which amounted to €40.5 million (FY2015: €39.9 million).

The liabilities of the Issuer mainly comprise debt securities listed on the Official List of the Malta Stock Exchange of €39.5 million (FY2015: €39.5 million) and deferred taxation amounting to €4.5 million (FY2015: €0.8 million).

8. FINANCIAL INFORMATION – THE GROUP

The following financial information is extracted from the audited consolidated financial statements of AX Holdings Limited (the “Group”) for the three years ended 31 October 2014 to 31 October 2016. The financial information for the year ending 31 October 2017 has been provided by Group management.

AX Group Income Statement				
for the year ended 31 October				
	2014	2015	2016	2017
	Actual	Actual	Actual	Forecast
	€'000	€'000	€'000	€'000
Revenue	26,037	32,110	38,060	48,394
Net operating expenses	(18,725)	(22,185)	(25,395)	(31,198)
EBITDA	7,312	9,925	12,666	17,196
Depreciation	(2,628)	(3,229)	(4,825)	(4,992)
Investment property revaluation	-	-	900	-
Share of results of associated undertaking	226	378	696	-
Investment income	2,752	1,975	8	-
Net finance costs	(2,615)	(3,450)	(3,494)	(3,723)
Profit before tax	5,047	5,599	5,951	8,481
Taxation	(43)	(1,411)	(1,918)	(3,059)
Profit after tax	5,004	4,188	4,033	5,422
Other comprehensive income				
Gains on property revaluation	9,261	6,881	53,622	-
Taxation	(175)	(1,408)	(5,418)	-
	9,086	5,473	48,204	-
Total comprehensive income	14,090	9,661	52,236	5,422

AX Group Cash Flow Statement				
for the year ended 31 October				
	2014	2015	2016	2017
	Actual	Actual	Actual	Forecast
	€'000	€'000	€'000	€'000
Net cash from operating activities	3,526	5,918	16,601	4,353
Net cash from investing activities	6,851	(7,773)	(16,233)	(10,399)
Net cash from financing activities	(8,303)	3,557	3,050	8,075
Net movement in cash and cash equivalents	2,074	1,702	3,418	2,029
Cash and cash equivalents at beginning of year	(1,602)	472	2,174	5,592
Cash and cash equivalents at end of year	472	2,174	5,592	7,621

AX Group Balance Sheet				
as at 31 October				
	2014	2015	2016	2017
	Actual	Actual	Actual	Forecast
	€'000	€'000	€'000	€'000
ASSETS				
Non-current assets	154,496	183,127	249,753	261,926
Current assets	33,882	22,911	20,672	21,770
	188,378	206,038	270,425	283,696
EQUITY AND LIABILITIES				
Equity				
Capital and reserves	100,723	110,034	162,319	167,740
Non-controlling interest	1,449	1,448	1,401	1,401
	102,172	111,482	163,719	169,141
Liabilities				
Non-current liabilities	65,119	70,089	82,297	88,798
Current liabilities	21,087	24,467	24,409	25,757
	86,206	94,556	106,706	114,555
Total equity and liabilities	188,378	206,038	270,425	283,696

Key Accounting Ratios	FY2014	FY2015	FY2016	FY2017
Operating profit margin (EBITDA/revenue)	28%	31%	33%	36%
Interest cover (times) (EBITDA/net finance cost)	2.80	2.88	3.62	4.62
Net profit margin (Profit after tax/revenue)	19%	13%	11%	11%
Earnings per share (€) (Profit after tax/number of shares)	24.77	20.73	19.96	26.84
Return on equity (Profit after tax/shareholders' equity)	5%	4%	2%	3%
Return on capital employed (Operating profit/total assets less current liabilities)	4%	5%	5%	7%
Return on assets (Profit after tax/total assets)	3%	2%	1%	2%

Source: Charts Investment Management Service Limited

The Group derives most of its revenue from hospitality & entertainment and in FY2015 this sector generated €26.3 million (FY2014: €21.3 million), equivalent to 82% (FY2014: 82%) of total revenue. In FY2015, total revenue increased by €6.1 million (+23%) from €26.0 million in FY2014 to €32.1 million as a result of growth registered principally at Seashells Resort by Suncrest, The Palace Hotel and in construction. EBITDA for the year under review amounted to €9.9 million, an increase of €2.6 million (+36%) when compared to FY2014. Profit before tax amounted to €5.6 million (+11%) after accounting for gains on investments of €2.0 million. The Group registered a profit for the year of €4.2 million as compared to €5.0 million a year earlier. After accounting for property revaluations, the Group's total comprehensive income amounted to €9.7 million in FY2015 (FY2014: €14.1 million).

