Financial Analysis Summary

06 December 2021

Issuer

AX Real Estate p.l.c.

MZ INVESTMENT SERVICES

The Directors
AX Real Estate p.l.c.
AX Group, AX Business Centre,
Triq id-Difiza Civili
Mosta MST 1741
Malta

06 December 2021

Dear Sirs

Financial Analysis Summary

In accordance with your instructions, and in line with the requirements of the MFSA Listing 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 Real Estate p.l.c. (the "**Company**" or "**AX Real Estate Group**"). The data is derived from various sources or is based on our own computations as follows:

(a) Historical financial data for the period 6 June 2019 (being date of incorporation) to 31 October 2019 and for the financial year ended 31 October 2020 has been extracted from audited financial statements of the Company for the period/year in question.

(b) Pro forma consolidated statement of financial position of the Company as at 30 April 2021.

(c) The projected data for the years ending 31 October 2021, 31 October 2022, 31 October 2023, 31 October 2024 and 31 October 2025 has been provided by management.

(d) Our commentary on the results of the AX Real Estate Group and on its financial position is based on the explanations provided by management.

(e) The ratios quoted in the Financial Analysis Summary have been computed by us applying the definitions set out in Part 4 of the Analysis.

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

Yours faithfully,

Evan Mohnani
Senior Financial Advisor

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Malta
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PART 1 – INFORMATION ABOUT THE COMPANY

1. COMPANY'S KEY ACTIVITIES

As at the date of this Report, the Company is a wholly owned subsidiary of AX Group p.l.c. and acts as the holding company of the Real Estate division within the AX Group. In the current financial year, the AX Group completed a group reorganisation with the ultimate aim of consolidating its property letting activities into one, newly formed real estate division, the holding entity of which is the Company.

Pursuant to a securities note dated 06 December 2021, the Company is offering 25% of its ordinary 'A' shares for subscription by the general public, which will represent on issue 11.77% of the Company's aggregate ordinary share capital (comprising ordinary 'A' shares and ordinary 'B' shares). In the case that the over-allotment option of €10,000,000 is exercised, the net proceeds will be utilised to repay further amounts owed to the AX Group. The Company will also be issuing €40,000,000 3.5% unsecured bonds maturing in 2032.

The Company was registered on 6 June 2019 as a private limited liability company and was subsequently converted into a public limited liability company on 23 November 2021. As the holding entity of the AX Real Estate Group, the Company is economically dependent on the financial position and performance of its Subsidiaries.

The AX Real Estate Group is involved in the letting of properties to the AX Group and to a lesser extent, third parties. A description and analysis of the operational activities and performance of the AX Group is included in the last published financial analysis report which is available on the website of the AX Group (https://axgroup.mt/investment/).

2. DIRECTORS AND SENIORMANAGEMENT

2.1 BOARD OF DIRECTORS

The Company is managed by a Board consisting of seven directors who are entrusted with the overall direction, administration and management of the Real Estate division. The Board currently consists of one executive director, who also occupies the role of Chief Executive Officer, and six non-executive directors of whom three are independent.

Angelo Xuereb	Non-Executive Chairman
Denise Micallef Xuereb	Executive Director and Chief Executive Officer
Michael Warrington	Non-Executive Director
Christopher Paris	Non-Executive Director
Christian Farrugia	Independent Non-Executive Director
Joseph Lupi	Independent Non-Executive Director
Stephen Paris	Independent Non-Executive Director

2.2 SENIOR MANAGEMENT

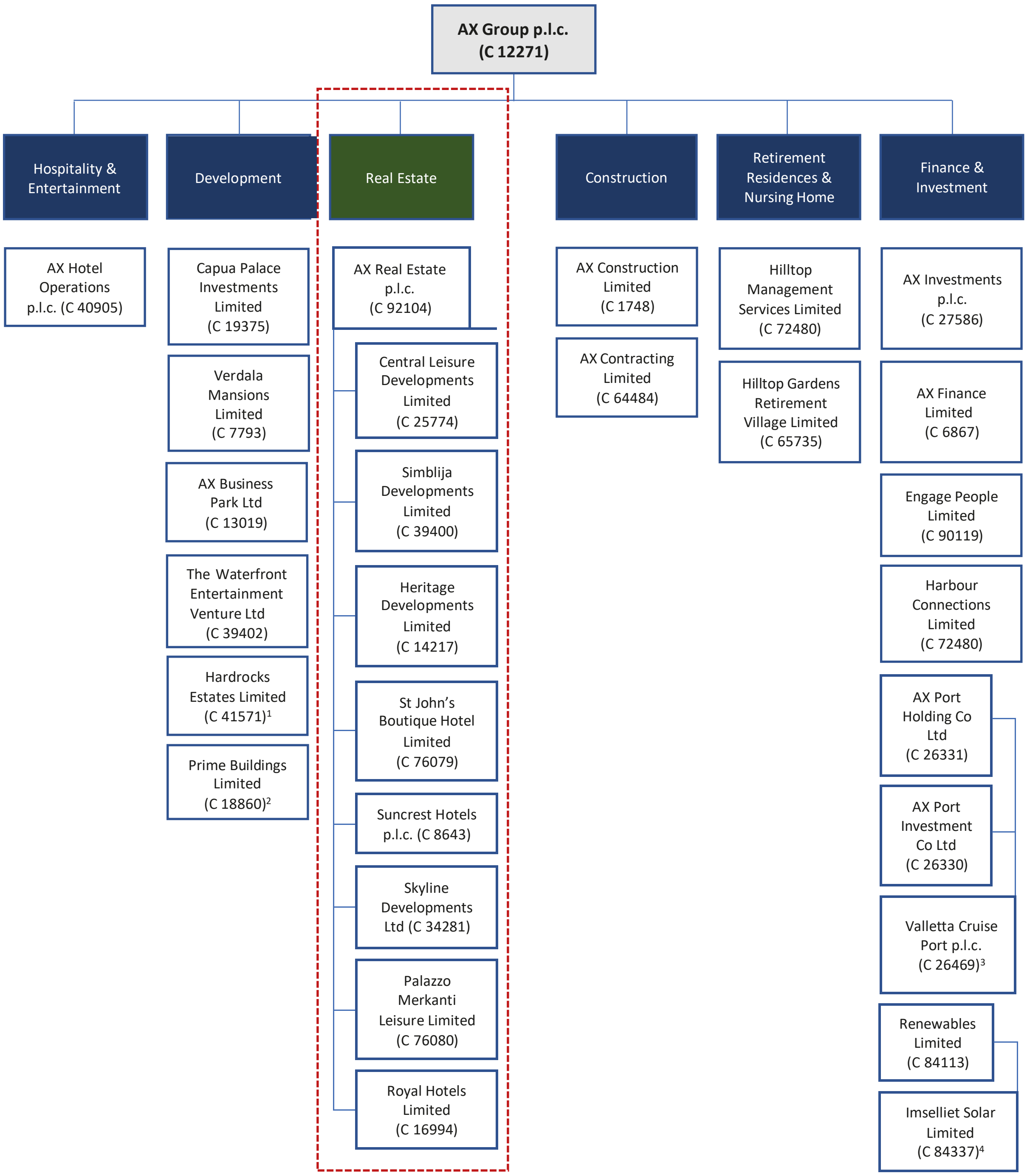
The Executive Director forms part of the Company's executive team entrusted with the day-to-day management of the Group. The Executive Director is supported in this role by several consultants and key management, and benefits from the know-how gained by members and officers of the AX Group.

The executive team is composed of the following individuals:

Denise Micallef Xuereb	Chief Executive Officer
Joseph Borg	Chief Financial Officer

3. ORGANISATIONAL STRUCTURE

The diagram hereunder illustrates the organisational structure of the AX Real Estate Group as at the date of this report, indicating the position of the Company and the Real Estate division within the AX Group.



[1] 51% ownership

[2] 75% ownership

[3] 36% ownership

[4] 33.3% ownership

4. MAJOR ASSETS OWNED BY THE GROUP

The table below provides a summary of the properties held by the AX Real Estate Group on a pro forma basis as at 30 April 2021 (classified as 'investment property' in the statement of financial position), valued at €231,125,000.

