AX GROUP

COMPANY ANNOUNCEMENT

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

Quote

Approved final consolidated audited annual accounts – YE 2021

The Board of Directors of the Company announces that on the 18th February 2022 it has considered and approved the final consolidated audited annual accounts for the financial year ended 31st October 2021.

By means of this Company Announcement, the Board of Directors of the Company hereby states that respective Annual Financial Report (a) is being attached to this Company Announcement, (b) is available for viewing at the Company's registered office; and (c) can be viewed online by following the link to the Company's web portal: https://axgroup.mt/investment/.

Unquote

Dr. Edmond Zammit Laferla
Company Secretary

18th February 2022

Company Announcement
AXG40/2022

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Registration number C 12271

AX GROUP P.L.C.

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

Contents

Directors, Officers and Other Information

Registration:	AX Group p.l.c. was registered in Malta as a public Limited Liability Company under the Companies Act, Cap. 386 of the Laws of Malta on 18 January 1991, with the registration number C 12271.
Directors:	Mr Angelo Xuereb Ms Denise Micallef Xuereb Ms Claire Zammit Xuereb Mr Josef Formosa Gauci Mr Christopher Paris Mr John Soler Mr Michael Warrington
Secretary:	Dr Edmond Zammit Laferla
Registered Office:	AX Group AX Business Centre Trq id-Difiza Civili Mosta, MST 1741 Malta
Country of incorporation:	Malta
Company registration number:	C 12271
Auditors:	Ernst & Young Malta Limited Regional Business Centre Achille Ferris Centre Msdia, 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 Trq id-Difiza Civili Mosta, MST 1741 Malta

Directors' Report

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

Principal activities

The Company is the ultimate parent company of the AX Group, which is mainly involved in the provision of hospitality and entertainment services, construction, healthcare and property development.

Performance review

Company
The profit for the year amounted to EUR53,091,999 (2020: EUR287,156).

On 24 March 2021, the Company merged with AX Holdings Limited, an intermediate holding company within the Group and direct subsidiary of AX Group p.l.c. Following the merger date, the performance of the Company reflected the activities of both companies which includes management fee income charged to subsidiaries of EUR626,097 and staff costs of EUR1,673,110.

During the year under review, the Group went through a reorganisation exercise, with the ultimate aim of consolidating the main property letting activities of the Group into one newly formed division under AX Real Estate p.l.c. The shares in a number of subsidiaries were sold to another subsidiary, AX Real Estate p.l.c, to form this new subgroup. The sale of the shares held by the Company resulted in a gain on disposal of investments of EUR46 million since the investments were previously held at cost.

Furthermore, the Company received dividends of EUR10.1 million (2020: EUR0.3 million) from its subsidiaries.

The increase in finance costs mainly represents interest on loans with subsidiaries which were previously held by AX Holdings Limited.

Group
The COVID-19 pandemic continued to cause various disruptions to the operations of the Group.

Notwithstanding the negative impact, the Hospitality division remains the largest business division 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 increase in both turnover and operating profit 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 of COVID-19.

The diversification in various business segments is a key strength of the Group since if a particular market suffers a setback, the other business divisions may help compensate for that loss. This was in fact the case in 2020 and 2021, whereby management accelerated activity in the ongoing property developments with a view to completing two key projects. During the year, the development division completed the mixed-use development at Targa Gap in Mosta and the Falcon House development in Sliema. 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. All apartments at Falcon House have been sold during the year except one apartment which was sold after year end. In addition, in 2021, the Group obtained a full development permit for the redevelopment of the Verdala Hotel 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.

The performance of the Care division was to a lesser extent, impacted by various restrictions and measures imposed by the health authorities throughout the year. The independent units at Hilltop Gardens Retirement Village were almost fully occupied throughout the year whilst the Group experienced challenges in achieving the budgeted occupancy at the Simblija Care Home. Additional operational costs were incurred due to the precautionary measures that were taken to safeguard the residents at Hilltop Gardens Retirement Village and the Simblija Care Home.

The Construction division was not materially affected by the pandemic and continued to operate with little disruption. However, during the first quarter of the financial year, a number of third-party construction projects were delayed and commenced later than originally planned. AX Construction remained heavily involved in the execution of internal projects and was primarily focused on the completion of Falcon House development in Sliema and the consolidation of the Suncrest hotel structure. Following the 18 month closure of the Suncrest hotel in November 2021, AX Construction started works on the upward extension which will see an addition of 168 rooms and several amenities on the rooftop of the hotel.

Directors' Report – continued

Performance review - continued

The AX Group's investment in Valletta Cruise Port p.l.c. remained heavily impacted by the pandemic. Following the restrictions imposed on 5 March 2021, the retail outlets, bars and restaurants at the Valletta Waterfront were closed in accordance with the restrictions imposed by the Health Authorities. However, following the gradual easing of restrictions, business picked up in the summer months and operating profitability more than doubled in 2021 compared to 2020.