In FY2016, revenue of the Group increased by €6.0 million (+19%) from €32.1 million in FY2015 to €38.0 million. The afore-mentioned increase in revenue was mainly generated from the hospitality sector as to €5.8 million (principally from Seashells Resort by Suncrest and The Palace Hotel) and the care & retirement home generated €0.9 million in its first year of operation. Revenue from construction and real estate decreased by €1.5 million when compared to FY2015, and dividends receivable from Valletta Cruise Port plc increased from €0.4 million in FY2015 to €1.0 million in FY2016.

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

In FY2017, revenue is projected to increase considerably by €10.3 million (+27%) from €38.1 million in FY2015 to €48.4 million. The principal gains are expected from Simblija Care Home & Hilltop Gardens Retirement Village and the construction sector. An increase in revenue is also projected from hospitality in line with the continued positive trend in tourism locally. EBITDA is estimated at €17.2 million, an improvement of €4.5 million (+36%) when compared to FY2015. Overall, the Group is projected to earn a profit for the year in FY2017 of €5.4 million, an increase of €1.4 million from a year earlier.

Total assets of the Group principally comprise hotel and other properties as detailed in section 4 above, shareholding in Valletta Cruise Port p.l.c. amounting to €8.6 million (which ownership increased from 24% to 36% in FY2016 for a total consideration of a further €3.9 million), inventories, receivables and other assets.

Total liabilities represent trade and other payables (FY2016: €18.1 million), current & deferred taxation (FY2016: €19.1 million) and borrowings as detailed below:

AX Group Borrowings as at 31 October	2014 Actual €'000	2015 Actual €'000	2016 Actual €'000	2017 Forecast €'000
Bank borrowings				
Central Leisure Developments Ltd	10,506	9,369	8,300	7,239
Capua Palace Inv. Ltd	1,620	1,404	1,268	1,080
Suncrest Hotels p.l.c.	645	6,568	6,195	5,488
Luzzu Properties Ltd	-	471	2,760	2,268
Other bank loans	-	33	-	-
AX Holdings Ltd	-	-	2,924	2,767
Palazzo Merkanti	-	-	-	4,165
St. John's Boutique Hotel	-	-	-	2,600
Bank overdrafts	2,243	1,851	283	283
Bank borrowings	15,014	19,697	21,730	25,890
Bonds				
6.7% Bonds 2014-2016	1,673	-	-	-
6% Bonds 2024	40,000	40,000	40,000	40,000
	41,673	40,000	40,000	40,000
Other borrowings				
Malta Enterprise	5,876	6,094	6,311	6,529
Shareholder's loan <i>(unsecured, interest free and no fixed date repayment)</i>	3,904	2,518	1,517	1,517
	9,780	8,612	7,828	8,046
Total borrowings and bonds	66,467	68,309	69,559	73,936

Key Accounting Ratios	31 Dec'14	31 Dec'15	31 Dec'16	31 Dec'17
Net assets per share (€) <i>(Net asset value/number of shares)</i>	0.51	0.55	0.81	0.84
Liquidity ratio (times) <i>(Current assets/current liabilities)</i>	1.61	0.94	0.85	0.85
Gearing ratio <i>(Net debt/net debt and shareholders' equity)</i>	38%	37%	30%	30%
<i>Source: Charts Investment Management Service Limited</i>				

Variance Analysis

AX Group Income Statement for the year ended 31 October	2016 Actual €'000	2016 Forecast €'000	Variance €'000
Revenue	38,060	35,805	2,255
Net operating expenses	(25,395)	(24,836)	(559)
EBITDA	12,666	10,969	1,697
Depreciation	(4,825)	(3,570)	(1,255)
Investment property revaluation	900	-	900
Share of results of associated undertaking	696	-	696
Investment income	8	-	8
Net finance costs	(3,494)	(3,743)	249
Profit before tax	5,951	3,656	2,295
Taxation	(1,918)	(1,966)	48
Profit after tax	4,033	1,690	2,343
Other comprehensive income			
Gains on property revaluation	53,622	-	53,622
Taxation	(5,418)	-	(5,418)
	48,204	-	48,204
Total comprehensive income	52,236	1,690	50,546

As presented in the above table, the Group generated higher revenue in FY2016 than forecasted by €2.3 million due to better than expected performance by its hotels (particularly the Seashells Resort by Suncrest). This increase in revenue positively affected EBITDA, which was higher by €1.7 million over the projected amount.

Profit for the year was higher than projected by €2.3 million, principally due to an uplift in investment property valuation of €0.9 million, share of profits of associate amounting to €0.7 million and lower than expected net finance costs of €0.2 million. Such increases were however partly offset by a higher than expected depreciation charge amounting to €1.3 million. In comprehensive income, actual results were higher than projections by €48.2 million on account of gains in property valuations.