AX REAL ESTATE PLC **Group Assets**	**30 Apr'21** **€'000**
Sliema Hotels (The Palace Hotel and The Victoria Hotel)	72,750
Qawra Hotels (Seashells Resort at Suncrest, Sunny Coast Resort & Spa and Luzzu Complex)	73,480
Valletta Hotels (Saint John's Boutique Hotel and Rosselli Hotel)	16,010
Part of the Verdala Site earmarked for the proposed Grand Hotel Verdala and Virtu Heights	8,630
Simblija Care Home & Hilltop Gardens Retirement Village	36,870
Targa Gap Complex, Mosta	11,830
Hardrocks Business Park (8 warehouses, an office block and a plot of land)	6,950
Office space at Falcon House, Sliema	4,320
Blackstead Garage	285
	231,125

Source: Consolidated pro forma statement of financial position of AX Real Estate p.l.c.

A brief description of each property is provided below.

4.1 SLIEMA HOTELS

The Palace Hotel is a luxurious 144-room five-star city hotel located in a prime location in Sliema, offering a strong appeal to business travellers owing to its extensive conference and events facilities. The hotel, which opened its doors for business in 2007, marks AX Group's first investment in the five-star hotel segment. The Palace offers a wide range of facilities to its guests, including five restaurants, namely: TemptAsian, The Tabloid, and Talk of Town Café, an outdoor infinity pool on the rooftop terrace, a generous sized freshwater indoor pool, a steam and sauna room, spa and health and fitness centre. The hotel has an underground car park common with The Victoria Hotel.

The Victoria Hotel is a 142-room classical Victorian-style hotel located in the heart of Sliema. The hotel, which is marketed as a classical five-star experience in a four-star accommodation, opened for business in 1997 and was last refurbished in 2018. The hotel features elegant rooms, outdoor and indoor pools, a steam and sauna room, spa facilities, a health and fitness centre and multi-purpose conference halls.

It also houses the Copperfield restaurant and the Penny Black bar. The hotel has an underground car park accessible from the entrance to The Palace Hotel car park which can accommodate 108 cars.

The proximity between The Palace Hotel and The Victoria Hotel allows both hotels to centralise their management function and share many of the fixed cost elements to maximise efficiency, and ultimately operating profits.

Terms of intra-group lease agreement

The Sliema Hotels are leased by Central Leisure Developments Limited (in its capacity as lessor) to AX Hotel Operations p.l.c. (in its capacity as lessee). In turn, AX Hotel Operations p.l.c. sub-leases the spa, gym and a shop to independent third-party operators. The lease agreement entered into with AX Hotel Operations p.l.c. is subject to the following terms:

(a) the lease term is 20 years and four months, with a right of first refusal in favour of the lessee over any new lease to be entered into by the lessor upon the expiration of the term;
(b) a minimum fixed base rent;
(c) a variable rent component ;
(d) the obligation for ordinary repairs and maintenance rests with the lessee while the costs of new developments or extraordinary repairs which are structural in nature rest with lessor; and
(e) the lessee may only sub-lease outlets and facilities within the Sliema Hotels to independent third parties, once it obtains the lessor's consent.

4.2 QAWRA HOTELS

The Seashells Resort at Suncrest is a four-star hotel located on the Qawra waterfront, featuring 452 rooms designed in a contemporary style, the Carisma Spa and Wellness International Centre, a large outdoor swimming pool and lido, and various food and beverage outlets. The hotel opened for business in 1986 and has undergone extensive refurbishment in 2015, at a total cost of *circa* €7 million, as a result of which all rooms were completely refurbished.

The Sunny Coast Resort and Spa is a 92-room four-star aparthotel situated in Qawra that offers serviced self-catering apartments, with resort facilities on the Qawra coast. It occupies a gross floor area measuring approximately 6,000 sqm. The property has operated in the vacation ownership market since 1983 but will cease such activity on expiration of the timeshare contracts in December 2021. The Sunny Coast Resort and Spa features two restaurants which are leased out to independent third party operators, indoor and outdoor pools, spa and leisure facilities, and a fitness centre.

The Sunny Coast Lido is a facility that forms part of the Sunny Coast Resort and Spa, consisting of a number of restaurants leased out to independent third parties, an indoor swimming pool, a spa, an outdoor pool, and other sports facilities leased out to third parties.

The Luzzu Complex, which occupies a gross floor area of *circa* 2,250 sqm, comprises a seaside restaurant known as the 'Luzzu Restaurant,' a beach club (namely the 'Luzzu Lido') and a recently refurbished conference centre which accommodates up to 300 delegates in theatre style and 450 guests in receptions.

Terms of intra-group lease agreement

The Qawra Hotels, with the exception of the outlets that are sub-leased to third parties as indicated above, are leased by Suncrest Hotels p.l.c. (in its capacity as lessor) to AX Hotel Operations p.l.c. (in its capacity as lessee).

The lease agreement is subject to the following terms:

(a) the lease term is 20 years and four months with a right of first refusal granted in favour of the lessee over any new lease to be entered into by the lessor upon the expiration of the term;
(b) a minimum fixed base rent;
(c) a variable rent component;
(d) the obligation for ordinary and extraordinary repairs and maintenance rests with the lessee while the costs of new developments or extraordinary repairs which are structural in nature rest with lessor; and
(e) the lessee may only sub-lease outlets and facilities within the Qawra Hotels to independent third parties, once it obtains the lessor's consent.

Qawra Project

The AX Group has developed a master plan for the redevelopment of the Qawra Hotels, which project is expected to be phased over a number of years as further explained hereunder.

Phase 1

Suncrest Hotels p.l.c. is in possession of a full development permit to extend the Seashells Resort at Suncrest by adding four additional floors to the existing structure, which will increase the number of rooms of the hotel to 618, as well as new pools, restaurants, bars and other facilities to the hotel. The AX Group plans to upgrade the standard of the hotel to a high level in line with the objectives of the master plan to develop its Qawra Hotels into a key destination.

Simultaneously with the extension to the hotel, the lido at the Seashells Resort at Suncrest will be demolished and redeveloped subject to a full development permit being obtained from the competent authorities. The new lido will include an underground car park, part of the project for the development of a large carpark accommodating 350 cars under the three lidos owned by the AX Group. The new lido will also include a large pool that will eventually form part of a series of laguna pools over the three lido areas, as well as the restaurants and bars operated by the AX Hotels brand.

The aforementioned development has commenced in November 2021 and is expected to be completed by March/April 2023 at a cost of *circa* €52 million, with the hotel assumed to be re-opened by May 2023.

Phase 2

Hotel Resorts Limited (now merged into Suncrest Hotels p.l.c.) has applied for a full development permit for the development of the Sunny Coast Resort & Spa and an outline development permit for the Sunny Coast Lido and Luzzu Complex.

The proposed development of the Sunny Coast Resort & Spa will see the demolition of the existing building and its rebuilding into a 200-unit aparthotel with food and beverage and leisure facilities.

There are presently no firm timelines for the commencement of these works but subject to obtaining the necessary full development permits and the necessary finances and resources are available for the works to commence, it is envisaged that this shall commence within the next five years.

4.3 VALLETTA HOTELS

St. John's Boutique Hotel Limited (C 76079) is the owner of the Saint John's Boutique Hotel, a 19-room boutique hotel located in Merchants Street, Valletta. Once a former merchant's residence and shop, the Saint John's Boutique Hotel was refashioned into a modern hospitable setting while preserving the building's rich historical fabric. Each of the 19 rooms exudes an urban industrial feel with exposed brick and natural materials, combining on-trend style with luxury and the latest in-room technology. The boutique hotel features two private meeting rooms accommodating 16 in-theatre style or eight as a board room, ideal for the frequent business traveller who needs to make use of desk space in an office-like setting during his stay. The Saint John's Boutique Hotel is also home to two catering establishments, namely 'Cheeky Monkey Gastropub' and 'Cheeky Monkey Creperie'.

Palazzo Merkanti Leisure Limited (C 76080) holds the Rosselli Hotel under the title of temporary emphyteusis, subject to an annual ground rent of €13,821.60. The 25-room five-star boutique hotel is one of the most prestigious old palazzos in the capital, receiving its first guests in May 2019. The Rosselli Hotel is housed in a luxurious property displaying a fusion of traditional and contemporary design complemented by an advanced suite of technology services for guests. Aside from a three-level restaurant with varied cuisine genres, namely 'Under Grain', 'Grain' and 'Over Grain', offering customers refined culinary experiences on each level with 'Under Grain' having been one of the first of only five restaurants to have clinched a Michelin Star on the island, the boutique hotel has a rooftop terrace and swimming pool. Additionally, hotel butler service is on hand to provide a tailor-made experience for guests staying at the Rosselli Hotel.