Group revenue stood at EUR35,418,160, an increase of EUR6,702,193 over the previous year. The increase was mainly attributable to the sale of units at the Targa Gap complex and Falcon House, as well as an increase in rental income. Operating results during the year increased by EUR9,297,238, from a loss of EUR4,467,145 to a profit of EUR4,830,093. This was partly due to the increase in revenue as mentioned as well as a gain on revalued investment properties of EUR4,964,812. The Group's profit before taxation for the year amounted to EUR1,455,148 (2020: Loss before tax of EUR8,229,603). As at year-end, the AX Group's equity stood at EUR237,142,681(2020: EUR217,448,572).

Financial key performance Indicators

	Group		Company	
	2021	2020	2021	2020
	EUR	EUR	EUR	EUR
Revenue and other operating income	35,805,634	29,056,495	10,891,148	333,333
Operating profit/(loss)	4,830,093	(4,467,145)	54,063,828	196,453
Net finance (costs)/income	(3,916,213)	(3,441,793)	(2,348,952)	97,793
Profit/(Loss) after tax	1,928,278	(7,889,730)	53,091,999	287,156
Earnings/(Loss) per share	1.66	(6.77)		
Total equity and liabilities	374,099,250	348,657,388	171,703,010	29,148,604

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 and the Company 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 and the Company will continue in operational existence for the foreseeable future and will meet its financial obligations as and when they fall due.

Directors' Report – continued

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 Audit Committee regularly reviews the risk profile adopted by the Board of Directors.

2. Operational risks

The Company's revenue is mainly derived from interest charges and 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 35 to the financial statements provides a detailed analysis of the financial risk to which the Group and the Company is exposed.

Dividends and reserves

The Directors do not recommend payment of a final dividend.

Events after the reporting period

In February 2022, AX Group managed to successfully list AX Real Estate p.l.c. on the Malta Stock Exchange, with 25% of the ordinary A shares being taken up by the general public. Through this transaction, AX Real Estate p.l.c. raised EUR13,645,644. In conjunction with the share issue, AX Real Estate p.l.c. 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 by AX Real Estate p.l.c. to the Company through the part conversion of the existing intra-group loan with AX Real Estate p.l.c. It is the intention of the Company to dispose of the allocated bonds at the opportune time to ascertain sufficient liquidity for the Suncrest and Verdala hotel developments. Refer to Note 38 for further details.

Directors

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

Auditors

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

STATEMENT ON NON-FINANCIAL INFORMATION

In line with the Directive 2014/95/EU2 and pursuant to Article 177 of the Companies Act (Cap. 386) and in terms of the Sixth Schedule to the Act, the directors hereby report the impact of its activities on environmental, social and employee matters, respect for human rights, anti-corruption and bribery matters.

Our business model

The AX Group is a diversified group of companies operating in six key sectors: construction, development, healthcare, hospitality, real estate and renewable energy. We strive to deliver on our promise to provide the highest quality for the best possible value. Founded by chairman Angelo Xuereb in 1977, AX Group began its existence as a civil engineering firm. In the ensuing decades, the company took steps towards diversification by expanding its business portfolio to include restoration works, hotels, restaurants, care homes, and many other high-quality projects. In 2018, the Group consolidated its various businesses under the AX brand.

Directors' Report – continued

STATEMENT ON NON-FINANCIAL INFORMATION - continued

Environmental consciousness

At AX Group we are extremely conscious of our ecological responsibilities and we strive to minimise our negative environmental externalities as much as possible. We do this both in terms of the developments we build as well as through our own internal practices. We are constantly on the look -out for opportunities to improve on energy efficiency, reduce waste, carbon and greenhouse gas emissions and ultimately reduce our environmental footprint. Refer to the AX Group plc Annual Report 2022, specifically under the Beyond the Business –Community & Environmental Initiatives sub-section, for further details on the policies and extensive investments undertaken during the year to mitigate the adverse impacts that the Group activities have on the environment.

Design and Construction of buildings

The Group's commitment to environmental sustainability has always been at the centre of our activities, reflected especially in the way we have been designing our buildings over the years. Our Development and Construction teams take great care in designing buildings with energy efficiency features including accounting for the solar orientation, ensuring less reliance on electrical lighting as well as heating and cooling, included features such as thermal and acoustic insulation, natural ventilation systems, roof and wall insulation and double-glazed UV protection windows, amongst others. For instance, in the Hilltop building, we have made use of Aircrete blocks as a building medium, which is made of a lightweight material with better thermal efficiency. A reservoir was also added in to capture water and use it for irrigation, thus further minimising the use of water.

