AX REAL ESTATE

COMPANY ANNOUNCEMENT

Quote

The Company hereby announces that during the meeting of its Board of Directors held on the 4th April 2022, the Board of Directors resolved to approve the Audited Financial Statements for the year ended 31st October 2021.

A copy of the said Annual Report and Audited Financial Statements can also be found at: https://axrealestate.mt/investor-information/

Unquote

Dr. David Wain
Company Secretary

4th April, 2022

Company Announcement
AXRE 04/2022

AX Real Estate p.l.c.
Registered Office :
AX Group, AX Business Centre, Triq Id-Difiza Civili
Mosta , MST 1741, Malta

Company Reg. No: C 92104
Vat Reg. No: 2635-6057

Tel: (+356) 2331 2345
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AX GROUP

Registration number C 92104

AX REAL ESTATE P.L.C.

(formerly AX REAL ESTATE LIMITED)

Annual Report and Consolidated and Separate Financial Statements
For the year-ended 31 October 2021

Contents

Directors, Officers and Other Information

Registration:	AX Real Estate p.l.c. (formerly AX Real Estate Limited) was registered in Malta as a Liability Company under the Companies Act, Cap. 386 of the Laws of Malta on 6 June 2019, with the registration number C 92104.
Directors:	Mr Angelo Xuereb Ms Denise Micallef Xuereb Mr Michael Warrington (appointed 23rd November 2021) Dr Christian Farrugia (appointed 23rd November 2021) Mr Joseph Lupi (appointed 23rd November 2021) Mr Christopher Paris (appointed 23rd November 2021) Mr Stephen Paris (appointed 23rd November 2021)
Secretary:	Dr David Wain
Registered office:	AX Group AX Business Centre Triq id-Difiza Civili Mosta, MST 1741 Malta
Country of incorporation:	Malta
Company registration number:	C 92104
Auditors:	Ernst & Young Malta Limited Regional Business Centre Achille Ferris Centre Msida, MSD 1751 Malta
Principal bankers:	Bank of Valletta p.l.c. Labour Avenue Naxxar Malta
Legal adviser:	Dr David Wain AX Group AX Business Centre Triq id-Difiza Civili Mosta, MST 1741 Malta

Directors' Report

The Directors present their annual report and the audited financial statements of AX Real Estate p.l.c. (formerly AX Real Estate Limited) ("the Company") and its subsidiaries ("the Group" or "the Estates Group") for the year-ended 31 October 2021.

Principal activities

The Company acts as the holding company of the Estates Group within the AX Group p.l.c. group of companies ("the AX Group"). The Estates Group is involved in the letting of a diverse portfolio of real estate to subsidiary companies of AX Group p.l.c. and third parties.

Performance review

Company
The profit for the year amounted to EUR20,011,987 (2020: EUR157,797).

During the year under review, the AX Group went through a reorganisation exercise, with the ultimate aim of consolidating the main property letting activities of the AX Group into one newly formed division under AX Real Estate p.l.c. (formerly AX Real Estate Limited) and thus forming the Estates Group.

During 2021, the Board resolved to approve the change in status of the Company from a Private Limited Liability Company to a Public Limited Liability Company. As a result, the Company's name was changed from AX Real Estate Limited to AX Real Estate p.l.c. with effect from 23rd November 2021.

The Company received dividends of EUR17 million (2020: nil) from its subsidiaries. The Company recognised an increase in the fair value of its investment property, the warehouses at Hardrocks Business Park and the Falcon House offices of EUR3,824,451 (2020: nil). The Company's profit before tax amounted to EUR20,974,082 (2020: EUR226,025).

Group

The Group was formed in October 2021 following the reorganisation mentioned above. As a result, the performance of the Group represents the results of the Company for the year and that of the subsidiaries as from the acquisition dates of when the Company acquired control of the subsidiaries (Note 4). On completion of the reorganisation, the Group entered into long-term lease agreements of 20 years with the respective operating companies of the AX Group responsible for the operation of the relevant properties.

Group revenue stood at EUR796,597, which represents rental income from the lease of the Group's investment properties. The Group recognised a decrease in the fair value of its investment properties of EUR23,720,268. This arose following new lease agreements entered into by the Group since the property values are being established through the discounting of rental income over the specific projected period and a discounted terminal value. Such decrease in the fair value that is arising from the restrictions imposed by the lease agreements with related parties within the AX Group is then fully reversed in the AX Group consolidated financial statements. The Group's loss before taxation for the period amounted to EUR23,073,286. As at year-end, the Group's equity stood at EUR78,698,042.

Financial key performance Indicators

	Group	Company	
	Year ended 2021 EUR	**Year ended 2021 EUR**	**Year ended 2020 EUR**
Revenue	796,597	17,281,793	243,673
Operating (loss)/profit	(23,010,641)	20,974,082	226,025
(Loss)/profit after tax	(21,158,728)	20,011,987	157,797
Total equity and liabilities	238,228,197	139,547,748	6,464,551

Directors’ Report – continued

Going concern

Having made an appropriate assessment of going concern as discussed in Note 2.1 to these financial statements, the Directors, at the time of approving these financial statements, have determined that there is reasonable expectation that the Group has adequate resources to continue operating for the foreseeable future. For this reason, these financial statements have been prepared on a going concern basis which assumes that the Group will continue in operational existence for the foreseeable future and will meet its financial obligations as and when they fall due.

Principal risks and uncertainties

The Company is exposed to risks inherent to its operation and can be summarized as follows:

1. Strategy risk

Risk management falls under the responsibility of the Board of Directors. The Board is continuously analysing its risk management strategy to ensure that risk is adequately identified and managed. The newly formed Audit Committee will regularly review the risk profile adopted by the Board of Directors.

2. Operational risks

The Company’s revenue is mainly derived from rental income charged to related parties and hence the Company is heavily dependent on the performance of the AX Group. The Company regularly reviews the financial performance of the AX Group of companies to ensure that there is sufficient liquidity to sustain its operations.

3. Legislative risks

The Company is governed by a number of laws and regulations. Failure to comply could have financial and reputational implications and could materially affect the Company’s ability to operate. The Company has embedded operating policies and procedures to ensure compliance with existing legislation.

Financial risk management and exposures

Note 31 to the financial statements provides a detailed analysis of the financial risk to which the Company is exposed.

Dividends and reserves

The Directors do not recommend payment of a final dividend.

Directors' Report – continued

Events after the reporting period

On 11 November 2021, the authorised share capital of the Company was re-classified from EUR500,000,000 divided into 2,000,000,000 ordinary shares of a nominal value of EUR0.25 each to EUR500,000,000 divided into 2,000,000,000 ordinary 'A' shares of a nominal value of EUR0.125 each, and 2,000,000,000 ordinary 'B' shares of a nominal value of EUR0.125 each. Ordinary 'A' shares and Ordinary 'B' shares shall entitle the holders thereof to the same rights, benefits and powers in the Company, except that Ordinary 'B' shares shall not entitle their holders to vote on any matter at any general meeting of the Company save in the following instances: in respect of a resolution which has the effect of reducing the capital of the Company; in respect of a resolution for the winding up the Company; and in respect of resolution which has the effect of directly affecting the rights and privileges of Ordinary 'B' shareholders. On the same day, the issued share capital of the Company was re-classified from EUR50,000 divided into 200,000 ordinary shares of a nominal value of EUR0.25 each to EUR50,000 divided into 400,000 ordinary 'A' shares of a nominal value of EUR0.125 each.

On 23 November 2021, the issued share capital of the Company was increased by EUR12,450,000 though a bonus issue of 99,600,000 ordinary 'A' shares of a nominal value of EUR0.125 each in favour of the-then Existing Shareholders, by virtue of the capitalisation of retained earnings. On 30 November 2021, the Company issued 150,000,000 ordinary 'B' shares of a nominal value of EUR0.125 each in favour of AX Group p.l.c. by virtue of the capitalisation of a loan due to AX Group p.l.c. amounting to EUR50,000,000 at EUR0.3334 each, split as to EUR0.125 per share in nominal value and EUR0.2084 per share in share premium.

At year-end, one of the Company's subsidiaries, Holiday Resorts Limited (C 5733), was in the process of merging with Suncrest Hotels p.l.c., another subsidiary of the Company. The merger became effective on the 10 December 2021, on which date Holiday Resorts Limited was struck off from the Malta Business Registry. The Draft Terms of Merger stipulated that the transactions of the company being acquired are accounted for in the annual accounts of the acquirer as from the 1 November 2021, this being in line to the provisions of article 358 of the Companies Act, Chapter 386 of the Laws of Malta. Holiday Resorts Limited's rights, obligations, assets and liabilities have been amalgamated with those of Suncrest Hotels p.l.c. as from this date.

In January 2022, the Company obtained a sanction letter from a local financial institution for a Loan Facility amounting to EUR15,000,000 which has been provided to enable the Group to further support its initial costs related to the extension of the Suncrest Hotel in Qawra and for the redevelopment of the Verdala Hotel site in Rabat. The Loan Facility bears interest of 3.75% p.a. and the outstanding loan amount is repayable in full within 2 years from the date of the first drawdown.

In February 2022, AX Group p.l.c. managed to successfully list AX Real Estate p.l.c. (formerly AX Real Estate Limited) on the Malta Stock Exchange, with 25% of the ordinary A shares being taken up by the general public. Through this transaction, the Company raised EUR13,648,644. In conjunction with the share issue, the Company also issued EUR40 million unsecured bonds redeemable in 2032. The general public subscribed to EUR18,354,600 bonds whilst the remaining EUR21,645,400 bonds were allocated to AX Group p.l.c. through the part conversion of the existing intra-group loan with the Company.

In February 2022, following the military conflict between Russia and Ukraine, the European Union and other countries announced several packages of restrictive measures against Russia, as well as personal sanctions against a number of high-ranking individuals. Due to the growing geopolitical tensions, since February 2022, there has been a significant increase in volatility on the securities and currency markets, as well as a significant depreciation of the Ruble against the US dollar and the Euro. It is expected that these events may significantly affect the activities of Russian and Ukrainian enterprises in various sectors of the economy. The Group and the Company do not have direct exposures to related parties and/or key customers or suppliers from those countries.

The Group and the Company regard these events as non-adjusting events after the reporting period, the quantitative effect of which cannot be estimated at the moment with a sufficient degree of confidence. Currently, the Group and the Company's management are analysing the possible direct and indirect impact of changing micro and macroeconomic conditions on the financial position and results of operations.

Directors' Report – continued

Directors

In accordance with the Company's Articles of Association, the present Directors remain in office.

Statement of responsibility pursuant to the Capital Markets Rules of the Malta Financial Services Authority

The Directors confirm that, to the best of their knowledge:

The financial statements give a true and fair view of the financial position of the Group and the Company as at 31 October 2021, and of the financial performance and the cash flows for the year then ended in accordance with the requirements of the International Financial Reporting Standards (IFRSs) as adopted by the EU and the requirements of the Companies Act, Cap. 386 of the Laws of Malta; and

In accordance with the Capital Markets Rules, the Directors' Report includes a fair review of the development and performance of the business and the position of the Group and the Company, together with a description of the principal risks and uncertainties that the Group and the Company face.