Terms of intra-group lease agreement

The Saint John's Boutique Hotel is leased by St. John's Boutique Hotel Limited (in its capacity as lessor) to AX Hotel Operations p.l.c. (in its capacity as lessee). The Rosselli Hotel is leased by Palazzo Merkanti Leisure Limited (in its capacity as lessor) to AX Hotel Operations p.l.c. (in its capacity as lessee).

Each of the lease agreements is subject to the following terms:

(a) the lease term is 20 years and four months, with a right of first refusal in favour of the lessee over any new lease to be entered into by the lessor upon the expiration of the term;
(b) a minimum fixed base rent;
(c) a variable rent component;
(d) the obligation for ordinary and extraordinary repairs and maintenance rests with the lessee while the costs of new developments or extraordinary repairs which are structural in nature rest with lessor; and
(e) the lessee may only sub-lease outlets and facilities within the Valletta Hotels to independent third parties, once it obtains the lessor's consent.

4.4 PROPOSED GRAND HOTEL VERDALA AND VIRTU HEIGHTS ANNEX SUITES

Royal Hotels Limited (C 16694) owns the land over which the Verdala Hotel will be developed. A full development permit for the proposed development has been obtained and work on the demolition of the former Grand Hotel Verdala has commenced.

Heritage Developments Limited (C 14217) has signed preliminary agreements to purchase four remaining apartments and thus acquiring full ownership of that part of the Verdala site known as Virtu Heights, which consists of a total of 19 apartments, to be subsequently developed into the Verdala Hotel Annex.

Proposed development

The project will see the dilapidated Grand Hotel Verdala being demolished and redeveloped into a 25-room five-star all-suite hotel, acting as the main hotel building housing all the main facilities for the proposed new luxury suites and the existing 19 Virtu Heights annex suites, which shall also be refurbished to a luxury standard. A multi-level communal pyramidal atrium shall include all the communal facilities and creates a physical and visual corridor from Triq ir-Rghajja to the ridge views overlooking Malta.

By reducing the overall height from the existing hotel by almost two storeys, the development will blend more harmoniously with the promontory. A system of terraces and voids on the ridge side of the building will mimic the natural forms of the rock strata, whilst the back elevations will have greater solidity to tie into the traditional façade typology found in the surrounding streets.

The project will also open up around 2,350 sqm of formerly developed space to the public through the introduction of public piazzas and open spaces. Furthermore, new vistas will be enjoyed by the public from Triq San Bastjan and Triq ir-Rghajja.

Between the years 2005 and 2019, Heritage Developments Limited entered into 11 deeds of sale pursuant to which 11 out of the 19 apartments were sold to third parties: three of which were rescinded some time thereafter; four were re-acquired by Heritage Developments Limited from said third parties; and the remaining four form the subject of promise of sale/exchange agreements, pursuant to which Heritage Developments Limited will re-acquire the four apartments in exchange for four residential units (and car spaces) forming part of the Verdala Terraces, defined hereunder.

As part of the Group reorganisation exercise, Royal Hotels Limited has transferred a portion of land by virtue of a public deed in the acts of Notary Rosalyn Aquilina dated 28th October 2021 consisting in an area of 8,831 sqm from level -2 downwards and 9,470 sqm from level -1 upwards to a newly incorporated entity forming part of the AX Group, namely Verdala Terraces Limited (C 100344), on which residential units are intended to be developed by the AX Group (the "Verdala Terraces").

The Verdala Hotel will be developed on the remaining portion of land owned by Royal Hotels Limited. As described above, Heritage Developments Limited owns Virtu Heights, which will be refurbished into the Verdala Hotel Annex.

Works commenced in August 2021 and it is estimated that. the investment in the Verdala Hotel and the refurbishing of the Verdala Hotel Annex is estimated to cost €11.5 million.

Terms of intra-group lease agreement

Royal Hotels Limited and AX Hotel Operations p.l.c. entered into a lease agreement pursuant to which Royal Hotels Limited (in its capacity as lessor) will lease out the Verdala Hotel to AX Hotel Operations p.l.c. (in its capacity as lessee). Heritage Developments Limited and AX Hotel Operations p.l.c. entered into a lease agreement pursuant to which Heritage Developments Limited (in its capacity as lessor) will lease out the Verdala Hotel Annex to AX Hotel Operations p.l.c. (in its capacity as lessee).

Each of the lease agreements is subject to the following terms:

(a) the lease term is 20 years with a right of first refusal granted in favour of the lessee over any new lease to be entered into by the lessor upon the expiration of the term;
(b) a minimum fixed base rent;
(c) a variable rent component;
(d) the obligation for ordinary and extraordinary repairs and maintenance rests with the lessee while the costs of new developments or extraordinary repairs which are structural in nature rest with the lessor; and
(e) the lessee may only sub-lease outlets and facilities within the Verdala Hotel to independent third parties, once it obtains the lessor's consent.

4.5 SIMBLIJA CARE HOME & HILLTOP GARDENS RETIREMENT VILLAGE

Simblija Developments Limited (C 39400) owns the Hilltop Gardens Retirement Village and Simblija Care Home.

Simblija Care Home is a 155-bed care home which provides nursing care to the more dependent elderly residents. The Simblija Care Home also operates the Revive Physiotherapy Centre, which has its own fully equipped state-of-the-art hydrotherapy pool, dedicated services and amenities for short term respite care and convalescence as well as post-operative recovery, and a specialised dementia ward offering specialist support, and assistive technology specifically selected and installed, for residents with dementia.

Hilltop Gardens Retirement Village is the first luxury retirement village developed in Malta, consisting of private residences in the form of one or two bedroom self-catering apartments and penthouses, finished to high standards, landscaped gardens and extensive facilities. The complex includes a spa, hair salon, swimming pool, restaurant, crafts centre, indoor and outdoor kids play areas, library, common room and hall, chapel, and underground parking. A reception desk and 24-hour security personnel complement the residences. Residents may also request certain services be provided at a charge, including cleaning, repairs and maintenance of apartments and preparation and delivery of meals. The setup of the residences allows residents to live independently within a secure community knowing that care is at hand should the need arise. The Hilltop Gardens Retirement Village welcomed its first residents in January 2016 and by August 2018, all 133 apartments in the village had been occupied on leases for definite periods ranging from one month to 50 years by individuals who at the time of taking up residence must be over 55 years of age.

Subject to obtaining the necessary development permits, it is the intention of the Group to construct 50 additional residential units across two additional floors intended for lease in line with the business model of the Hilltop Gardens Retirement Village. No specific date has been set for the commencement of works as of yet.

Terms of intra-group lease agreement

Simblija Developments Limited (in its capacity as lessor) leases the Simblija Care Home and Hilltop Gardens Retirement Village to Hilltop Management Services Limited (C 72480) (in its capacity as lessee), which is then sub-leased to Hilltop Gardens Retirement Village Limited (C 65735). Hilltop Management Services Limited also leases particular establishments within the village in favour of third parties.

The lease agreement entered into by and between Simblija Developments Limited and the Hilltop Management Services Limited is subject to the following terms:

(a) the lease term is 20 years and four months with a right of first refusal granted in favour of the lessee over any new lease to be entered into by the lessor upon the expiration of the term;
(b) a fixed base rent;
(c) the obligation for ordinary repairs and maintenance rests with the lessee, while the costs of new developments or extraordinary repairs rest with the lessor;
(d) the right to sub-lease apartments within the Hilltop Gardens Retirement Village to residents who satisfy the residential criteria;
(e) the lessee may only sub-lease outlets and facilities to independent third parties, once it obtains the lessor's consent.

4.6 TARGA GAP COMPLEX MOSTA

Skyline Developments Ltd (C 34281) owns the Targa Gap Complex in Mosta. The complex which has been built to a high level of finishes and specifications; consists of two blocks of residential apartments, namely the 'Clover' block and the 'Springfield' block. As at the date hereof, the majority of units in the 'Clover' block have been sold to third parties, two will be retained by Skyline Developments Ltd and leased to third parties. Those in 'Springfield' block have also been retained and are currently leased to independent third parties.