Operations of buildings

Existing operations and buildings are periodically reviewed and monitored for energy usage and efficiency. Across our properties electrical light bulbs have been replaced with energy efficient alternatives and appliances are being replaced with more energy-efficient ones, such as energy efficient minibars in our hotels' guest rooms.

Carbon matters

As a Group we aim to be at the forefront of the business community in championing actionable carbon neutral policies and protocols in our activities. We have taken several steps towards generating renewable energy.

AX Group installed solar panels on the rooftop of the AX Business Centre in Mosta and started generating electricity since October 2021. Moreover, through its investment in the Imselliet Solar JV, another solar farm was installed on Hilltop Gardens Retirement Village roof top, generated 380Kw in addition to the solar farm launched in 2020 at the ex-Imselliet quarry, limits of Mgarr.

Waste

We have started a process to measure waste generation, with a view of taking stock of the current situation and eventually establish a strategy on waste management.

AX Group has also embarked on a programme to reduce the annual paper consumption, through internal educational campaigns, encouraging employees to go paperless and investment in computer hardware. All paper generated in the office is recycled All cheque settlements have been replaced with electronic payments. Remittance advices are also sent digitally, resulting in significant cost savings on paper and postage.

Hotels have also replaced all single-use plastics with recyclable materials, resulting in our properties being awarded the Green Mobility label by the Malta Tourism Authority.

Moreover, within the Construction Division, we practice source separation, which eliminates waste and separates materials that can be recycled. This has resulted in a near total elimination of all waste previously dumped in mixed landfills.

Others

Understanding that Malta's natural environment plays a key role in our operations, it is important that as a business, we take great care and consideration of our surroundings, whilst also raising awareness.

In this regard, during the year Simblija Care Home and Hilltop Gardens Retirement Village organised a clean-up campaign in conjunction with the Naxxar Local Council, thereby not only improving the living environment around the homes but also bringing more awareness to the public.

Directors' Report – continued

STATEMENT ON NON-FINANCIAL INFORMATION - continued

Others - continued

We also remain committed to broaden our sustainability practices, through the investment and research in new solutions for our developments and operations. We are also looking into the possibility of shifting our vehicles to electric and ultimately achieve carbon neutrality.

EU taxonomy disclosure

In accordance with European Regulation 2020/852 of June 18, 2020, AX Group is subject to the obligation to disclose the part of its 2021 revenue, its capital expenditures, and operating expenses eligible under the EU Taxonomy on sustainable activities. In the future eligibility to the EU Taxonomy will need to be complemented with disclosure on the alignment with the EU Taxonomy. Taxonomy-eligible economic activity means an economic activity that is described in the delegated acts supplementing the Taxonomy Regulation irrespective of whether that economic activity meets any or all of the technical screening criteria required for alignment. At this point the EU regulation is effective for objectives related to climate mitigation and climate adaptation, with further delegated acts to be published at a later stage.

In order to identify its business activities covered by the nomenclature of the European Taxonomy, the Group relied on the Delegated Act on Climate supplementing Regulation (EU) 2020/852 of the European Parliament, and Annex 1 & 2 to this Delegated Act. Eligible activity classification was done through the officially-assigned NACE codes.

The evaluation of the eligibility of the Group's business activities has been conducted on the basis of the Taxonomy and Delegated Regulation (Annex I – KPIs of non-financial undertakings) and its definition of the denominator and nominator of the 3 required KPIs (Turnover, CAPEX and OPEX). It was performed through a methodological approach consisting of:

I. extracting total denominator for the 3 KPIs from the financial reporting system,
II. identifying those activities that might fall within the list of economic activities covered in 'Delegated Acts',
III. documenting and assessing for each of those economic activities their 'eligibility' to the first two environmental objectives: 'Climate Change Mitigation' and 'Climate Change Adaptation' included in the EU taxonomy in order to determine the nominator of each of the 3 KPIs.

Turnover considered for this analysis covers all business activities of the Group as at October 31, 2021, at a gross level to take into account all underlying economic activities.

CAPEX consists of additions to tangible and intangible assets during the financial year 2021 considered before depreciation, amortization and any re-measurements recognized by the Group.

OPEX consists of all operating expenditures relating to the day-to-day running of the Group properties and operations as at October 31, 2021, at a gross level to take into account all underlying economic activities.

Based on the above considerations and methodology, the table below shows the actual KPI related to the EU Taxonomy.