Auditors

Ernst & Young Malta have expressed their willingness to continue in office and a resolution for their re-appointment will be proposed at the Annual General Meeting.

Approved by the Board of Directors and signed on its behalf on 4 April 2022 by:

MR ANGELO XUEREB
Chairman

MS DENISE MICALLEF XUEREB
Chief Executive Officer

Statement of Directors' Responsibilities

The Directors are required by the Companies Act (Chap. 386) to prepare financial statements in accordance with International Financial Reporting Standards as adopted by the EU which give a true and fair view of the state of affairs of the Company at the end of each financial year and of the profit or loss of the Company for the year then ended. In preparing the financial statements, the Directors should:

- adopt the going concern basis unless it is inappropriate to presume that the Company will continue in business;
- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- account for income and charges relating to the accounting period on the accruals basis;
- value separately the components of asset and liability items; and
- report comparative figures corresponding to those of the preceding accounting period

The Directors are responsible for ensuring that proper accounting records are kept which disclose with reasonable accuracy at any time the financial position of the Company and which enable the Directors to ensure that the financial statements comply with the Companies Act (Chap. 386). This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error. The Directors are also responsible for safeguarding the assets of the Company, and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Corporate Governance – Statement of Compliance

Pursuant to Capital Markets Rule 5.97 issued by the Malta Financial Services Authority, AX Real Estate p.l.c. (formerly AX Real Estate Limited) (the Company) is hereby reporting on the extent of its adoption of "the Code of Principles of Good Corporate Governance" (the Code) previously established by the Malta Stock Exchange. The Board has reviewed its Corporate Governance practices and an explanation of how the Principles of Good Governance have been applied is contained in this report.

The Company acts as the holding company of the Estates Group within the AX Group of Companies. The Company holds a number of warehouses and office buildings which it rents out. Its primary function is the funding of the Group as and when the demands of its business so requires, and accordingly is economically dependent on the subsidiaries.

Compliance

Although the adoption of the Code is not mandatory, the Board has considered the principles embodied in the Code and has noted the Code's recommended practices aimed towards the fulfilment of these same principles. The Board has also taken into account the nature of the Company's structure, business activities and operations and in the light of such considerations it has formulated the view that the Company was generally in compliance with the Code throughout the period.

The Board

The Board of Directors of AX Real Estate p.l.c. (formerly AX Real Estate Limited) (the Board) is currently made up of seven Directors, four of whom are completely independent from the Company or any related Group Company. Pursuant to generally accepted practices, as well as the Company's Articles of Association, the appointment of Directors to the Board is reserved exclusively to the Company's shareholders.

The present Directors are Mr Angelo Xuereb, Ms Denise Micallef Xuereb, Mr Michael Warrington, Dr Christian Farrugia, Mr Joseph Lupi, Mr Christopher Paris and Mr Stephen Paris. Messrs Farrugia, Lupi and J. Paris are independent Directors in that they have no involvement or relationship with the Company or with the majority shareholder.

Mr Angelo Xuereb has been appointed as Chairman of the Board and Ms Denise Micallef Xuereb as the Chief Executive Officer of the Company.

The Board acknowledges its statutory mandate to conduct the administration and management of the Company. The Board's functions are governed by Chapter 5 of the Capital Markets Rules and the Code of Corporate Governance for Listed entities.

The Board is also responsible for ensuring that the Company installs and operates effective internal control and management information systems and that it communicates effectively with the market.

The Board as it is now was only formed after year end and as a result, did not meet during the year under review. The Board has a formal schedule of matters reserved to it for decision. Directors receive board and committee papers 10 days in advance of meetings and have access to the advice and services of the Company Secretary. Directors may, in the furtherance of their duties, take independent professional advice on any matter at the Company's expense.

The Company, due to its continuous oversight and communication with its shareholders, has not established a committee chaired by a non-executive Director in order to carry out a performance evaluation of its role.

Corporate Governance – Statement of Compliance – continued

Audit Committee

The Committee is chaired by Mr Stephen Paris, and its other members are Dr Christian Farrugia and Mr Christopher Paris. All three Directors forming the audit committee are non-executive Directors and are totally independent from the Company or the AX Group of Companies. Mr Stephen Paris is considered by the Board to be competent in accounting and, or auditing in terms of the Capital Markets Rules.

The Company Secretary acts as secretary to the committee which also receives the assistance of the Group Chief Executive Officer; Ms Denise Micallef Xuereb, and the Chief Financial Officer; Mr Joseph Borg.

The Audit Committee was formed after year end and as a result, did not meet during the year under review.

Remuneration and Nomination Committee

The Remuneration and Nomination Committee (the “RemNom Committee”) is composed of Dr Christian Farrugia (Chairperson), Mr Michael Warrington and Mr Joseph Lupi, all of which are independent non-executive Directors.

In its function as remuneration committee, the RemNom Committee is charged with the oversight of the remuneration policies implemented by the Group with respect to its senior management.

In its function as nominations committee, the RemNom Committee is charged with enhancing the quality of nominees to the Board and ensuring the integrity of the nominating process, and with proposing the remuneration package of Directors and senior executives of the Company and its subsidiaries.

The RemNom Committee was formed after year end and as a result, did not meet during the year under review.

Dealings by Directors and Senior Officers

Conscious of its responsibility for monitoring dealings by Directors and senior officers in the Company’s securities, the Board approved a Code of Conduct for Securities Transactions by Directors, Executives and Employees in compliance with Capital Markets Rules 5.102 to 5.116. The code provides guidance to the Company’s officers and serves as a minimum standard of good practice when dealing in the Company’s securities.

During the year under review, there were no transactions in the Company’s securities involving Directors or any of the Company’s employees in possession of unpublished price-sensitive information.

Corporate Governance – Statement of Compliance – continued

Internal Control

The Board is ultimately responsible for the Company's system of internal control and for reviewing its effectiveness. However, such a system is designed to manage rather than eliminate the risk of failure to achieve objectives, and can provide only reasonable, and not absolute, assurance against material misstatement or loss.

A policy is in place, laying down the minimum required reports that should be made available to the Board in order to keep it informed in a structured and systematic manner on the operational and financial performance of the Company.

Institutional Shareholders

The Company is privately held and has no institutional shareholders.

Risk Identification

Management is responsible for the identification and evaluation of key risks applicable to their areas of business. Risks may be associated with a variety of internal or external sources including control breakdowns, disruption in information systems, competition, natural catastrophe and regulatory requirements.

The Board is responsible to review its risk management policies and strategies and oversee their implementation to ensure that identified operational risks are properly assessed and managed.

Remuneration Statement

The aggregate emoluments of all Directors in any one financial year, and any increases thereto, shall be such amount as may from time to time be determined by the Company in a general meeting, and any notice convening the General Meeting during which an increase in the maximum limit of such aggregate emoluments shall be proposed, shall contain a reference to such fact. Furthermore, the remuneration of the directors is a fixed amount per annum and does not include any variable component relating to profit sharing, share options or pension benefits. No Directors' remuneration was issued during the financial year under review.

Mr Angelo Xuereb indirectly, through AX Group p.l.c., holds a controlling interest in the Company. Mr Michael Warrington holds the position of Group Chief Executive Officer with the majority shareholder AX Group p.l.c., whereas Ms Denise Micallef Xuereb holds directorship positions within other entities in the AX Group.

Commitment to Maintain an Informed Market

The Company recognises the importance of maintaining a dialogue with its stakeholders to ensure that its strategies and performance are understood. The Company communicates with bondholders by way of the Annual Report and Financial Statements and by publishing its results on a six-monthly basis during the year, and through company announcements to the market in general.

The Board has also implemented an Investor Relations Program, which aims at giving Bondholders and Equity holders rewards to be used within the AX Group to foster loyalty. This program, which is managed by AX Group p.l.c. executives, includes the issue of the AX Real Estate Gold and Platinum Cards and the periodic dissemination of the AX Investments Newsletter.

Corporate Governance – Statement of Compliance – continued

Corporate social responsibility

The Company is conscious of its responsibility towards the society in which it operates. It promotes environmentally friendly measures such as the reduction in the Company's carbon footprint as well as encourages its employees to lead a healthy and active lifestyle.

Furthermore, the AX Foundation, which is the charitable arm of the Group, is devoted to supporting people living with invisible disabilities, with its primary focus being on the autism spectrum. AX Foundation was originally founded in 2006 to provide support to people who are going through social, mental or physical difficulties. Along the years AX Foundation has supported numerous other NGOs.

Approved by the Board of Directors on 4 April 2022 and signed on its behalf by:

MR ANGELO XUEREB	**MS DENISE MICALLEF XUEREB**
Chairman	Chief Executive Officer

Building a better
working world

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INDEPENDENT AUDITOR'S REPORT

to the Shareholders of AX Real Estate p.l.c. (formerly AX Real Estate Limited)

Report on the audit of the financial statements

Opinion

We have audited the separate and consolidated financial statements of AX Real Estate p.l.c. (formerly AX Real Estate Limited) (the "Company") and its subsidiaries (the "Group"), set on pages 19 to 57, which comprise the separate and consolidated statements of financial position as at 31 October 2021, and the separate and consolidated statements of comprehensive income, the separate and consolidated statements of changes in equity and the separate and consolidated statements of cash flows for the year then ended, and notes to the separate and consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying separate and consolidated financial statements give a true and fair view of the financial position of the Company and the Group as at 31 October 2021, and of their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU ("IFRS") and the Companies Act, Cap. 386 of the Laws of Malta (the "Companies Act").

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the Companies Act. Our responsibilities under those standards and under the Companies Act are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company and the Group in accordance with the *International Code of Ethics for Professional Accountants (including International Independence Standards) as issued by the International Ethics Standards Board of Accountants (IESBA Code)* together with the ethical requirements that are relevant to our audit of the financial statements in accordance with the *Accountancy Profession (Code of Ethics for Warrant Holders) Directive issued in terms of the Accountancy Profession Act, Cap. 281 of the Laws of Malta*, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

INDEPENDENT AUDITOR'S REPORT

to the Shareholders of AX Real Estate p.l.c. (formerly AX Real Estate Limited) - continued

Report on the audit of the financial statements - continued

Key audit matters incorporating the most significant risks of material misstatements, including assessed risk of material misstatements due to fraud

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Fair valuation of the Group's investment property

The Group holds investment property, which is being further described in Notes 5.15, 6 and 16 to the accompanying financial statements, accounting for 97.6% of its total assets as at 31 October 2021. Investment properties are stated at fair value, which reflects market conditions at the reporting date.

The Group uses the services of professional qualified and independent valuers or surveyors to revalue the investment properties on the basis of assessments of the fair value of the property in accordance with international valuation standards and professional practice. The valuations are arrived at by a combination of the income capitalization approach and the market approach as applicable. In the years where a valuation is not obtained, management verifies all major inputs to the independent valuation report, assesses any property valuation movements when compared to the previous valuation report and holds discussions with the independent valuer, as necessary.

The valuation of property at fair value is highly dependent on estimates and assumptions such as the capitalisation rate, rental income and respective growth rate under the income capitalisation approach; and the market prices for comparable advertised properties under the market approach.