The complex also includes the AX Business Centre which houses the 'AX Group Head Office' as well as two separate offices at ground floor level one of which is currently leased to an independent third party. The complex also includes four floors of underground car park. A number of garages in the car park have been sold to owners of the apartments in 'Clover' block. A photovoltaic plant has been installed on the roof of the property.

Terms of intra-group lease agreement

The lease agreement by and between Skyline Developments Ltd (qua lessor) and AX Group p.l.c. (qua lessee) is subject to the following terms:

(a) the lease term is 20 years and four months with a right of first refusal granted in favour of the lessee over any new lease to be entered into by the lessor upon the expiration of the term;
(b) a fixed base rent; and
(c) the obligation for ordinary repairs and maintenance rests with the lessee while the costs of new developments or extraordinary repairs rest with the lessor.

4.7 PROPERTIES AT HARDROCKS BUSINESS PARK

The Company has constructed nine warehouses and an office block at the Hardrocks Business Park. Six of the warehouses are rented to independent third parties on a leasing period between four to fifteen years. Two warehouses and the office block, together with the underlying basement areas, are rented to AX Construction Limited (C 17438) for a term of 20 years and are used as the Company's offices and operating base. Another warehouse (with underlying basement) has been leased out by the Company in part to AX Group p.l.c. and in part to AX Construction Limited. The remaining area of the said warehouse which is currently unoccupied will be leased out to third parties. A third party leases the roof of the warehouses and office blocks.

4.8 OFFICE SPACE AT FALCON HOUSE SLIEMA

The office space at Falcon House in Sliema consists of an area of *circa* 1,180 sqm on two levels, of which 80% is leased to a third party. The remaining 20% of office space is currently vacant.

4.9 BLACKSTEAD GARAGE

The property consists of a stand-alone industrial garage and a complimenting loading bay. The total site area is *circa* 257 sqm and is leased to a third party.

5. ANALYSIS OF REVENUE

The table below analyses the Group's revenue for the historical and projected periods between the principal property categories:

AX Real Estate plc Analysis of Revenue	FY2019 Actual	FY2020 Actual	FY2021 Forecast	FY2022 Projection	FY2023 Projection	FY2024 Projection	FY2025 Projection
Hotel properties	-	-	335	5,583	9,754	13,956	14,954
Healthcare property	-	-	76	1,650	1,683	1,717	1,751
Targa Gap Complex	-	-	20	605	609	613	617
Other properties	19	244	292	623	664	681	700
Rental income	**19**	**244**	**723**	**8,461**	**12,710**	**16,967**	**18,022**
Proceeds from sale of property	-	-	-	610	455	455	-
Total revenue	**19**	**244**	**723**	**9,071**	**13,165**	**17,422**	**18,022**
Rental income by tenant							
Income from AX Group companies	19	97	525	7,754	11,968	16,245	17,284
Income from third party tenants	-	147	198	707	742	722	738
Rental Income	**19**	**244**	**723**	**8,461**	**12,710**	**16,967**	**18,022**

Source: Management information.

The revenue of the Company over the historical period relates to income on investment property leased out to other entities. Revenue increased to €243,673 in 2020 compared to €19,355 over the 5-month period ending 31 October 2019. During the financial year ending 31 October 2020, 61% of revenue related to lease income from related parties. During the afore-mentioned historical period, the Company did not have any underlying subsidiaries or investments in associated undertakings.

The Group reorganisation was mainly conducted during Q4 2021 and as such, revenue for the said financial year reflects income of the Company for the full year and revenue generated by the subsidiaries acquired in the last quarter of FY2021.

The Group's total revenue is projected at €9.1 million in FY2022, increasing gradually to €18.0 million by FY2025. The principal driver of the projected growth relates to rental income from hotel properties which is projected to increase from €5.6 million in FY2022 to €15.0 million in FY2025. Rental income from hotel properties is based on a fixed component and a variable rent structure linked to the revenue of each property. Such projected revenue is based primarily on the historical revenue generation of the hotels in the financial years ended 31 October 2018 and 2019, which were the last full financial years prior to the onset of the COVID-19 pandemic. The assumption is that of a gradual recovery from the effects of COVID-19 with hotel revenue returning to pre-pandemic levels by 2023-24.

In FY2021, the Group initiated the extension and refurbishment of the Suncrest Hotel in Qawra which will extend the hotel's room capacity to 618 rooms by the addition of 4 new floors. It will also allow the hotel to expand its amenities particularly in terms of the food and beverage outlets and lido facilities. In terms of the lease agreement with the Company, the projections assume that the rental charge portion relating to the Suncrest Hotel will be waived during the period of development and resume once the hotel recommences operations in mid-2023.

Furthermore, the Group is expected to undertake the development of the Verdala Hotel between 2021 and 2023, with the hotel assumed to be operational as from FY2024. The Hotel will be operated by AX Operations in terms of its lease agreement with the AX Real Estate Group. This lease agreement also includes 19 residential apartments forming part of the existing "Virtu Heights" building, which will be utilised by AX Operations as serviced apartments.

Additional revenue in the projected period is also expected from the Rosselli Hotel in Valletta which only opened in June 2019.

The projected rental income from properties other than hotel properties is based on the provisions of the rental agreements that are in place at the time of the preparation of the projections. Any rental agreements that expire in the projection period are assumed to be renewed at the existing terms.

The Healthcare Complex is subject to a long-term lease agreement with Hilltop Management Services Limited, that operates the complex. The agreement provides for fixed rental income with annual increments.

The Targa Gap Complex in Mosta includes a mix of office space, residential units and garage spaces. The vast majority of the office space (including garage spaces) in this building is subject to a long-term agreement with the AX Group. The office space and garage spaces that are currently vacant are assumed to be rented in FY2022.

'Other properties' comprise the Hardrock Warehouses in Burmarrad, the Falcon House offices in Sliema and a garage in Naxxar known as Blackstead Garage. The Group's warehouses within the Hardrocks Complex in Burmarrad are currently rented either to other AX Group companies or to third parties. A plot of land on this site is currently being developed into new warehouse space and the projections assume that this development will be completed and leased out during FY2022. The office space at Falcon House and the Blackstead Garage are both subject to lease agreements in place with third parties.

The projected revenue from the sale of property relates to the assumed disposal of residential and garage spaces at the Targa Gap Complex and which are held as inventory. No other future sales of properties are projected to be effected by the AX Real Estate Group.

6. BUSINESS DEVELOPMENT STRATEGY – CONVERGENCE WITH THE AX GROUP

6.1 ETHOS OF THE AX GROUP AND THE AX REAL ESTATE GROUP

The AX Group has developed from its beginnings as a traditional family business to a professional organisation, underpinned by the AX 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.

The AX Group believes that investment in immovable property in good locations and to high standards of design tailored to the operation of innovative business models and concepts provides high return on investment over the long term.

This same business philosophy has been adopted by the AX Real Estate Group, which also recognises the opportunities for return provided by judicious real estate investment and sees the AX Group's operating companies as an important customer for its investments. The intention is to retain alignment between the two groups' business strategies so that one complements and supports the other, with the main underpinning to these common strategies being a common ethos driving the business.

One of the main contributors which has led towards the successful history of growth experienced by the AX Group has been the segregation of asset owning and operating functions to enable individual subsidiaries to focus on their core objectives and to share the knowhow, experience and resources to avoid duplication of effort and cost. It is the intention of the Company to replicate this proven strategy and extend it to the Company's business.

6.2 ORGANISATIONAL PRACTICES AND PROCEDURES

The Company shall implement 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 shall be reviewed from time to time in order to reflect new operational and market realities, ensuring that the Company 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 Company are prepared, evaluated and subsequently scrutinised by the competent members of the executive team.

6.3 GROWTH STRATEGY

The Company shall focus its energies on strengthening its business and developing its structures/Furthermore, the various divisions of the AX Group have diversified their markets and business delivery, and marketing strategies have been developed and implemented for each of its properties depending on the location and nature of the property.

Since March 2020, the hospitality industry has been impacted by the COVID-19 pandemic due to a temporary decline in travel demand, which affected the operation of the operators of the properties within the Hospitality Group. A gradual return to normality has been experienced since June 2021 and the Company is optimistic that the hotel industry in Malta will perform positively in the years to come, thereby giving the operators of the Hospitality Properties the stability required to ensure payment of rent when due. The AX Group believes the AX Group Hospitality Properties currently have the right management and resources to successfully grow the business units and potentially take on others.