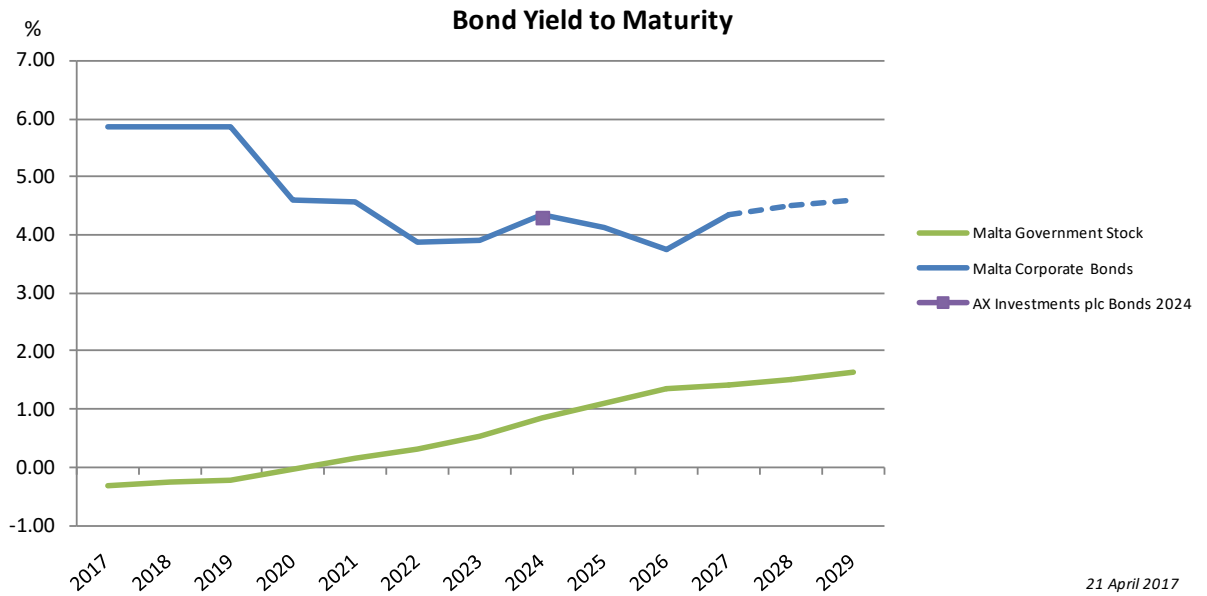
PART 3 – COMPARABLES

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

Comparative Analysis	Nominal Value (€)	Yield to Maturity (%)	Interest Cover (times)	Total Assets (€'000)	Net Asset Value (€'000)	Gearing Ratio (%)
6% Pendergardens Dev. plc Secured € 2022 Series II	27,000,000	3.86	n/a	58,098	11,734	61.87
4.25% Gap Group plc Secured € 2023	40,000,000	3.89	n/a	61,002	7,541	81.51
6% AX Investments Plc € 2024	40,000,000	4.30	3.62	270,425	163,719	27.97
6% Island Hotels Group Holdings plc € 2024	35,000,000	4.65	0.58	145,140	54,053	53.19
5.3% Mariner Finance plc Unsecured € 2024	35,000,000	4.35	3.49	67,669	25,823	57.66
5% Hal Mann Vella Group plc Secured Bonds € 2024	30,000,000	4.44	0.02	82,096	32,298	54.54
5.1% PTL Holdings plc Unsecured € 2024	36,000,000	4.54	2.32	70,543	6,592	86.78
4.5% Hili Properties plc Unsecured € 2025	37,000,000	4.14	1.50	90,867	26,315	71.30
4.0% International Hotel Invest. plc Secured € 2026	55,000,000	3.74	1.45	1,159,643	608,288	36.49
4.0% MIDI plc Secured € 2026	50,000,000	3.61	0.59	203,780	67,359	40.62
3.75% Premier Capital plc € Unsecured Bonds 2026	65,000,000	3.56	7.93	185,070	43,401	57.85
4.35% SD Finance plc € Unsecured Bonds 2027	65,000,000	4.35	4.82	156,433	56,697	53.20
4% Eden Finance plc 2027	40,000,000	4.00	3.98	165,496	92,620	34.60

21 April'17

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



To date, there are no corporate bonds which have a redemption date beyond 2027 and therefore a trend line has been plotted (denoted in the above chart by the dashed line). The Malta Government Stock yield curve has also been included since it is the benchmark risk-free rate for Malta.

PART 4 – EXPLANATORY DEFINITIONS

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

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

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