Therefore, due to the significance of the balances and the estimation uncertainty involved in the fair valuation of properties, we have considered the fair valuation of investment property as a key audit matter.

INDEPENDENT AUDITOR'S REPORT

to the Shareholders of AX Real Estate p.l.c. (formerly AX Real Estate Limited) - continued

Report on the audit of the financial statements - continued

Key audit matters incorporating the most significant risks of material misstatements, including assessed risk of material misstatements due to fraud - continued

Fair valuation of the Group's investment property - continued

Our audit procedures over the fair valuation of investment property included amongst others:

- evaluating the design and implementation of key controls over the Group's property valuation process by inquiring with the valuation process owners;
- performing tests relating to the valuation of the Group's property, focusing on management reviews over the property valuations by inspecting management analysis and minutes of meetings of the board and audit committee where such valuation was discussed;
- obtaining an understanding of the scope of work of the professional valuers by reviewing the available valuation reports and considered the independence and expertise thereof;
- including a valuation specialist on our team to assist us in assessing the appropriateness of the valuation approaches applied, as well as evaluating the reasonability and validity of key assumptions and estimates used in the valuations by comparing to independent sources and relevant market data and conditions; and
- performing procedures over the accuracy and completeness of the inputs used in the valuations in the light of our understanding of the business and industry developments, historical data and other available information focusing on updates made to respond to the continued impact and uncertainties around COVID-19 ongoing developments and expected recovery period.

We also assessed the relevance and adequacy of disclosures relating to the Group's fair valuation of investment property presented in Notes 5.15, 6 and 16 to the accompanying financial statements.

Report on the audit of the financial statements - continued

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon other than our reporting on other legal and regulatory requirements.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors and those charged with governance for the financial statements

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with IFRS and the requirements of the Companies Act and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company and the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's and the Company's financial reporting process.

INDEPENDENT AUDITOR'S REPORT

to the Shareholders of AX Real Estate p.l.c. (formerly AX Real Estate Limited) - continued

Report on the audit of the financial statements - continued

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's and the Group's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;
- conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's and the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

INDEPENDENT AUDITOR'S REPORT

to the Shareholders of AX Real Estate p.l.c. (formerly AX Real Estate Limited) - continued

Report on the audit of the financial statements - continued

Auditor's responsibilities for the audit of the financial statements - continued

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

INDEPENDENT AUDITOR'S REPORT

to the Shareholders of AX Real Estate p.l.c. (formerly AX Real Estate Limited) - continued

Report on other legal and regulatory requirements

Matters on which we are required to report by the Companies Act

Directors' report
We are required to express an opinion as to whether the directors' report has been prepared in accordance with the applicable legal requirements. In our opinion the directors' report has been prepared in accordance with the Companies Act.

In addition, in the light of the knowledge and understanding of the Company and the Group and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the Directors' report. We have nothing to report in this regard.

Other requirements
We also have responsibilities under the Companies Act to report to you if in our opinion:
- proper accounting records have not been kept;
- proper returns adequate for our audit have not been received from branches not visited by us;
- the financial statements are not in agreement with the accounting records and returns;
- we have not received all the information and explanations we require for our audit.

We have nothing to report to you in respect of these responsibilities.

Appointment
We were appointed as the statutory auditor of the Company on 28 October 2020. The total uninterrupted engagement period as statutory auditor, including previous renewals and reappointments amounts to 2 years.

Consistency with the additional report to the audit committee
Our audit opinion on the financial statements expressed herein is consistent with the additional report to the audit committee of the Company and the Group, which was issued on the same date as this report.

Non-audit services
No prohibited non-audit services referred to in Article 18A(1) of the Accountancy Profession Act, Cap. 281 of the Laws of Malta were provided by us to the Company and the Group and we remain independent of the Company and the Group as described in the Basis for opinion section of our report.

No other services besides statutory audit services and services disclosed in the annual report and in the financial statements, were provided by us to the Company and the Group and its controlled undertakings.

INDEPENDENT AUDITOR'S REPORT
to the Shareholders of AX Real Estate p.l.c. (formerly AX Real Estate Limited) - continued

Report on other legal and regulatory requirements - continued

Matters on which we are required to report by the Capital Markets Rules

Corporate governance statement
The Capital Markets Rules issued by the Malta Financial Services Authority require the directors to prepare and include in their annual report a statement of compliance providing an explanation of the extent to which they have adopted the Code of Principles of Good Corporate Governance and the effective measures that they have taken to ensure compliance throughout the accounting period with those Principles.

The Capital Markets Rules also require the auditor to include a report on the statement of compliance prepared by the directors. We are also required to express an opinion as to whether, in the light of the knowledge and understanding of the Company and the Group and its environment obtained in the course of the audit, we have identified material misstatements with respect to the information referred to in Capital Markets Rules 5.97.4 and 5.97.5.

We read the statement of compliance and consider the implication for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements included in the annual report. Our responsibilities do not extend to considering whether this statement is consistent with the other information included in the annual report.

We are not required to, and we do not, consider whether the Board's statements on internal control included in the statement of compliance cover all risks and controls, or form an opinion on the effectiveness of the Company's governance procedures or its risk and control procedures.

In our opinion:
- the corporate governance statement set out on pages 7 to 10 has been properly prepared in accordance with the requirements of the Capital Markets Rules issued by the Malta Financial Services Authority
- in the light of the knowledge and understanding of the Company and the Group and their environment obtained in the course of the audit, the information referred to in Capital Markets Rules 5.97.4 and 5.97.5 are free from material misstatement

Under the Capital Markets Rules we also have the responsibility to:
- review the statement made by the Directors, set out on page 3, that the business is a going concern, together with supporting assumptions or qualifications as necessary.

We have nothing to report to you in respect of these responsibilities.

The partner in charge of the audit resulting in this independent auditor's report is Christopher Balzan for and on behalf of

Ernst & Young Malta Limited
Certified Public Accountants

4 April 2022

Statements of Profit or Loss and Other Comprehensive Income
for the year ended 31 October 2021

	Notes	Group Year ended 2021 EUR	Company Year ended 2021 EUR	Company Year ended 2020 EUR
Revenue	**7**	**796,597**	**17,281,793**	243,673
Other operating income	**8**	**1,192**	**-**	-
Other operating costs	**9**	**(73,785)**	**(117,785)**	(17,648)
Staff costs	**10**	**(14,377)**	**(14,377)**	-
(Loss)/gain on revaluation of investment property	**16**	**(23,720,268)**	**3,824,451**	-
Operating (loss)/profit		**(23,010,641)**	**20,974,082**	226,025
Finance costs	**11**	**(62,645)**	**-**	-
(Loss)/profit before taxation		**(23,073,286)**	**20,974,082**	226,025
Income taxation	**13**	**1,914,558**	**(962,095)**	(68,228)
(Loss)/profit for the year		**(21,158,728)**	**20,011,987**	157,797
Basic loss per share	**14**	**(366.99)**		
Other comprehensive income		**-**	**-**	-
Total comprehensive (loss)/gain		**(21,158,728)**	**20,011,987**	157,797

The notes on pages 24 to 57 form an integral part of these financial statements.

Statements of Financial Position
as at 31 October 2021

	Notes	Group 2021 EUR	Company 2021 EUR	Company 2020 EUR
ASSETS AND LIABILITIES				
Non-current assets				
Intangible assets	15	2,660	2,660	-
Investment property	16	232,547,548	11,270,000	6,349,418
Investments in subsidiaries	18	-	93,630,280	-
Loans receivable	18	-	34,225,199	-
		232,550,208	139,128,139	6,349,418
Current assets				
Inventories	19	910,857	-	-
Trade and other receivables	20	3,603,501	400,079	115,133
Current tax assets		162,824	-	-
Cash at bank and in hand	21	1,000,807	19,530	-
		5,677,989	419,609	115,133
Total assets		238,228,197	139,547,748	6,464,551
Current liabilities				
Trade and other payables	22	1,495,934	294,249	17,887
Bank borrowings	23	2,751,193	-	-
Other financial liabilities	24	5,338,760	12,360,094	2,773,531
Current tax liabilities		-	3,635	-
		9,585,887	12,657,978	2,791,418
Non-current liabilities				
Trade and other payables	22	625,111	-	-
Bank borrowings	23	8,461,779	-	-
Other financial liabilities	24	120,821,015	105,773,516	-
Deferred tax liabilities	25	20,036,363	882,334	-
		149,944,268	106,655,850	-
Total liabilities		159,530,155	119,313,828	2,791,418
Net assets		78,698,042	20,233,920	3,673,133
EQUITY				
Capital and reserves				
Share capital	26	50,000	50,000	1,200
Revaluation reserve	26	38,502,470	2,922,851	-
Other reserves	26	330,752	-	-
Capital contribution	26	-	-	3,500,000
Retained earnings	26	39,814,820	17,261,069	171,933
Total equity		78,698,042	20,233,920	3,673,133

The notes on pages 24 to 57 form an integral part of these financial statements.

The financial statements on pages 19 to 57 were approved by the Directors on 4 April 2022 and were signed on its behalf by:

MR ANGELO XUEREB
Chairman

MS DENISE MICALLEF XUEREB
Chief Executive Officer

Statements of Changes in Equity
for the year ended 31 October 2021

GROUP

	Share capital EUR	Revaluation reserve EUR	Other reserves EUR	Capital contribution EUR	Retained earnings EUR	Total EUR
Upon formation of Group	**1,200**	**-**	**-**	**3,500,000**	**171,933**	**3,673,133**
Acquisition of subsidiaries	-	59,941,720	330,752	-	39,362,365	99,634,837
Loss for the year	-	-	-	-	(21,158,728)	(21,158,728)
Other comprehensive income	-	-	-	-	-	-
Total comprehensive loss for the year	-	-	-	-	(21,158,728)	(21,158,728)
Issue of share capital	48,800	-	-	-	-	48,800
Reversal of capital contribution	-	-	-	(3,500,000)	-	(3,500,000)
Fair value movement of investment property, net of tax	-	(21,439,250)	-	-	21,439,250	-
At 31 October 2021	**50,000**	**38,502,470**	**330,752**	**-**	**39,814,820**	**78,698,042**

Statements of Changes in Equity – continued
for the year ended 31 October 2021

COMPANY	Share capital EUR	Revaluation reserve EUR	Capital contribution EUR	Retained earnings EUR	Total EUR
At 31 October 2019	**1,200**	**-**	**-**	**14,136**	**15,336**
Profit for the year	-	-	-	157,797	157,797
Total comprehensive income for the year	-	-	-	157,797	157,797
Capital contribution	-	-	3,500,000	-	3,500,000
At 31 October 2020	**1,200**	**-**	**3,500,000**	**171,933**	**3,673,133**
Profit for the year	-	-	-	20,011,987	20,011,987
Other comprehensive income	-	-	-	-	-
Total comprehensive income for the year	-	-	-	20,011,987	20,011,987
Issue of share capital	48,800	-	-	-	48,800
Reversal of capital contribution	-	-	(3,500,000)	-	(3,500,000)
Fair value movement of investment property, net of tax	-	2,922,851	-	(2,922,851)	-
At 31 October 2021	**50,000**	**2,922,851**	**-**	**17,261,069**	**20,233,920**

The notes on pages 24 to 57 form an integral part of these financial statements.