Similarly, the construction division of the AX Group, which leases its offices at the Hardrocks Industrial Park from the Company has grown rapidly following a restructuring of the business. 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.

6.4 HUMAN RESOURCE MANAGEMENT

The Company believes that human resource management practices based on the acquisition and retention of talent are conducive to achieving its business objectives and the retention of key talent is at the core of the Company's philosophy.

The Company intends to utilise as per a contracted services agreement, the services of a number of Departments within the AX Group including those of the Human Resource Department with a view to avoid duplication of resources and the associated costs. For this reason the Company will have a lean organisation structure and only directly engage personnel where this is specifically necessary to further its business interests.

The AX Group, which shall be provided such services to the Company, operates the 'AX Academy' specialising in training and development 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. The Company, through the above-mentioned Services Agreements, shall be entitled to partake to the resultant expertise and resources.

7. FUTURE DEVELOPMENT

The Company will actively seek to acquire properties which are of high standard and which lend themselves to being used for activities of the Subsidiaries or by independent third parties, for rent at market rates. Such properties will need to meet the criteria and high standards of design and functionality in line with the philosophy of the AX Real Estate Group and the AX Group.

In addition, where applicable planning laws allow, the AX Real Estate Group will seek to obtain permits to extend or redevelop its real estate assets in line with the business requirements from time to time.

The AX Real Estate Group will maintain its properties to a high standard to optimise the economic returns from such investments.

8. MARKET OVERVIEW

8.1 ECONOMIC UPDATE

The COVID-19 pandemic has hit the Maltese economy hard, particularly its large tourism sector. During this period, the authorities took swift actions to support households, businesses, and the healthcare system on the strength of fiscal buffers accumulated prior to the pandemic. With the rapid rollout of COVID-19 vaccine, the economy reopened in the second quarter of 2021 in time for the summer tourism season. While the outlook is surrounded by a high degree of uncertainty, the Maltese economy is expected to rebound by 5.75% in 2021, up from -7.75% in 2020. The level of uncertainty has been further exacerbated following the action by the Financial Action Task Force (FATF) in June 2021 to put

Malta under increased monitoring due to concerns about effectiveness of its anti-money laundering and combatting the financing of terrorism (AML/CFT) framework.[1]

Due to the COVID-19 pandemic, the tourism sector, representing almost 16% of the Maltese economy, declined sharply as tourist arrivals fell to around 25% of pre-pandemic levels in 2020. Domestic economic activities also slumped, as restrictions on movement and activities, as well as weak consumer and business sentiment, dampened private consumption and investment. Some sectors, such as remote gaming and ICT, continued to grow strongly, but not enough to offset the losses in contact-intensive sectors. As a result, the economy entered a deep recession, with real GDP contracting by 7.75% in 2020. Malta's economy grew at a quarter-on-quarter rate of 1.9% in the first quarter of this year (2021), driven by remote gaming, ICT, public administration, and wholesale and retail trade activities.

House price growth slowed to 3.5% in 2020 after several years of rapid growth, reflecting a mix of opposing factors. Downward pressures came from lower household income growth and weaker prospects for tourism rentals, whereas the low-interest rate environment and the reduction of the property tax rate and stamp duty helped sustain property demand.

The authorities' fiscal response to mitigate the fallout from the COVID-19 crisis comprised support to firms and households through the wage supplement scheme, the tax deferral scheme, financial assistance to businesses, and social measures. Altogether, COVID-19 related measures amounted to 5.1% of GDP in 2020, more than half of which were spent on the wage supplement scheme. As a result, the fiscal measures deteriorated from a surplus of 0.4% of GDP in 2019 to a deficit of 10.2% in 2020. Public debt rose sharply, from 42% of GDP in 2019 to 55% of GDP in 2020. The authorities also introduced several financial sector measures to support liquidity and credit flows including loan moratoria on repayments on capital and interest, a loan guarantee scheme through the Malta Development Bank, interest subsidies, restrictions on dividend distribution and real estate support measures.

Labour markets have proved resilient to the pandemic shock. Employment dropped, and unemployment rose immediately after the COVID-19 outbreak. Following the relaxation of containment measures, however, employment resumed growing with strong job creation among females and highly educated workers. Unemployment also fell to around 3.5% by June 2021. The wage supplement scheme contributed to preventing large-scale layoffs. With the reopening of the tourism sector, signs of labour markets tightening have emerged, partly reflecting reduced inflows of foreign workers.

According to the IMF, economic growth is expected to gain momentum during the second half of 2021 and into 2022. This forecast assumes further progress in global vaccination and an unleashing of pent-up demand for contact-intensive services. International tourist arrivals are assumed to recover only gradually, given lingering virus fears, taking a couple of years to return to their 2019 level. Meanwhile, digital intensive sectors, including remote gaming and ICT sectors, will continue to drive growth. Over

[1] International Monetary Fund – Malta (IMF Country Report No. 21/211, September 2021).

the medium term, growth will gradually moderate to a sustainable pace. Growth is projected to gradually decelerate to its potential rate of 3.25% by 2026, as growth in Malta’s trading partners moderates and productivity growth slows to its pre-pandemic average over time (after a strong rebound in 2021–2022). Furthermore, the growth of Malta’s working-age population is expected to moderate, contributing to the decline in potential growth. Because the growth trajectory is projected to fall short of pre-crisis trends, the pandemic crisis will potentially leave a permanent loss of 4.5% of GDP in 2026.

PART 2 – GROUP PERFORMANCE REVIEW

9. PRO FORMA FINANCIAL INFORMATION RELATING TO AX REAL ESTATE PLC

As at 30 April 2021, the Company did not have any underlying subsidiaries or investments in associated undertakings. The financial information set out in this review represents pro forma consolidated financial information and presents the position of the Group post-completion of the Group Reorganisation as at 30 April 2021. Accordingly, the pro-forma financial information illustrates the Group's statement of financial position as it would have been in the hypothetical situation that these assets were transferred as at 30 April 2021 ("**April 2021PF**").

AX Real Estate plc
Pro forma consolidated statement of financial position
As at 30 April 2021

	Company	Adjustments					Group
		(i)	(ii)	(iii)	(iv)	(v)	
	€'000	€'000	€'000	€'000	€'000	€'000	€'000
ASSETS							
Non-current assets							
Investment property	6,609		247,102	(22,586)			231,125
	6,609	-	247,102	(22,586)	-	-	231,125
Current assets							
Inventories			1,193				1,193
Trade and other receivables	179		708				887
Cash and cash equivalents		49	1,285				1,334
	179	49	3,186	-	-	-	3,414
Total assets	**6,788**	**49**	**250,288**	**(22,586)**	**-**	**-**	**234,539**
EQUITY							
Capital and reserves							
Issued ordinary 'A' shares	1	49				12,450	12,500
Issued ordinary 'B' shares					18,750		18,750
Capital contribution	3,500		(3,500)		31,250		31,250
Retained earnings	248		36,277			(12,450)	24,075
Revaluation reserves			60,766	(21,540)			39,226
Other reserves			331				331
	3,749	**49**	**93,874**	**(21,540)**	**50,000**	**-**	**126,132**
LIABILITIES							
Non-current liabilities							
Bank borrowings			8,713				8,713
Amounts owed to related parties			124,316		(50,000)		74,316
Deferred tax liability			21,643	(1,046)			20,597
	-	-	154,672	(1,046)	(50,000)	-	103,626
Current liabilities							
Bank borrowings			2,822				2,822
Trade and other payables	3,039		(1,080)				1,959
	3,039	-	1,742	-	-	-	4,781
	3,039	**-**	**156,414**	**(1,046)**	**(50,000)**	**-**	**108,407**
Total equity and liabilities	**6,788**	**49**	**250,288**	**(22,586)**	**-**	**-**	**234,539**

The following is a description of the pro forma adjustments made to the financial position of the Company as at 30 April 2021:

i. Being the increase in the issued share capital of the Company by virtue of an issue and allotment of shares effected in favour of AX Group p.l.c. of an additional 195,200 ordinary shares of a nominal value of €0.25 each;
ii. Being the consolidated assets and liabilities upon the business combination, hypothetically taking place on 30 April 2021, involving Central Leisure Developments Limited, Suncrest Hotels plc, Palazzo Merkanti Limited, St John's Boutique Hotel Limited, Heritage Developments Limited, Royal Hotels Limited, Simblija Developments Limited and Skyline Developments Limited, following the acquisition of the shareholding of these entities by the Company from the previous shareholders, all being under common control of AX Group p.l.c. Further to this transaction, the Company will own 99.99% of the issued share capital of these entities, with the exception of 1 share in each entity held by AX Finance Limited;
iii. Being the movement in fair value of the Estates Group property portfolio in line with the independent qualified architect's property valuation reports dated 19 November 2021, and the related deferred tax impact. The properties being valued are subject to the lease agreements described in section 4 of this report and the property values are being established through a discounted cash flow (DCF) method. The DCF method is based on the present value of expected rental income over the specific projected period and a discounted terminal value;
iv. Being the capitalisation of amounts due by the Company to AX Group p.l.c. into ordinary 'B' shares;
v. Being the declaration and distribution of an interim dividend from subsidiaries to the Company and subsequent capitalisation of retained earnings into ordinary share capital.

Following the Group Reorganisation, the Group's total assets amount to €234.5 million as at 30 April 2021PF (30 April 2021: €6.8 million) and comprise a number of investment properties with a fair value of €231.1 million. A summary of the investment property value as at 30 April 2021PF is included in section 4 of this report.

The Group also holds inventory balances of €1.2 million as at 30 April 2021PF which mainly represent properties held for resale within the Targa Gap Complex. Cash and cash equivalents of €1.3 million as at the date of this financial period are freely transferable and unencumbered.

The Group Reorganisation as at 30 April 2021PF is part financed through the issue of €50 million ordinary 'B' shares (at a premium) in favour of related parties. Ordinary 'B' shares do not hold any voting rights but are entitled to dividends and profit sharing as per ordinary 'A' shares.

The financial position of the Group as at 30 April 2021PF indicates that operations are mainly financed through equity and reserves, and a mix of bank borrowings and related party facilities.

As at 30 April 2021PF, the Group had aggregate bank facilities amounting to €11.5 million. These facilities are secured by general hypothecs over the Group's assets, by special hypothecs over various immoveable properties and by pledges over various insurance policies and guarantees given by AX

Group p.l.c. Such facilities bear interest at interest rates ranging from 3.25% to 5.15% p.a. as at 30 April 2021. No bank overdraft facilities have been utilised by the Company or its subsidiaries to date.

As at 30 April 2021PF, the AX Real Estate Group had two related party loans, one of which being the loan between AX Investments p.l.c. and Simblija Developments Limited in terms of which AX Investments p.l.c. advanced a portion of the net proceeds from the issue by AX Investments p.l.c. of €40 million bonds due 2024, to Simblija Developments Limited, for the purpose of constructing the Hilltop Gardens Care Home & Residences, the outstanding balance of which is currently €15.0 million. This loan bears interest at the rate of 6.25% per annum until FY2024 and thereafter interest at the rate of 3% per annum. Pursuant to an amendment and restatement agreement entered into between the parties, the interest payable on the outstanding balance will be deferred until the redemption date of the proposed new bond issue.

Another related party loan relevant to the AX Real Estate Group is regulated by an intragroup debt agreement between AX Group p.l.c. and the Company pursuant to which €59.3 million is payable by the Company to AX Group p.l.c. in settlement of debts arising from, *inter alia*, the Group Reorganisation and the assignment of certain debts by AX Group to the Company. The Company intends to partly settle the outstanding debt from the proceeds of the proposed share and bond offers, in the amount of *circa* €8.7 million, or in the event that the Company exercises the over-allotment option, in the amount of up to €18.7 million. Such agreement is unsecured and bears interest at 3%, which will be deferred.

As at 30 April 2021PF, the Group holds a deferred tax liability of €20.6 million in relation to timing differences on capital gains arising on the investment properties transferred into the Group following the reorganisation.

10. FINANCIAL INFORMATION RELATING TO AX REAL ESTATE PLC

The following financial information is extracted from the audited financial statements of AX Real Estate p.l.c. for the financial years ended 31 October 2019 and 31 October 2020. The consolidated financial information for the projected years 31 October 2021 to 31 October 2025 has been provided by Group management. The Group reorganisation was mainly conducted during Q4 2021. As such, financial information relating to years ended 31 October 2019 and 31 October 2020 reflect the performance of the Company, while financial information with respect to the year ended 31 October 2021 relates to the performance of the Company for the full year and that of the subsidiaries acquired in the last quarter of FY2021.

The projected financial statements are based on future events and assumptions which AX Real Estate 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. The estimates for the projected financial year as presented in this document assume that the carrying values of hotel and investment properties will not be revalued upwards or impaired, and therefore no adjustment has been made as to possible uplifts or impairments in value of assets which can materially affect the consolidated income statement and the balance sheet values.

AX Real Estate p.l.c. Statement of Comprehensive Income for the year ended 31 October	2019 Actual €'000	2020 Actual €'000	2021 Forecast €'000	2022 Projection €'000	2023 Projection €'000	2024 Projection €'000	2025 Projection €'000
Revenue	19	244	723	9,071	13,165	17,422	18,022
Operating expenses	(1)	(18)	(50)	(968)	(862)	(876)	(713)
Depreciation and amortisation	-	-	-	(148)	(48)	(48)	(48)
Operating profit	**18**	**226**	**673**	**7,955**	**12,255**	**16,498**	**17,261**
Finance costs	-	-	(70)	(4,417)	(4,131)	(3,587)	(3,530)
Profit before tax	**18**	**226**	**603**	**3,538**	**8,124**	**12,911**	**13,731**
Taxation	(4)	(68)	(194)	(1,287)	(2,496)	(3,316)	(3,587)
Profit for the year	**14**	**158**	**409**	**2,251**	**5,628**	**9,595**	**10,144**
Total comprehensive income	**14**	**158**	**409**	**2,251**	**5,628**	**9,595**	**10,144**

Key Accounting Ratios	FY2019 Actual	FY2020 Actual	FY2021 Forecast	FY2022 Projection	FY2023 Projection	FY2024 Projection	FY2025 Projection
Operating profit margin *(Operating profit/revenue)*	95%	93%	93%	88%	93%	95%	96%
Interest cover (times) *(Operating profit/finance cost)*	n/a	n/a	9.61	1.80	2.97	4.60	4.89
Net profit margin *(Profit after tax/revenue)*	74%	65%	57%	25%	43%	55%	56%
Earnings per share (€) *(Profit after tax/number of shares)*	11.67	131.67	0.00	0.01	0.02	0.03	0.04
Return on equity *(Profit after tax/shareholders' equity)*	93%	4%	0%	2%	4%	7%	7%
Return on capital employed *(Op. profit/total assets less current liabilities)*	0%	6%	0%	3%	4%	6%	6%
Return on assets *(Profit after tax/total assets)*	0%	2%	0%	1%	2%	3%	3%

Source: MZ Investment Services Ltd

Section 5 of this report provides an in-depth analysis of AX Real Estate Group's revenues during the historical financial years (FY2019 and FY2020) and expected to be generated throughout the 5-year projected period (FY2021 to FY2025).

Revenue in FY2021 is estimated at €0.7 million, which is reflective of the income expected to be generated by the Company for the full year as well as the income expected to be generated mainly in Q4 of the said financial year subsequent to the Group reorganisation. FY2022 is the first full year of operations wherein the AX Real Estate Group is projected to generate €9.1 million in rental income.

Projected revenue for FY2023 is assumed at €13.2 million, an increase of €4.1 million (+45%) from the prior year, mainly on account of the gradual return to pre-COVID 19 levels in the hospitality sector. A further increase of €4.2 million in revenue (to €17.4 million) is expected in FY2024 in consequence of the re-opening of the Seashells Resort at Suncrest and to a lesser extent the inauguration of the Grand Hotel Verdala. Thereafter, a 3% growth rate has been assumed for the purposes of the projections.

The operating profit margin in FY2021 is forecasted at 86% and is expected to increase to 95% in FY2024. As such, the trajectory of operating profits is broadly similar to that of Group revenues explained above. Interest cover is projected at 2 times in FY2022 and should improve significantly to 5 times by FY2024. Overall, the Group expects to generate a net profit of €2.3 million in its first full year. On the assumption that the Seashells Resort at Suncrest re-opens in FY2024 and that hospitality operations return to pre-COVID levels in the same year, the AX Real Estate Group's net profit in FY2024 is expected to amount to €9.6 million. As for FY2025, the Group is projected to increase y-o-y net profit by 6% to €10.1 million.