Statements of Cash Flows
for the year ended 31 October 2021

		Group	Company	
		Year ended	**Year ended**	Year ended
		2021	**2021**	2020
	Notes	**EUR**	**EUR**	EUR
Cash flows from operating activities				
(Loss)/profit before taxation		**(23,073,286)**	**20,974,082**	226,025
Adjustments for:				
Movement in fair value of investment property	16	**23,720,268**	**(3,824,451)**	-
Dividend income		**-**	**(17,000,000)**	-
Expected credit losses		**(870)**	**55,046**	-
Interest expense		**62,645**	**-**	-
Operating profit before working capital changes		**708,757**	**204,677**	226,025
Movement in trade and other receivables		**(309,229)**	**(69,021)**	(86,986)
Movement in trade and other payables		**(193,024)**	**70,901**	(139,039)
Cash flows from operating activities		**206,504**	**206,557**	-
Cash flows from investing activities				
Purchase of intangible asset	15	**(2,660)**	**(2,660)**	-
Payments for additions to investment property	16	**(233,167)**	**(233,167)**	-
Net cash flows used in investing activities		**(235,827)**	**(235,827)**	-
Cash flows from financing activities				
Movement on other loans		**53**	**-**	-
Issue of share capital		**48,800**	**48,800**	-
Net cash flows from financing activities		**48,853**	**48,800**	-
Net movement in cash and cash equivalents		**19,530**	**19,530**	-
Cash and cash equivalents at beginning of year		**-**	**-**	-
Upon formation of Group		**981,277**	**-**	-
Cash and cash equivalents at end of year	21	**1,000,807**	**19,530**	-

The Company engaged in the following significant non-cash investing and financing activities during the year:

Non-cash investing activities			
Dividend received from subsidiary	**-**	**17,000,000**	-
Investment in subsidiaries	**-**	**93,630,280**	-
Non-cash financing activities			
Reversal of capital contribution	**(3,500,000)**	**(3,500,000)**	-

The notes on pages 24 to 57 form an integral part of these financial statements

Notes to the Financial Statements

1. GENERAL INFORMATION

AX Real Estate p.l.c. (formerly AX Real Estate Limited) (C 92104) is a limited liability company incorporated in Malta. The Company acts as the holding company of the Estates Group within the AX Group. The Group is involved in the letting of a diverse portfolio of real estate to subsidiary companies of AX Group p.l.c. and third parties. The Company's registered office is at AX Group, AX Business Centre, Triq id-Difiza Civili, Mosta, MST 1741, Malta.

During 2021, the Board resolved to approve the change in status of the Company from a Private Limited Liability Company to a Public Limited Liability Company. As a result, the Company's name was changed from AX Real Estate Limited to AX Real Estate p.l.c. with effect from 23rd November 2021.

2. BASIS OF PREPARATION

The financial statements have been prepared in accordance with the requirements of the International Financial Reporting Standards (IFRSs) as adopted by the EU and the requirements of the Companies Act, Cap. 386 of the Laws of Malta.

The financial statements have been prepared on a historical cost basis, except for investment property which is stated at fair value.

The preparation of financial statements in conformity with IFRSs as adopted by the EU requires the use of certain accounting estimates. It also requires the Directors to exercise their judgement in the process of applying the Company's accounting policies. Significant accounting policies are disclosed in Note 5 and accounting estimates are disclosed in Note 6.

These financial statements are presented in Euro (EUR) which is the Company's functional currency. The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

2.1 Going concern

During the year ended 31 October 2021, the Company recorded a profit before tax of EUR 20,974,082 (2020: EUR 226,025) including dividends of EUR17 million (2020: nil) from its subsidiaries. As at reporting date, the Company's current liabilities exceeded its current assets by EUR 12,238,369 (2020: EUR 2,676,285). Current liabilities include an amount due to the Company's subsidiaries of EUR11 million.

During the year ended 31 October 2021, the Group recorded a loss before tax of EUR 23,073,286. This includes a decrease in fair value of investment property of EUR 23,720,268 which is unrealised. As at reporting date, the Group's current liabilities exceeded its current assets by EUR 3,907,898.

As at 31 October 2021, the Estates Group's gearing ratio stood at 63.8%. However, following the increase in share capital as well as the equity and bond issue after year end as described in Note 33, the gearing ratio falls to 34.5%.

The Group is involved in the letting of a diverse portfolio of real estate to subsidiary companies of AX Group p.l.c. and third parties. The majority of the current operative commercial leases are those entered into between the Group and operating and trading companies within the AX Group. Consequently the risks inherent to AX Group's operations will affect the ability of those companies to operate efficiently, which in turn could have an effect on their ability to pay the rent due and, or may result in lower variable rental income in the case of lease agreements featuring a combination of fixed and variable rent components.

Management of AX Group p.l.c. has prepared an eighteen-month forecast for the Group in order to assess the impact of the current situation on the businesses, as described under *AX Group p.l.c.'s business update*, and has concluded that as a result of the strength of the Group's financial position and the measures being taken by to address and mitigate the impact of the COVID–19 pandemic, the Group will be able to sustain its operations over the foreseeable future in a manner that is cash flow positive.

AX Group p.l.c., as the ultimate parent undertaking, is committed to continue providing support, financially or otherwise, to AX Real Estate p.l.c. (formerly AX Real Estate Limited), so as to enable it to meet its liabilities as and when they fall due. This includes support to remedy any possible cash shortfall, as may be required in order to allow it to continue to operate in the ordinary course of business and as a going concern.

Notes to the Financial Statements – continued

2. BASIS OF PREPARATION - continued

2.1 Going concern - continued

Furthermore, the Company's current liabilities consist mostly of amounts owed to a subsidiary, which has confirmed that the repayment thereof shall not be requested until the Company is in a financial and liquidity position to be able to do so.

Accordingly, based on information available at the time of approving these financial statements, the Directors have reasonable expectation that the Group and the Company will meet all their obligations as and when they fall due over the foreseeable future and therefore, that the going concern basis adopted for the preparation of these financial statements is appropriate.

AX Group p.l.c.'s business update

2021 was another year characterised by various disruptions brought about by the COVID-19 pandemic. The AX Group's main operating divisions have on various levels continued to suffer from the effect of the COVID-19 pandemic. The AX Group is a diversified group of companies with its main activities in the Care, Construction, Development and Hospitality sectors. This diversification is a key strength of the Group since if a particular market suffers a setback, the other business sectors may help compensate for that loss. This was in fact the case in 2020 and 2021.

Notwithstanding the negative impact, the Hospitality sector remains the largest business sector within the AX Group. The closure of restaurants and non-essential shops imposed by the local authorities on the 5 March 2021 continued to negatively impact the performance of the Group's hospitality division. In May 2021, following the rapid vaccination programme, the local health authorities announced that Malta had achieved herd immunity which in turn led to the gradual easing of a number of restrictions. Throughout the summer months, the hotels experienced a steady but gradual increase in both turnover and profitability when compared to 2020. This trajectory continued throughout all of 2021 although in December 2021, the performance was dampened by the surge in cases following the new Omicron variant.

During the year, the development division completed the mixed-use development at Targa Gap in Mosta. The residential apartments at Targa Gap have almost all been sold or rented out. Part of the offices at ground floor level were rented out with the remaining office space contracted with third parties for a 10-year lease. In addition, in 2021, the Group obtained a full development permit for the redevelopment of the Verdala site in Rabat, and another full development permit for the extension of the Suncrest Hotel in Qawra. Construction works on both projects started during the financial year under review.

Liquidity

The AX Group took various steps to retain a high level of liquidity in line with Group policy. As at reporting date, the AX Group had aggregate banking facilities of EUR 27,412,974 (2020: EUR 29,079,844) of which EUR 6,011,835 (2020: EUR 15,880,407) were undrawn banking facilities. During the financial year, the AX Group has availed itself of various bank loan repayment moratoriums with its bankers.

Despite the increase in gearing, the AX Group still retains a low gearing ratio of 31% as at reporting date. This places the AX Group in a good position should it need to raise further funding through bank loans or the issue of debt securities. In addition, should it be necessary, the AX Group has identified certain non-operating immovable property that can be disposed of in order to ensure sufficient liquidity within the AX Group.

Cash flow forecast

Management has prepared an eighteen-month forecast for the AX Group in order to assess the impact of the current situation on the businesses. The assumptions modelled are based on the estimated potential impact of COVID-19 restrictions and regulations, encompassing a gradual recovery following the vaccine booster roll-out and expected easing of restrictions by the local authorities. The base case scenario contemplates the benefits of actions already taken by management to mitigate the trading downsides brought by COVID-19, and cash inflows from the disposal of an investment property. Management is in advanced discussions with an interested third-party buyer and expects the asset to be realised through sale within the forecast period. The forecast includes the curtailment of capital expenditure within the hospitality and care divisions whereby only essential capital expenditure is planned.

Notes to the Financial Statements – continued

2. BASIS OF PREPARATION - continued

2.1 Going concern - continued

Cash flow forecast - continued

In addition to the Suncrest and Verdala projects which will be financed through the raising of funds by AX Real Estate p.l.c. (formerly AX Real Estate Limited), the AX Group plans to continue with the development of a limited number of projects that are key to its long-term strategy.

Management has also considered a stress tested scenario, in which the economy recovers at a slower pace than forecasted in the base case, with current restrictions remaining in place for a longer period. Under all scenarios tested, the AX Group is expected to continue to have sufficient liquidity relative to the funding available to it. Management also notes that several of the AX Group's properties are unencumbered and could potentially be used as a guarantee in obtaining additional financing from banks should the need arises.

The AX Group has also identified a contingency plan should the expected economic recovery prolong or take a downturn. The AX Group has earmarked other immovable property that can be disposed of, as well as the postponement of renovation works related to an immovable property that the AX Group is expected to acquire in 2022.

3. TRANSACTION BETWEEN ENTITIES UNDER COMMON CONTROL

During the year under review, the AX Group went through a reorganisation exercise, with the ultimate aim of consolidating the main property letting activities of the AX Group into one newly formed division under AX Real Estate p.l.c. (formerly AX Real Estate Limited). The shares in a number of subsidiaries of AX Group p.l.c. were sold to AX Real Estate p.l.c. (formerly AX Real Estate Limited) to form this new subgroup. This transaction is deemed to meet the definition of a transaction between entities under common control per IFRS3 - this is defined as a transaction in which all of the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory.

Management has elected to account for the transaction between entities under common control by recognizing the assets and liabilities of the companies being acquired at their carrying amount and that the consolidated income statement reflects the results of the combining parties. This method is referred to as the "pooling of interests method", whereby the logic of pooling is that there is no change in control. Accordingly, the pooling of interest method of accounting has been used in these consolidated financial statements.

In applying the pooling of interest method, the Company has elected not to restate comparatives for periods prior to the transaction, such that the transaction under common control is accounted for from the date of transaction, being the acquisition dates of when the Company acquired control of the subsidiaries and accordingly the consolidated financial statements of the Group were not restated for periods prior to the combination under common control occurring.

If the Group had existed from the start of the year, the revenue would have been EUR 8,466,208 and the total loss for the year would have amounted to EUR 30,663,121, following a loss on disposal of sale of land incurred by a subsidiary prior to the reorganisation.

4. BASIS OF CONSOLIDATION

Subsidiaries are those companies in which the Group, directly or indirectly, has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights.

The consolidated financial statements comprise the financial statements of AX Real Estate p.l.c. (formerly AX Real Estate Limited) ("the Company") and its subsidiaries ("the Group") as at 31 October 2021. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Notes to the Financial Statements – continued

4. BASIS OF CONSOLIDATION – continued

Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement(s) with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of OCI are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

These consolidated financial statements comprise the Company and its subsidiaries, namely:

	Date of acquisition	**Group % of equity and voting rights held**	
		2021	2020
Central Leisure Developments Limited	12 October 2021	100	-
Heritage Developments Limited	12 October 2021	100	-
Holiday Resorts Limited	15 October 2021	100	-
Palazzo Merkanti Leisure Limited	26 October 2021	100	-
Royal Hotels Limited	29 October 2021	100	-
Simblija Developments Limited	15 October 2021	100	-
Skyline Developments Limited	12 October 2021	100	-
St. John's Boutique Hotel Limited	26 October 2021	100	-
Suncrest Hotels p.l.c.	15 October 2021	100	-

The registered address of all subsidiaries is AX Group, AX Business Centre, Triq id-Difiza Civili, Mosta MST 1741, Malta.

The financial statements of the subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Notes to the Financial Statements – continued

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied in the financial statements presented, unless otherwise stated.

5.1 Standards, interpretations and amendments to published standards endorsed by the European Union effective in the current year

The accounting policies adopted are consistent with those of the previous financial year, except for the following amendments to IFRS effective during the year:

- Amendments to IFRS 16 Leases: Covid-19 – Related Rent Concessions beyond 30 June 2021 (issued on 31 March 2021)
- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS4 and IFRS 16 Interest Rate Benchmark Reform – Phase 2 (issued on 27 August 2020)
- Amendments to IFRS 4 Insurance Contracts – deferral of IFRS 9 (issued on 25 June 2020)

These amendments and interpretations do not have an impact on the financial statements of the Group. The Group has not early adopted any standard, interpretations or amendments that have been issued but are not yet effective.

5.2 Standards, interpretations and amendments to published standards as adopted by the EU which are not yet effective

Up to date of approval of these financial statements, certain new standards, amendments and interpretations to existing standards have been published but which are not yet effective for the current reporting year and which the Group has not early adopted but plans to adopt upon their effective date. The new and amended standards follow:

- IFRS 17 Insurance Contracts (issued on 18 May 2017); including Amendments to IFRS 17 (issued on 25 June 2020) (effective for financial year beginning on or after 1 January 2023)
- Amendments to IFRS 3 Business Combinations; IAS 16 Property, Plant and Equipment; IAS 37 Provisions, Contingent Liabilities and Contingent Assets; and Annual Improvements 2018-2020 (All issued 14 May 2020) (effective for financial year beginning on or after 1 January 2022)

The changes resulting from these standards, interpretations and amendments are not expected to have a material effect on the financial statements of the Group.

5.3 Standards, interpretations and amendments that are not yet endorsed by the European Union

These are as follows:

- Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current and Classification of Liabilities as Current or Non-current - Deferral of Effective Date (issued on 23 January 2020 and 15 July 2020 respectively)
- Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies (issued on 12 February 2021)
- Amendments to IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates (issued on 12 February 2021)
- Amendments to IAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction (issued on 7 May 2021)
- Amendments to IFRS 17 Insurance contracts: Initial Application of IFRS 17 and IFRS 9 – Comparative Information (issued on 9 December 2021)

The Group is still assessing the impact that these new standards will have on the financial statements.

Notes to the Financial Statements – continued

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

5.4 Revenue

The Group recognises revenue from the following major sources:

i. Rental income
ii. Sale of inventory property – completed property and property under development
iii. Dividend income

i. Rental income

The Group earns revenue from acting as a lessor in operating leases which do not transfer substantially all of the risks and rewards incidental to ownership of an investment property. Rental income arising from operating leases on investment property is accounted for on a straight-line basis over the lease term and is included in revenue in the statement of profit or loss due to its operating nature, except for contingent rental income which is recognised when it arises. Rental income includes a variable component that is recognised as it accrues. Initial direct costs incurred in negotiating and arranging an operating lease are recognised as an expense over the lease term on the same basis as the lease income.

ii. Sale of inventory property – completed property and property under development

The sale of completed property constitutes a single performance obligation and the Group has determined that this is satisfied at the point in time when control transfers. For unconditional exchange of contracts, this generally occurs when legal title transfers to the customer. For conditional exchanges, this generally occurs when all significant conditions are satisfied. Payments are received when legal title transfers.

iii. Dividend income

Dividends are recognised as revenue in the statement of profit or loss when the right of payment has been established.

5.5 Employee benefits

The Group contributes towards the state pension in accordance with local legislation. The only obligation of the Group is to make the required contributions. Costs are expensed in the period in which they are incurred.

5.6 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised from the time that expenditure for these assets and borrowing costs are being incurred and activities that are necessary to prepare these assets for their intended use or sale are in progress. Borrowing costs are capitalised until such time as the assets are substantially ready for their intended use or sale. Other borrowing costs are recognised as an expense in the profit and loss in the period in which they are incurred.

5.7 Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Company and Group as lessor

Leases in which the Company and the Group do not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss and other comprehensive income due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income.

Notes to the Financial Statements – continued

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

5.8 Government Grants

Government grants are recognised where there is reasonable assurance that the grant will be received, and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate are expensed. When the grant relates to an asset, it is recognised as income in equal amounts over the expected useful life of the related asset.

5.9 Taxation

i. Current income tax

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted at the reporting date in the country where the Group operates and generates taxable income.

Current income tax is charged or credited to profit or loss. Current income tax relating to items realised directly in equity is realised in equity and not in the statement of profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

The charge for current tax is based on the taxable result for the period. The taxable result for the period differs from the result as reported in profit or loss because it excludes items which are non-assessable or disallowed and it further excludes items that are taxable or deductible in other periods.

ii. Deferred income tax

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit.

Deferred tax is measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted by the reporting date.

Deferred tax liabilities are realised for all taxable temporary differences and deferred tax assets are realised to the extent that it is probable that taxable profits will be available against which the deductible temporary differences can be realised.

Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and liabilities are offset when the Group has a legally enforceable right to settle its current tax assets and liabilities on a net basis.

Notes to the Financial Statements – continued

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

5.10 Fair value measurement

The Group measures non-financial assets such as investment properties at fair value at each balance sheet date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1: Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2: Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

5.11 Investment in subsidiaries

Subsidiaries are all entities over which the investor has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Company

Investments in subsidiaries are initially recognised at cost, being the fair value of the consideration given, including acquisition charges associated with the investment. Subsequent to initial recognition, the investments are measured at cost less any accumulated impairment losses.

Notes to the Financial Statements – continued

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

5.12 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

i. Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

i. Financial assets at amortised cost (debt instruments)
ii. Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
iii. Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
iv. Financial assets at fair value through profit or loss

Financial assets at amortised cost (debt instruments)

Financial assets at amortised cost (debt instruments) are the most relevant to the Group. The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest rate (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Group's debt instruments at amortised cost includes loans and receivables, trade and other receivables and cash and cash equivalents.

Notes to the Financial Statements – continued

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

5.12 Financial instruments – continued

i. Financial assets – continued

Subsequent measurement – continued

Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)

The Group measures debt instruments at fair value through OCI if both of the following conditions are met:

- The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For debt instruments at fair value through OCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in OCI. Upon derecognition, the cumulative fair value change recognised in OCI is recycled to profit or loss.

The Group holds no financial assets in this category.

Financial assets at fair value through OCI (equity instruments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under IAS 32 Financial Instruments: Presentation and are not held for trading. The classification is determined on an instrument by instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

Financial assets at fair value through profit or loss

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI are measured at fair value through profit or loss (FVTPL). Specifically:

- Investments in equity instruments are classified as at FVTPL. However, a company may designate an equity investment that is neither held for trading nor a contingent consideration arising from a business combination as at FVTOCI on initial recognition.
- Debt instruments that do not meet the amortised cost criteria or the FVTOCI criteria are classified as at FVTPL.

In addition, debt instruments that meet either the amortised cost criteria or the FVTOCI criteria may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

Financial assets measured at FVTPL are subsequently measured at fair value at the end of each reporting period, with any fair value gains or losses including foreign exchange gains and losses, recognised in profit or loss.

Where applicable, dividend income is recognised with other dividend income, if any, arising on other financial assets within the line item ‘Investment income’. Where applicable, interest income is disclosed within the line item ‘Investment income’. Fair value gains and losses are recognised within the line items ‘Investment income’ and ‘Investment losses’ respectively.

The Group holds no financial assets in this category.

Notes to the Financial Statements – continued

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

5.12 Financial instruments – continued

i. Financial assets – continued

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised when:

- The rights to receive cash flows from the asset have expired, or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of its continuing involvement.

ii. Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include loans and borrowings and trade and other payables.

Subsequent measurement

For purposes of subsequent measurement, financial liabilities are classified in two categories:

- Financial liabilities at fair value through profit or loss
- Financial liabilities at amortised cost (loans and borrowings)

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognised in the statement of profit or loss. Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied. The Group has not designated any financial liability as at fair value through profit or loss.

Notes to the Financial Statements – continued

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

5.12 Financial instruments – continued

ii. Financial Liabilities – continued

Subsequent measurement – continued

Financial liabilities at amortised cost (loans and borrowings)

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

iii. Impairment of financial assets

The Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, there is objective evidence of impairment as a result of one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

General approach

Under the general approach, the Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL). The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition rather than on evidence of a financial asset being credit-impaired at the reporting date or an actual default occurring.

Lifetime ECL represents the ECLs that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

Notes to the Financial Statements – continued

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

5.12 Financial instruments – continued

iii. Impairment of financial assets – continued

General approach – continued

The 12-month ECL is calculated by multiplying the 12-month Probability of Default (PD), Loss Given Default (LGD), and Exposure at Default (EAD). Lifetime ECL is calculated on a similar basis for the residual life of the exposure.

The Group considers a financial asset to be in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

For financial assets for which the Group has no reasonable expectations of recovering either the entire outstanding amount, or a proportion thereof, the gross carrying amount of the financial asset is impaired.

Simplified approach

For trade receivables and contract assets, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

iv. Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

5.13 Impairment of non-financial assets

All other assets are tested for impairment in terms of this accounting policy except for financial assets measured at fair value through profit or loss, inventories, deferred tax assets, and investment property measured at fair value.

At the end of each reporting period, the carrying amount of assets, including cash-generating units, is reviewed to determine whether there is any indication or objective evidence of impairment, as appropriate, and if any such indication or objective evidence exists, the recoverable amount of the asset is estimated.

An impairment loss is the amount by which the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the higher of fair value (which is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date) less costs of disposal and value in use (which is the present value of the future cash flows expected to be derived, discounted using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset). Where the recoverable amount is less than the carrying amount, the carrying amount of the asset is reduced to its recoverable amount, as calculated.