Projected dividends

The intention of the Directors is to sustain a strong dividend pay-out ratio. Subject to any unforeseen circumstances, the AX Real Estate Group is expected to distribute the majority of the Group's profit after taxation subject to the availability of cash and retaining a minimum cash balance of €1 million. With respect to the payment of dividend, it is projected that an interim dividend (50% of annual dividend) is paid in July and the final dividend (remaining 50% of annual dividend) is paid in January.

The Directors believe that this dividend policy is sustainable because full funding is in place for the capital projects planned for the short to medium term. Furthermore, most of the Group's borrowings relate to the amounts due to the AX Group that are not due for repayment in the next 10 years.

As illustrated in the table below, the AX Real Estate Group expects to regularly declare dividends to shareholders as from FY2022. The net dividend yield, which is based on the IPO price, is projected to progressively increase from 4.1% in FY2022 to 5.1% in in FY2025.

AX Real Estate p.l.c. Projected Dividends for the year ended 31 October	**2019 Actual €'000**	**2020 Actual €'000**	**2021 Forecast €'000**	**2022 Projection €'000**	**2023 Projection €'000**	**2024 Projection €'000**	**2025 Projection €'000**
Profit for the year	14	158	409	2,251	5,628	9,595	10,144
Proposed dividends	-	-	-	6,936	7,075	7,955	8,625
Dividend payout as a % of annual profits	-	-	-	308%	126%	83%	85%
Dividend attributable to general public	n/a	n/a	n/a	816	832	936	1,014
Net dividend yield (based on IPO price) *(dividend/EUR 20,000,000)*	**n/a**	**n/a**	**n/a**	**4.1%**	**4.2%**	**4.7%**	**5.1%**

AX Real Estate p.l.c. Statement of Financial Position as at 31 October	2019 Actual €'000	2020 Actual €'000	2021 Forecast €'000	2022 Projection €'000	2023 Projection €'000	2024 Projection €'000	2025 Projection €'000
ASSETS							
Non-current assets							
Investment property	5,216	6,349	232,977	256,994	281,860	284,107	286,082
Other assets	9	-	100	432	384	336	288
	5,225	6,349	233,077	257,426	282,244	284,443	286,370
Current assets							
Inventories	-	-	1,193	897	720	543	543
Trade and other receivables	19	115	3,122	2,797	3,851	4,918	5,178
Cash at bank and in hand	-	-	15,457	26,169	1,314	1,520	1,808
	19	115	19,772	29,863	5,885	6,981	7,529
Total assets	5,244	6,464	252,849	287,289	288,129	291,424	293,899
EQUITY							
Ordinary A shares	1	1	12,509	16,676	16,676	16,676	16,676
Ordinary B shares	-	-	18,764	18,764	18,764	18,764	18,764
Capital contribution	-	3,500	-	-	-	-	-
Revaluation reserve	-	-	39,226	39,226	39,226	39,226	39,226
Share premium	-	-	31,236	45,470	45,470	45,470	45,470
Other reserves	-	-	331	331	331	331	331
Retained earnings	14	172	28,325	23,640	22,193	23,674	25,196
	15	3,673	130,391	144,107	142,660	144,141	145,663
LIABILITIES							
Non-current liabilities							
Bonds	-	-	-	40,000	40,000	40,000	40,000
Bank borrowings	-	-	23,693	7,270	5,802	4,289	3,541
Amounts due to AX Group companies	5,157	-	73,526	67,237	69,668	71,610	73,552
Trade & other payables	-	-	-	3,468	3,537	4,057	4,311
Deferred tax liabilities	-	-	20,597	20,597	20,597	20,597	20,597
	5,157	-	117,816	138,572	139,604	140,553	142,001
Current liabilities							
Borrowings	-	-	2,588	1,423	1,467	1,514	748
Trade & other payables	72	2,791	2,054	3,187	4,398	5,216	5,487
	72	2,791	4,642	4,610	5,865	6,730	6,235
Total liabilities	5,229	2,791	122,458	143,182	145,469	147,283	148,236
Total equity and liabilities	5,244	6,464	252,849	287,289	288,129	291,424	293,899

Key Accounting Ratios	FY2019 Actual	FY2020 Actual	FY2021 Forecast	FY2022 Projection	FY2023 Projection	FY2024 Projection	FY2025 Projection
Gearing ratio *(Net debt/net debt and shareholders' equity)*	100%	0%	39%	38%	45%	45%	44%
Gearing ratio 2 (times) *(Net debt/shareholders' equity)*	343.80	-	0.65	0.62	0.81	0.80	0.80
Net debt to EBITDA (years) *(Net debt/EBITDA)*	286.50	-	125.33	11.28	9.43	7.02	6.72
Net assets per share (€) *(Net asset value/number of shares)*	12.50	3,060.83	0.52	0.51	0.50	0.51	0.51
Liquidity ratio (times) *(Current assets/current liabilities)*	0.26	0.04	4.26	6.48	1.00	1.04	1.21

Source: MZ Investment Services Ltd

Total assets are projected at €252.8 million as at 31 October 2021 and principally include the investment property portfolio (carried at €233.0 million) and cash balances (€15.5 million). Total assets are projected to increase in the reviewed period to €293.9 million as at 31 October 2025. The principal movement reflects the deployment of the cash raised through the combined offer in the development of the Seashells Resort at Suncrest and the new Grand Verdala Hotel. The projections exclude any potential adjustments to the carrying amount of the investment property that may arise from the annual valuations of the portfolio.

The AX Real Estate Group's total liabilities are projected at €122.5 million as at 31 October 2021 which principally includes amounts due to the AX Group (€73.5 million), bank borrowings (€26.3 million) and deferred tax liabilities arising in connection with the revaluation of investment properties (€20.6 million). Total liabilities are projected to increase in the period to €148.2 million as at 31 October 2025 (+€25.7 million) primarily on account of the net increase in borrowings (being the addition of €40 million of bonds less repayment of borrowings).

The AX Real Estate Group's total equity is projected at €130.4 million as at 31 October 2021, including retained earnings of €28.3 million. In FY2022, it is assumed that total equity will increase by €13.7 million pursuant to the issue of €20 million of ordinary 'A' shares less distribution of dividends. The projections assume that the majority of profits generated in the period will be distributed as dividends and therefore the book value of the Group's equity is expected to increase marginally thereafter and reach €145.7 million as at 31 October 2025.

The gearing ratio is projected at 38% in FY2022 and stabilise thereafter at *circa* 45%. The Board's view is that this level of gearing provides sufficient headroom for the Group to cover existing financing obligations, and to support any further borrowing capacity if needed to take advantage of growth opportunities in the future.

AX Real Estate p.l.c. Cash Flow Statement for the year ended 31 October	**2019 Actual €'000**	**2020 Actual €'000**	**2021 Forecast €'000**	**2022 Projection €'000**	**2023 Projection €'000**	**2024 Projection €'000**	**2025 Projection €'000**
Net cash from operating activities	67	-	(1,476)	4,154	6,009	9,572	10,204
Net cash from investing activities	-	-	(2,112)	(24,017)	(24,866)	(2,247)	(1,976)
Net cash from financing activities	(67)	-	17,711	30,575	(5,998)	(7,119)	(7,940)
Net movement in cash and cash equivalents	**-**	**-**	**14,123**	**10,712**	**(24,855)**	**206**	**288**
Cash and cash equivalents at beginning of year	-	-	1,334	15,457	26,169	1,314	1,520
Cash and cash equivalents at end of year	**-**	**-**	**15,457**	**26,169**	**1,314**	**1,520**	**1,808**
Free cash flow[1]	**67**	**-**	**(3,588)**	**(19,863)**	**(18,857)**	**7,325**	**8,228**

[1] *Free cash flow is arrived at by deducting capital expenditure from cash generated from operating activities.*

The cash flows for the projected period indicate that the net proceeds from the combined offer (€58.7 million) are expected to be deployed to finance the capital expenditure relating to the Seashells Resort at Suncrest and the new Grand Verdala Hotel (*circa* €50 million), and to repay €8.7 million of existing intra-group loans. The afore-mentioned projects will therefore be substantially funded through these proceeds with a minimal reliance on the AX Real Estate Group's projected cash generation. During the period FY2022 to FY2025, net cash used in financing activities comprise dividends paid to shareholders, interest payable and net repayment of borrowings.