Impairment losses are recognised immediately in profit or loss, unless the asset is carried at a revalued amount, in which case, the impairment loss is recognised in other comprehensive income to the extent that the impairment loss does not exceed the amount in the revaluation surplus for that asset.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss has been recognised.

Notes to the Financial Statements – continued

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

5.14 Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the statement of profit or loss in the expense category that is consistent with the function of the intangible assets. The annual rates used., which are consistent with those applied in the previous year, are as follows:

Website	20% per annum

An intangible asset is derecognised upon disposal (i.e., at the date the recipient obtains control) or when no future economic benefits are expected from its use or disposal. Any gain or loss arising upon derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss.

5.15 Investment property

Investment property is property held to earn rentals or for capital appreciation or both. Investment property is recognised as an asset when it is probable that the future economic benefits that are associated with the investment property will flow to the entity and the cost can be measured reliably.

Investment properties are initially measured at cost, including transaction costs. Subsequent to initial recognition, investment property is stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in fair values of investment properties are included in profit and loss in the period in which they arise, including the corresponding tax effect. Fair values are determined by a professionally qualified architect/surveyor on the basis of market values.

Investment properties are derecognised either when they have been disposed of (i.e. at the date the recipient obtains control) or when they are permanently withdrawn from use and no future economic benefit is expected from their disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in profit and loss in the period of derecognition. The amount of consideration to be included in the gain or loss arising from the derecognition of investment property is determined in accordance with the requirements for determining the transaction price in IFRS 15.

Transfers are made to (or from) investment property only when there is a change in use. For transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

Notes to the Financial Statements – continued

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

5.16 Inventories

Property held for development and re-sale is stated at the lower of cost and net realisable value. The cost includes the purchase price of the property and development costs incurred to date. Net realisable value represents the estimated selling price less all estimated costs to completion and costs to be incurred in marketing and selling.

The cost of development and common costs are apportioned on the basis of the costs absorbed during the stage of development and the cost of land is apportioned on the basis of the floor area.

Cost incurred in bringing each property to its present location and condition includes:

- Freehold and leasehold rights for land
- Amounts paid to contractors for development
- Planning and design costs, costs of site preparation, professional fees for legal services, property transfer taxes, development overheads and other related costs

When an inventory property is sold, the carrying amount of the property is recognised as an expense in the period in which the related revenue is recognised. The carrying amount of inventory property recognised in profit or loss is determined with reference to the directly attributable costs incurred on the property sold and an allocation of any other related costs based on the relative size of the property sold.

5.17 Cash and cash equivalents

Cash and cash equivalents are defined as cash in hand, demand deposits and short term, highly liquid investments readily convertible to known amounts of cash and subject to significant risk of changes in value.

For the purpose of the statement of cashflows, cash and cash equivalents consist of cash in hand and deposits at banks, net of outstanding overdrafts.

5.18 Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to issue of ordinary shares are recognised as a deduction from equity.

5.19 Dividends

Dividends to holders of equity instruments are recognised as liabilities in the period in which they are declared. Dividends to holders of equity instruments are debited directly in equity.

5.20 Provisions

Provisions are recognised when the Group and the Company have a present obligation as a result of a past event, and a reliable estimate can be made of the amount of the obligation. Provisions are measured at management's best estimate of the expenditure required to settle the present obligation at the financial reporting date and are discounted to present value when the effect is material. Provisions are reviewed each financial reporting date and adjusted to reflect the current best estimate.

5.21 Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Notes to the Financial Statements – continued

6. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

In preparing the financial statements, the Directors are required to make judgements, estimates and assumptions that affect reported income, expenses, assets, liabilities and disclosure of contingent assets and liabilities. Use of available information and application of judgment are inherent in the formation of estimates. Actual results in the future could differ from such estimates and the differences may be material to the financial statements. These estimates are reviewed on a regular basis and, if a change is needed, it is accounted for in the year the changes become known.

Except for the below, in the opinion of the Directors, the accounting estimates, assumptions and judgements made in the course of preparing these financial statements are not difficult, subjective or complex to a degree which would warrant their description as significant in terms of the requirements of IAS 1 (revised) - 'Presentation of financial statements'.

Estimates

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year, are described below.

Fair value of investment property

The Group uses the services of professional valuers to revalue investment property. The professional valuers take into account market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The highest and best use of a non-financial asset takes into account the use of the asset that is physically possible, legally permissible and financially feasible, as follows:

- A use that is physically possible, takes into account the physical characteristics of the asset that market participants would take into account when pricing the asset (e.g. the location or size of a property).
- A use that is legally permissible takes into account any legal restrictions on the use of the asset that market participants would take into account when pricing the asset (e.g. the zoning regulations applicable to a property).
- A use that is financially feasible takes into account whether a use of the asset that is physically possible and legally permissible generates adequate income or cash flows (taking into account the costs of converting the asset to that use) to produce an investment return that market participants would require from an investment in that asset put to that use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. As described in Note 16, the Group uses valuation techniques that include inputs that are not always based on observable market data in order to estimate the fair value of land and building and investment property. Note 16 provides detailed information regarding these valuation methods and the key assumptions used in performing such valuations.

Recoverability of loans receivable

The entity determines the expected credit loss allowance on the subsidiary undertaking loans based on a probability of default and a loss given default as described further in Note 5.12 to these financial statements. The Directors have assessed the recoverability of loans receivable by reference to the financial position and performance of the related party borrowers for the reporting period, as well as the cash flow projections of AX Group p.l.c. ("the Group") of which the Company is a subsidiary. As described further in Note 2.1 to these financial statements, management of the AX Group has prepared an eighteen-month forecast for the AX Group in order to assess the impact of the current situation on the businesses. The assumptions modelled are based on the estimated potential impact of COVID-19 restrictions and regulations, encompassing a gradual recovery following the vaccine booster roll-out and expected easing of restrictions by the local authorities. The base case scenario contemplates the benefits of actions already taken by management to mitigate the trading downsides brought by COVID-19, and cash inflows from the disposal of an investment property. Management has also considered a stress tested scenario and identified a contingency plan should the expected economic recovery prolong or take a downturn.

Notes to the Financial Statements – continued

7. REVENUE

Revenue by category of activity:

	Group	Company	
	Year ended	**Year ended**	Year ended
	2021	**2021**	2020
	EUR	**EUR**	EUR
Rental income	**796,597**	**281,793**	243,673
Dividend income	**-**	**17,000,000**	-
	796,597	**17,281,793**	243,673

8. OTHER OPERATING INCOME

	Group	Company	
	Year ended	**Year ended**	Year ended
	2021	**2021**	2020
	EUR	**EUR**	EUR
Ancillary services	**1,192**	**-**	-

9. OTHER OPERATING COSTS

	Group	Company	
	Year ended	**Year ended**	Year ended
	2021	**2021**	2020
	EUR	**EUR**	EUR
Movement in allowance for expected credit losses	**(870)**	**55,046**	-
Other administrative costs (i)	**74,655**	**62,739**	17,648
	73,785	**117,785**	17,648

(i) The Company has been charged EUR12,000 for audit and EUR300 for non-audit services. The Company's subsidiaries have been charged EUR25,650 for audit and EUR2,700 for non-audit services during the year. The Company and its subsidiaries have been charged EUR1,500 and EUR4,000 for other assurance services respectively.

Notes to the Financial Statements – continued

10. STAFF COSTS

	Group	Company	
	Year ended	**Year ended**	Year ended
	2021	**2021**	2020
	EUR	**EUR**	EUR
Personnel costs			
Wages and salaries	**13,531**	**13,531**	-
Social security costs	**846**	**846**	-
	14,377	**14,377**	-

The number of employees (including the Directors) at the end of the year were:

	Group	Company	
	2021	**2021**	2020
Management and administration	**3**	**3**	-

11. FINANCE COSTS

	Group	Company	
	Year ended	**Year ended**	Year ended
	2021	**2021**	2020
	EUR	**EUR**	EUR
Interest on bank loans and overdrafts	**21,454**	**-**	-
Interest on amounts payable to related parties	**41,191**	**-**	-
	62,645	**-**	-

12. KEY MANAGEMENT PERSONNEL COMPENSATION

	Group	Company	
	Year ended	**Year ended**	Year ended
	2021	**2021**	2020
	EUR	**EUR**	EUR
Key management personnel compensation included under other administrative expenses	**10,000**	**10,000**	-

Notes to the Financial Statements – continued

13. INCOME TAXATION

	Group	Company	
	Year ended	**Year ended**	Year ended
	2021	**2021**	2020
	EUR	**EUR**	EUR
Malta income tax:			
Current			
- for the year	**-**	**-**	1,628
- losses surrendered by parent company	**186,079**	**79,761**	66,600
Deferred tax through profit or loss	**(2,100,637)**	**882,334**	-
	(1,914,558)	**962,095**	68,228

	Group	Company	
	Year ended	**Year ended**	Year ended
	2021	**2021**	2020
	EUR	**EUR**	EUR
(Loss)/profit before taxation	**(23,073,286)**	**20,974,082**	226,025
- Tax thereon at 35%	**(8,075,650)**	**7,340,929**	79,109
Tax effect of:			
Lower rates of tax on investment property	**6,212,319**	**(456,684)**	-
Income not subject to tax	**-**	**(5,950,000)**	-
Other permanent differences	**(51,227)**	**27,850**	(10,881)
Income tax (credit)/expense for the year	**(1,914,558)**	**962,095**	68,228

14. BASIC LOSS PER SHARE

The basic loss per share has been calculated on the Group's loss for the period of EUR21,158,728 divided by the weighted average number of ordinary shares in issue during the period.

	Group 2021
Weighted average number of shares in issue	**57,655**
	EUR
Basic loss per share	**(366.99)**

Notes to the Financial Statements – continued

14. BASIC LOSS PER SHARE – continued

A description of the ordinary share transactions occurring after the balance sheet date, and that would have significantly changed the number of ordinary shares outstanding as at the end of the period if those transactions had occurred before the end of the reporting period, is given in Note 33 to these financial statements.

15. INTANGIBLE ASSETS

Group and Company

	Website
	EUR
Cost	
At 01.11.2020	-
Additions	2,660
At 31.10.2021	**2,660**
Amortisation	
At 01.11.2020	-
Amortisation	-
At 31.10.2021	**-**
Net book value	
At 31.10.2021	**2,660**
Net book value	
At 31.10.2020	-

Acquisition during the year
Additions relate to the development of the Company website. The website was still under development at year end.

Notes to the Financial Statements – continued

16. INVESTMENT PROPERTY

	Group EUR	Company EUR
Fair value		
At 31 October 2019	-	5,216,051
Additions	-	1,133,367
At 31 October 2020	**-**	**6,349,418**
At 31 October 2020	-	6,349,418
Upon formation of Group	6,349,418	-
Upon acquisition of subsidiaries	248,337,100	-
Additions	1,581,298	1,096,131
Revaluation	(23,720,268)	3,824,451
At 31 October 2021	**232,547,548**	**11,270,000**

Valuation process

Investment property is revalued by professionally qualified architects or surveyors on the basis of assessments of the fair value of the property in accordance with the international valuation standards and professional practice.

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

The Group entered into long-term lease agreements of 20 years with the respective operating companies of the AX Group responsible for the operation of the relevant investment properties with effect from dates ranging between 1st July 2021 to 1st January 2022. For all properties, given the contractual obligations under the leases, their current use equates to the highest and best use.

The Group is committed to develop the Suncrest Hotel extension and the opposite lido as well as the Verdala Hotel in Rabat. The Group has no further restrictions on the realisability of its investment properties and no contractual obligations to purchase, construct or develop investment properties or for repairs, maintenance and enhancements.

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

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

Investment Property

Type of Property	Level 3	Total	Date of valuation
Commercial property	224,317,548	224,317,548	31/10/2021
Residential	8,230,000	8,230,000	31/10/2021
Total	**232,547,548**	**232,547,548**	

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

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

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

Notes to the Financial Statements – continued

16. INVESTMENT PROPERTY – continued

Investment Property

Type of Property	Valuation Technique	Inputs	Sensitivity
Residential property amounting to EUR3,840,000	Income capitalisation approach	Capitalisation rate at 8.33% and a yearly rental income of EUR144,000.	The higher the capitalisation rate, the lower the fair value. The higher the rental income and growth rate the higher the fair value
Commercial property amounting to EUR18,995,000	Income capitalisation approach	The inputs used to calculate the total value of the property is an annual return in the range of EUR40 to EUR200 per square meter at a capitalisation rate ranging from 5.75% to 6%.	The higher the capitalisation rate, the lower the fair value. The higher the rental income and growth rate the higher the fair value
Commercial property amounting to EUR4,790,000	Income capitalisation approach	The inputs used to calculate the total value of the property is a capitalisation rate of 5% to 11.83%.	The higher the capitalisation rate, the lower the fair value. The higher the rental income and growth rate the higher the fair value
Commercial property amounting to EUR163,672,642	Income capitalisation approach	The main inputs used are a fixed rental income of EUR9,569,663 per annum, increasing by 2% per annum and a capitalisation rate of 5-6% and a variable rent with a capitalisation rate of 8.33%.	The higher the capitalisation rate, the lower the fair value. The higher the rental income and growth rate the higher the fair value
Commercial property amounting to EUR36,859,906	Income capitalisation approach	The main inputs used are a rental income of EUR1,650,000 per annum, increasing by 2% per annum and a capitalisation rate of 5-6%.	The higher the capitalisation rate, the lower the fair value. The higher the rental income and growth rate the higher the fair value
Residential property amounting to EUR4,390,000	Comparative methods (Market approach)	The valuation of investment property was based on market rates for comparable advertised properties taking into account the size, fit out of the subject units, location of the property and current situation of the residential and commercial property market.	The higher the market rates, the higher the fair value

Notes to the Financial Statements – continued

17. LEASES

Group as a lessor

The operating leases relating to the investment property owned by the Group have terms between 1 and 20 years. The lessee does not have the option to purchase the property at the expiry of the lease period. The income earned under the operating lease amounted to EUR796,597.

At the end of the reporting period, the lessee had outstanding commitments under non-cancellable operating leases, which fall due as follows:

	2021 EUR
Within one year	**7,082,554**
Between two and five years	**50,476,494**
Over five years	**242,403,113**
	299,962,161

Company as a lessor

The operating leases relating to the investment property owned by the Group have terms between 1 and 20 years. The lessee does not have the option to purchase the property at the expiry of the lease period. The income earned under the operating lease amounted to EUR281,793 (2020: EUR243,673).

At the end of the reporting period, the lessee had outstanding commitments under non-cancellable operating leases, which fall due as follows:

	2021 EUR
Within one year	**593,816**
Between two and five years	**1,965,354**
Over five years	**4,186,600**
	6,745,770

Notes to the Financial Statements – continued

18. FINANCIAL ASSETS

Company

	Investment in subsidiaries EUR	Subsidiary undertakings loans EUR
Cost		
At 1 November 2020	-	-
Additions	93,630,280	34,280,245
At 31 October 2021	**93,630,280**	**34,280,245**
Expected credit loss		
At 1 November 2020	-	-
Movement for the year	-	55,046
At 31 October 2021	**-**	**55,046**
Net book value		
At 31 October 2021	**93,630,280**	**34,225,199**
At 31 October 2020	-	-

Investment in subsidiaries

The consolidated financial statements comprise the results and position of the Company and the Group as at 31 October 2021, which is a common year-end of all subsidiaries forming part of the Group. The list of subsidiaries consolidated is disclosed in Note 4. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Details of the reorganisation exercise that the AX Group went through and the business combinations under common control to form the new Estates Group are disclosed in Note 3 to the financial statements.

Subsidiary undertakings loans

The subsidiary undertakings loans are unsecured, carry interest at 3.25% + Euribor (2020: nil) and are repayable on 31 December 2031. The entity determines the expected credit loss allowance on the subsidiary undertakings loans based on a probability of default of 0.16% (2020: nil) and a loss given default of 100% (2020: nil).

Notes to the Financial Statements – continued

19. INVENTORIES

	Group	Company	
	2021	**2021**	2020
	EUR	**EUR**	EUR
Property held for development and re-sale	**910,857**	**-**	-
	910,857	**-**	-

20. TRADE AND OTHER RECEIVABLES

	Group	Company	
	2021	**2021**	2020
	EUR	**EUR**	EUR
Trade receivables (i)	**159,972**	**36,282**	21,613
Amounts owed by other related parties (ii)	**2,789,513**	**123,813**	-
Other receivables	**504,343**	**196,663**	93,520
Prepayments and accrued income	**149,673**	**43,321**	-
	3,603,501	**400,079**	115,133

(i) Trade and other receivables are non-interest bearing and repayable on demand.
(ii) Amounts owed by other related parties are non-interest bearing and have no fixed date of repayment.

21. CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the cash flow statements comprise the following:

	Group	Company	
	2021	**2021**	2020
	EUR	**EUR**	EUR
Cash at bank and in hand	**1,000,807**	**19,530**	-
	1,000,807	**19,530**	-

Notes to the Financial Statements – continued

22. TRADE AND OTHER PAYABLES

	Group	Company	
	2021	**2021**	2020
	EUR	**EUR**	EUR
Trade payables (i)	**528,780**	**72,430**	-
Other payables (ii)	**1,135,549**	**108,882**	4,000
Indirect taxation and social security	**208,384**	**2,180**	-
Accruals and deferred income	**248,332**	**110,757**	13,887
	2,121,045	**294,249**	17,887
Current	**1,495,934**	**294,249**	17,887
Non-current	**625,111**	**-**	-
	2,121,045	**294,249**	17,887

(i) Trade payables are non-interest bearing and repayable within a 60-day term.

(ii) Other payables of the Group include an amount of EUR 998,880 payable to the Planning Authority in relation to permits acquired for the Suncrest Hotel extension and the Verdala Hotel projects as disclosed in Note 16 to these financial statements. This balance is governed by repayment agreements entered into between two subsidiaries with the Planning Authority and is repayable over a number of years.

23. BANK BORROWINGS

	Group	Company	
	2021	**2021**	2020
	EUR	**EUR**	EUR
Bank loans	**11,212,972**	**-**	-
	11,212,972	**-**	-

Notes to the Financial Statements – continued

23. BANK BORROWINGS - continued

Bank loans are repayable as follows:

	Group	Company	
	2021	**2021**	2020
	EUR	**EUR**	EUR
On demand or within one year	**2,751,193**	**-**	-
Between two and five years	**5,508,864**	**-**	-
After five years	**2,952,915**	**-**	-
	11,212,972	**-**	-
Current	**2,751,193**	**-**	-
Non-current	**8,461,779**	**-**	-
	11,212,972	**-**	-

The bank loans are secured by general hypothecs over the group assets, by special hypothecs over various immovable properties, by pledges over various insurance policies, and by personal guarantees of the ultimate controlling party. They bear interest at 3.25% to 5.15% per annum (2020: nil).

Notes to the Financial Statements – continued

24. OTHER FINANCIAL LIABILITIES

	Group	Company	
	2021	**2021**	2020
	EUR	**EUR**	EUR
Amounts owed to parent (i)	**105,773,516**	**105,773,516**	196,798
Amounts owed to subsidiaries (ii)	**-**	**11,238,640**	-
Amounts owed to other related parties (iii)	**20,386,259**	**1,121,454**	2,576,733
Total other financial liabilities	**126,159,775**	**118,133,610**	2,773,531
Current	**5,338,760**	**12,360,094**	2,773,531
Non-current	**120,821,015**	**105,773,516**	-
Total other financial liabilities	**126,159,775**	**118,133,610**	2,773,531

(i) Amounts owed to parent are unsecured, bear interest of 3% plus EURIBOR and are repayable on 31 December 2034.
(ii) Amounts owed to subsidiaries are unsecured, interest free and have no fixed date of repayment.
(iii) Amounts owed to other related parties, except for an aggregate amount of EUR15,047,500 which bears interest of 6.25% and is repayable on 31 December 2034, are unsecured, interest-free and have no fixed date of repayment.

25. DEFERRED TAX LIABILITIES

	Group	Company	
	2021	**2021**	2020
	EUR	**EUR**	EUR
Arising on:			
Provision for doubtful debts	**(27,132)**	**(19,266)**	-
Unabsorbed tax losses and capital allowances	**(1,666,706)**	**-**	-
Revaluation of investment property	**21,730,201**	**901,600**	-
	20,036,363	**882,334**	-

Notes to the Financial Statements – continued

26. CALLED UP ISSUED SHARE CAPITAL

Company and Group

	2021 EUR	2020 EUR
Authorised		
2,000,000,000 ordinary shares of EUR0.25 each (2020: 1,200 ordinary shares of EUR1 each)	**500,000,000**	1,200
Called up issued and fully paid up		
200,000 ordinary shares of EUR0.25 each (2020: 1,200 ordinary shares of EUR1 each)	**50,000**	1,200

Each ordinary share gives the right to one vote, participates equally in profits distributed by the Company and carries equal rights upon the distribution of assets by the Company in the event of a winding up.

Revaluation reserve

The Group and Company's revaluation reserve arises on the gains or losses from the revaluation of investment property, since net gains or losses from fair value adjustments in the Statements of Profit or Loss are reallocated by the Group and the Company away from retained earnings as part of the statements of changes in equity. When the revalued property is sold, the portion of the property revaluation reserve that relates to that asset, and is effectively realised, is transferred directly to retained earnings.

Retained earnings

The reserve represents accumulated retained profits that are available for distribution to the Company's shareholders.

Other reserves

The "Other reserve" represents the excess of the net assets succeeded to by one of the AXRE subsidiaries over the share capital issued upon the amalgamation of a past entity in a transaction dating back to 1989.

Capital contribution

During the year ended 31 October 2020, an amount payable by the Company to its parent AX Group p.l.c. was capitalised into a contribution. During the year ended 31 October 2021, as noted in Note 3 to these financial statements, the AX Group went through a reorganisation exercise. AX Group p.l.c. sold the shares held in the subsidiaries for a consideration net of reversal of past capital contributions.

Dividend paid

No dividend was declared and paid during the year-ended 31 October 2021 (2020: none).