Net cash flows from operating activities principally relate to the operations of the AX Real Estate Group, which are analysed in further detail in sections 5 and 6 of this report. Cash generated from the Group's operations is projected to increase from €4.2 million in FY2022 to €10.2 million in FY2025, which is reflective of the projected increase in profitability in this period.

Debt Securities issued by the AX Group

Below is a list of outstanding debt securities as at the date of this report.

Security ISIN	Amount Listed	Security Name	Currency
MT0000081233	40,000,000	6% AX Investments p.l.c. 2024	EUR
MT0002361203	15,000,000	3.25% AX Group plc 2026	EUR
MT0002361211	10,000,000	3.75% AX Group plc 2029	EUR

Source: Malta Stock Exchange

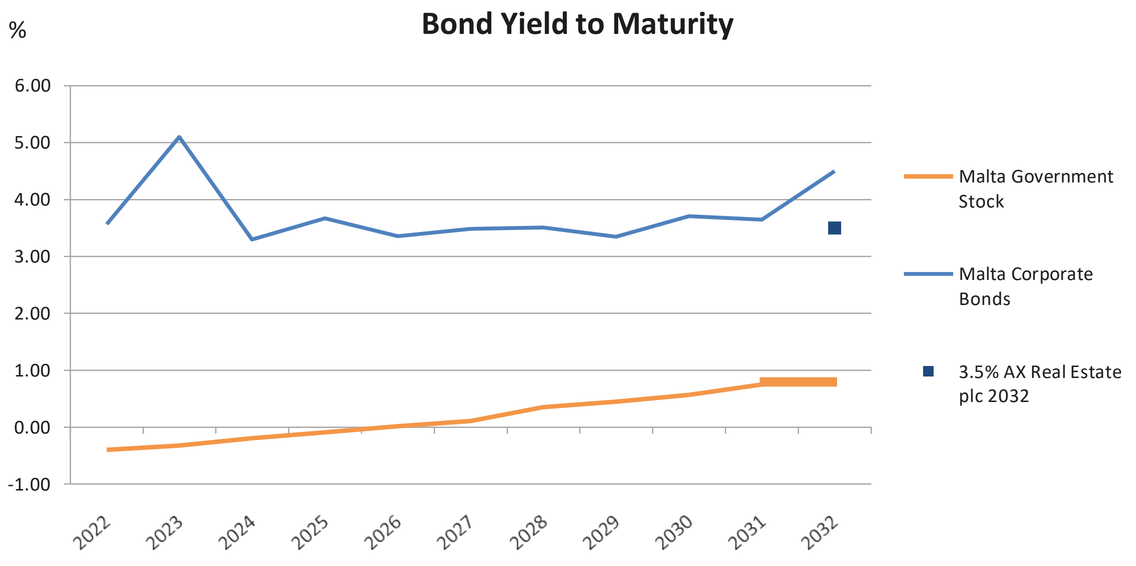
PART 3 – COMPARABLES

The table below compares the Company and its proposed bonds to other debt issuers listed on the Malta Stock Exchange and their respective debt securities. The list includes issuers (excluding financial institutions) that have listed bonds. 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** (%)
5.80% International Hotel Investments plc 2021	20,000,000	5.52	- 0.61	1,544,099	773,176	41.87
3.65% GAP Group plc Secured € 2022	29,218,400	3.57	2.24	103,895	15,134	73.44
6.00% Pendergardens Developments plc Secured € 2022 Series	21,518,400	3.18	1.79	60,578	29,491	36.39
4.25% GAP Group plc Secured € 2023	19,247,300	3.70	2.24	103,895	15,134	73.44
5.30% United Finance Plc Unsecured € Bonds 2023	8,500,000	5.10	0.67	37,298	6,677	75.91
5.80% International Hotel Investments plc 2023	10,000,000	5.00	- 0.61	1,544,099	773,176	41.87
6.00% AX Investments Plc € 2024	40,000,000	4.16	0.76	348,657	217,449	25.57
6.00% International Hotel Investments plc € 2024	35,000,000	5.54	- 0.61	1,544,099	773,176	41.87
5.30% Mariner Finance plc Unsecured € 2024	35,000,000	3.30	3.66	100,350	50,297	48.12
5.00% Hal Mann Vella Group plc Secured € 2024	30,000,000	3.57	2.04	122,396	47,319	52.86
5.10% 1923 Investments plc Unsecured € 2024	36,000,000	4.30	3.09	135,492	45,574	27.66
4.25% Best Deal Properties Holding plc Secured € 2024	14,341,100	2.88	-	27,453	4,128	81.72
3.7% GAP Group plc Secured € 2023-2025 Series 1	21,000,000	3.04	2.24	103,895	15,134	73.44
5.75% International Hotel Investments plc Unsecured € 2025	45,000,000	4.64	- 0.61	1,544,099	773,176	41.87
5.10% 6PM Holdings plc Unsecured € 2025	13,000,000	4.21	7.33	160,836	54,602	29.84
4.50% Hili Properties plc Unsecured € 2025	37,000,000	3.67	1.46	149,639	62,675	54.94
4.35% Hudson Malta plc Unsecured € 2026	12,000,000	3.36	3.16	43,383	5,522	81.61
4.25% Corinthia Finance plc Unsecured € 2026	40,000,000	3.63	- 0.51	1,717,057	828,470	42.64
4.00% International Hotel Investments plc Secured € 2026	55,000,000	3.30	- 0.61	1,544,099	773,176	41.87
3.75% Premier Capital plc Unsecured € 2026	65,000,000	3.10	7.39	278,759	53,003	75.22
4.00% International Hotel Investments plc Unsecured € 2026	60,000,000	3.67	- 0.61	1,544,099	773,176	41.87
3.25% AX Group plc Unsec Bds 2026 Series I	15,000,000	2.77	0.76	348,657	217,449	25.57
4.35% SD Finance plc Unsecured € 2027	65,000,000	3.93	0.88	328,464	131,504	30.32
4.00% Eden Finance plc Unsecured € 2027	40,000,000	3.49	- 0.50	190,466	108,369	31.32
4.00% Stivala Group Finance plc Secured € 2027	45,000,000	3.34	2.30	354,069	231,437	26.54
3.85% Hili Finance Company plc Unsecured € 2028	40,000,000	3.51	3.44	624,222	106,811	78.42
3.65% Stivala Group Finance plc Secured € 2029	15,000,000	3.35	2.30	354,069	231,437	26.54
3.80% Hili Finance Company plc Unsecured € 2029	80,000,000	3.80	3.44	624,222	106,811	78.42
3.75% AX Group plc Unsec Bds 2029 Series II	10,000,000	3.32	0.76	348,657	217,449	25.57
3.50% AX Real Estate plc Unsec Bds 2032	**40,000,000**	**3.50**	**1.83**	**287,289**	**144,107**	**38.38**

01-Nov-21

Source: Malta Stock Exchange, Audited Accounts of Listed Companies, MZ Investment Services Ltd



Source: Malta Stock Exchange, Central Bank of Malta, MZ Investment Services Ltd 1 November 2021

To date, there are no corporate bonds which have a redemption date beyond 2032. The Malta Government Stock yield curve has also been included since it is the benchmark risk-free rate for Malta.

The bonds will have a yield of 3.50%, which is *circa* 100 basis points below other corporate bonds maturing in the same year. The premium over FY2032 Malta Government Stock is 266 basis points.

PART 4 – EXPLANATORY DEFINITIONS

Income Statement	
Revenue	Total revenue generated by the Group from its business activities during the financial year, including rent receivable and related services.
Net operating expenses	Net operating expenses include the direct expenses and administrative costs.
Operating profit	Operating profit can be used to analyse and compare profitability between companies and industries because it eliminates the effects of financing and accounting decisions.
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.
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.
Free cash flow	Free cash flow is arrived at by deducting capital expenditure from cash generated from operating activities.
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. Such assets principally comprise investment properties.
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, 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.
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. Alternatively, the gearing ratio can be calculated by dividing a company's net debt by shareholders' equity.