Notes to the Financial Statements – continued

27. CONTINGENT LIABILITIES

At 31 October 2021, the Group had the following contingent liabilities, for which no provision has been made in these financial statements:

- A third party is claiming damages from a subsidiary for injuries suffered. The court adjudicated the case in favour of the third party and awarded the sum of EUR78,906 in damages which the subsidiary has appealed in terms of both responsibilities and quantification of damages. The subsidiary is fully covered by insurance.

- As at year-end, two subsidiaries had blocked funds relating to a garnishee order in favour of third parties amounting to EUR74,251 (2020: EUR74,251). The Directors are confident that the outcome of all the above claims will be in favour of the subsidiaries.

28. CONTINGENT ASSETS

A subsidiary of the Group was awarded the sum of EUR40,986 in compensation for services rendered with the third party appealing the judgement.

29. CAPITAL COMMITMENTS

Commitments for capital expenditure with respect to the development and completion of a number of projects as at 31 October 2021 stand as follows:

	2021 **EUR**
Authorised and contracted	3,212,321
Authorised but not contracted	22,777,679

30. RELATED PARTIES

The parent company of AX Real Estate p.l.c. (formerly AX Real Estate Limited) is AX Group p.l.c., a limited liability company, which is incorporated in Malta. The individual financial statements of the Company are incorporated in the consolidated financial statements of AX Group p.l.c., the registered addresses of which is AX Group, AX Business Centre, Triq id-Difiza Civili, Mosta MST 1741, Malta. The ultimate controlling party is Mr Angelo Xuereb, who holds a controlling interest in the equity of the parent company.

Group and Company

All entities in which Mr Xuereb has control, has significant influence or is a member of the key management personnel are considered to be “related parties” in these financial statements. Related parties also comprise of key management who have the ability to control or exercise a significant influence in financial and operating decisions.

Balances with related parties are disclosed in Note 18, Note 20 and Note 24.

Transactions with related parties

The Group and Company entered into transactions with related parties as follows:

	Group	**Company**	
	2021 **EUR**	**2021** **EUR**	2020 EUR
Rental income	585,902	96,250	96,250
Interest on loans from related parties	41,191	-	-
Dividend received from subsidiary	-	17,000,000	-

Notes to the Financial Statements – continued

31. RISK MANAGEMENT OBJECTIVES AND POLICIES

The most significant financial risks to which the Company is exposed to are described below.

The Group and the Company are exposed to credit risk, liquidity risk and market risk through its use of financial instruments which result from its operating, investing and financing activities. The Group's and the Company's risk management is coordinated by the Directors and focuses on actively securing the Group's and the Company's short term to medium term cash flows by minimising the exposure to financial risks.

Credit risk

The Group's and the Company's credit risk is limited to the carrying amount of financial assets recognised at the date of the statement of financial position, which are disclosed in Notes 18, 20 and 21.

The Group and the Company continuously monitor defaults of customers and other counterparts and incorporate this information into their credit risk controls. The Group and the Company's policy is to deal with creditworthy counterparties.

None of the Group's and the Company's financial assets are secured by collateral or other credit enhancements.

The credit risk for liquid funds is considered to be negligible, since the counterparties are reputable institutions with high quality external credit ratings.

Quoted investments are acquired after assessing the quality of the relevant investments.

Cash is placed with reliable financial institutions.

Liquidity risk

The Group's and the Company's exposure to liquidity risk arises from its obligations to meet financial liabilities, which comprise trade and other payables and other financial liabilities. Prudent liquidity risk management includes maintaining sufficient cash and committed credit facilities to ensure the availability of an adequate amount of funding to meet the Group's and the Company's obligations when they become due.

At 31 October 2021 and 31 October 2020, the contractual maturities on the financial liabilities of the Group and the Company were as summarized below. Contractual maturities reflect gross cash flows, which may differ from the carrying values of financial liabilities at the date of the statement of financial position.

Group

2021	**Less than 6 months**	**From 6 to 12 months**	**From 1 to 5 years**	**More than 5 years**	**Total**
	EUR	**EUR**	**EUR**	**EUR**	**EUR**
Bank borrowings	2,269,226	825,812	6,308,321	3,213,842	12,617,201
Other financial liabilities	5,338,760	-	-	120,821,015	126,159,775
Trade and other payables	1,664,329	-	-	-	1,664,329
Total	**9,272,315**	**825,812**	**6,308,321**	**124,034,857**	**140,441,305**

Notes to the Financial Statements – continued

31. RISK MANAGEMENT OBJECTIVES AND POLICIES – continued

Liquidity risk - continued

Company

2021	Up to 12 months	From 1 to 5 years	More than 5 years	Total	
	EUR	EUR	EUR	EUR	
Other financial liabilities	12,360,094	-	105,773,516	118,133,610	
Trade and other payables	181,312	-	-	181,312	
Total	**12,541,406**	**-**	**105,773,516**	**118,314,922**	

2020	Up to 12 months	From 1 to 5 years	More than 5 years	Total	
	EUR	EUR	EUR	EUR	
Other financial liabilities	2,773,531	-	-	2,773,531	
Trade and other payables	4,000	-	-	4,000	
Total	**2,777,531**	**-**	**-**	**2,777,531**	

Foreign currency risk

Foreign currency transactions arise when the Group and the Company enter into transactions denominated in a foreign currency.

The risk arising from foreign currency transactions is managed by regular monitoring of the relevant exchange rates. The Directors consider foreign exchange risk exposure to not be material and accordingly a sensitivity analysis disclosing how profit or loss and other comprehensive income would change as a result of a reasonable possible shift in foreign exchange rates, is not considered necessary.

Interest rate risk

The Group and the Company's exposure to interest rate risk is limited to the variable interest rates on borrowings. Based on observations of current market conditions, the director considers an upward or downward movement in interest of 1% to be reasonably possible. However, the potential impact of such a variance is considered immaterial.

32. CAPITAL MANAGEMENT

For the purpose of the Group's and the Company's capital management, capital includes issued capital and all other equity reserves attributable to the equity holders of the parent. The primary objective of the Group's and the Company's capital is to maximise the shareholder value.

The Group and the Company manage their capital structure and make adjustments in light of changes in economic conditions. To maintain and adjust the capital structure, the Group and the Company may adjust the dividend payment to shareholders or issue new debt. The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Group includes within net debt Interest bearing loans and borrowings, trade and other payables and other financial liabilities less cash and cash equivalents.

Notes to the Financial Statements – continued

32. CAPITAL MANAGEMENT - continued

	2021 EUR
Interest bearing loans and borrowings	**11,212,972**
Other financial liabilities	**126,159,775**
Trade and other payables	**2,121,045**
Less: Cash and cash equivalents	**(1,000,807)**
Net debt	**138,492,985**
Equity	**50,000**
Other reserves	**78,648,042**
Total capital	**78,698,042**
Capital and net debt	**217,191,027**
Gearing ratio	**63.8%**

No changes were made in the objectives, policies and processes for managing capital during the years ended 31 October 2021 and 2020.

33. SUBSEQUENT EVENTS

On 11 November 2021, the authorised share capital of the Company was re-classified from EUR500,000,000 divided into 2,000,000,000 ordinary shares of a nominal value of EUR0.25 each to EUR500,000,000 divided into 2,000,000,000 ordinary ‘A’ shares of a nominal value of EUR0.125 each, and 2,000,000,000 ordinary ‘B’ shares of a nominal value of EUR0.125 each. Ordinary ‘A’ shares and Ordinary ‘B’ shares shall entitle the holders thereof to the same rights, benefits and powers in the Company, except that Ordinary ‘B’ shares shall not entitle their holders to vote on any matter at any general meeting of the Company save in the following instances: in respect of a resolution which has the effect of reducing the capital of the Company; in respect of a resolution for the winding up the Company; and in respect of resolution which has the effect of directly affecting the rights and privileges of Ordinary ‘B’ shareholders. On the same day, the issued share capital of the Company was re-classified from EUR50,000 divided into 200,000 ordinary shares of a nominal value of EUR0.25 each to EUR50,000 divided into 400,000 ordinary ‘A’ shares of a nominal value of EUR0.125 each.

On 23 November 2021, the issued share capital of the Company was increased by EUR12,450,000 though a bonus issue of 99,600,000 ordinary ‘A’ shares of a nominal value of EUR0.125 each in favour of the Existing Shareholders, by virtue of the capitalisation of retained earnings. On 30 November 2021, the Company issued 150,000,000 ordinary ‘B’ shares of a nominal value of EUR0.125 each in favour of AX Group p.l.c. by virtue of the capitalisation of a loan due to AX Group p.l.c. amounting to EUR50,000,000 at EUR0.3334 each, split as to EUR0.125 per share in nominal value and EUR0.2084 per share in share premium.

At year-end, one of the Company’s subsidiaries, Holiday Resorts Limited (C 5733), was in the process of merging with Suncrest Hotels p.l.c., another subsidiary of the Company. The merger became effective on the 10 December 2021, on which date Holiday Resorts Limited was struck off from the Malta Business Registry. The Draft Terms of Merger stipulated that the transactions of the company being acquired are accounted for in the annual accounts of the acquirer as from the 1 November 2021, this being in line to the provisions of article 358 of the Companies Act, Chapter 386 of the Laws of Malta. Holiday Resorts Limited’s rights, obligations, assets and liabilities have been amalgamated with those of Suncrest Hotels p.l.c. as from this date.

In January 2022, the Company obtained a sanction letter from a local credit institution for a Loan Facility amounting to EUR15,000,000 which has been provided to enable the Group to further support its initial costs related to the extension of the Suncrest Hotel in Qawra and for the redevelopment of the Verdala Hotel site in Rabat. The Loan Facility bears interest of 3.75% p.a. and the outstanding loan amount is repayable in full within 2 years from the date of the first drawdown.

Notes to the Financial Statements – continued

33. SUBSEQUENT EVENTS - continued

In February 2022, AX Group p.l.c. managed to successfully list AX Real Estate p.l.c. (formerly AX Real Estate Limited) on the Malta Stock Exchange, with 25% of the ordinary A shares being taken up by the general public. Through this transaction, the Company raised EUR13,648,644. In conjunction with the share issue, the Company also issued EUR40 million unsecured bonds redeemable in 2032. The general public subscribed to EUR18,354,600 bonds whilst the remaining EUR21,645,400 bonds were allocated to AX Group p.l.c. through the part conversion of the existing intra-group loan with the Company.

In February 2022, following the military conflict between Russia and Ukraine, the European Union and other countries announced several packages of restrictive measures against Russia, as well as personal sanctions against a number of high-ranking individuals. Due to the growing geopolitical tensions, since February 2022, there has been a significant increase in volatility on the securities and currency markets, as well as a significant depreciation of the Ruble against the US dollar and the Euro. It is expected that these events may significantly affect the activities of Russian and Ukrainian enterprises in various sectors of the economy. The Group and the Company do not have direct exposures to related parties and/or key customers or suppliers from those countries.

The Group and the Company regard these events as non-adjusting events after the reporting period, the quantitative effect of which cannot be estimated at the moment with a sufficient degree of confidence. Currently, the Group and the Company's management are analysing the possible direct and indirect impact of changing micro and macroeconomic conditions on the financial position and results of operations.