	Turnover	CAPEX	OPEX
Taxonomy-Eligible Activities (%)	51.2	76.5	53.7
Taxonomy-Non-Eligible Activities (%)	48.8	23.5	46.3

Supporting Society and the Community

AX Group and its employees have always championed their societal values and their larger responsibility towards making a difference. Through varying initiatives both within the Group as well as within society, the Group tries to ensure the well-being of both its employees as well as other members of society. The section AX Careers within the AX Group p.l.c. Annual Report 2022 gives a detailed overview of the people strategy and initiatives undertaken by the Group throughout the year, while a comprehensive overview of the Group's social responsibility matters is disclosed in the section Beyond the business - AX Foundation and Community & Environmental initiatives within the same Annual Report 2022.

Directors' Report – continued

STATEMENT ON NON-FINANCIAL INFORMATION - continued

Supporting Society and the Community - continued

Ensuring Staff well-being

As they say, charity begins at home. The Group nowadays employs more than 800 people (through both direct and indirect employment), from all walks of life and a spectrum of skill sets. We believe that our assets and finances are only as strong as our people, and therefore, their happiness and well-being remain of utmost importance.

We prioritise our employees' mental health and seek to create a supportive workplace where people are empowered to bring their best selves to work. In 2021 we have continued the joint programme with the NGO Richmond Foundation, where employees can seek professional and confidential help if required, free of charge, especially following such a difficult time during the pandemic.

More specifically to COVID-19, we have continued to ensure safety in our premises, through the provision of sanitisers in all our sites, protective desk screens, regular sanitation of premises as well as the possibility to work remotely whenever possible.

Long-term development of personnel

At AX Group we also believe in the long-term investment of our people, making us one of the top employers of choice in our markets.

We do so by centring our employment strategy on these key principles:

- Attract top talent
- Pay fairly
- Give the opportunity for our people to grow within the business
- Provide adequate training and encourage ongoing learning

Despite a scale down in training due to COVID-19, in 2021, AX Group still managed to carry out 2,014 hours of training with 389 participants enjoying such programmes.

Through the AX Careers online portal and the AX Academy, the Group aims at stepping up its recruitment – providing applicants with an understanding of the values of our Group, whilst also training and developing the employees in their jobs to ensure longer retainment of our personnel.

We also show our appreciation and gratitude towards employees who have given their unwavering service to the company over the years, during the AX Group's Annual Long Service Employee Awards Night. After the cancellation of the 2020 ceremony due to COVID-19, the awards were reintroduced in 2021, celebrating over 70 employees from the four different divisions of the group, being recognised for their commitment and long service with the company ranging between 5 -35 years.

Workplace diversity and inclusion

Over the year, AX Group has always been a strong advocate for workplace diversity, inclusion and a strong respect for human rights.

The Group has long been embracing multiculturalism, with c. 580 of our 800+ workforce being foreigners, with many coming from outside the EU. We understand that this multicultural pool of staff brings new opportunities, more talent and a wider perspective to the entire Group.

Moreover, the Group is also aiming at creating greater inclusion and equal representation at management level, having the Executive team being composed of 5 women and 6 men, whilst the Board still being composed of 2 females and 5 males.

Entrepreneurship

Our mission statement clearly outlines our passion for entrepreneurship. "At AX Group we strive to leverage our entrepreneurial skills to deliver high-quality innovative developments. This is achieved by inspiring our people to learn from our past, and to embrace the future with courage and optimism." As a Group we aim to not only develop our personnel to reach their potential professionally, but we also aim to embrace and push the entrepreneurial community in Malta.

Directors' Report – continued

STATEMENT ON NON-FINANCIAL INFORMATION - continued

Supporting Society and the Community - continued

Entrepreneurship - continued

This has also been recognised by the business community through the recently awarded 'Lifelong Achiever Award 2021' during the Annual Malta Stock Exchange Awards Dinner, recognising our founder's lifetime journey, entrepreneurial successes, and contribution to the Maltese economy.

AX Care

One of our business activities relates to the provision of Care. We believe that through this service we are providing our elderly with high-quality care, safety and a fulfilling environment they deserve, hence promoting active ageing and improving quality of life.

Through our "village within a village" concept in Naxxar, we provide our elderly a self-contained village environment enabling them to continue their day-to-day lives as normally as possible, through features such as pools, a chapel, a restaurant and other day-to-day amenities. Going forward, we will continue to ensure that a sense of community is kindled within our 'village' through further event organization.

Moreover, through our Simblija home we offer tailor-made packages depending on the needs of our elderly, including respite, convalescence, and palliative treatments. Our facilities also include St. Anthony's Clinic and Revive, which is our physio- and hydro-therapy clinic.

AX Foundation and other community initiatives

Outside of the Group, we also take great pride in our community investment initiatives and charitable initiatives. The Group has relaunched the AX Foundation with a particular focus on helping people living with learning invisible disabilities, with its main focus being individuals on the autism spectrum. We have taken steps to contribute to national policymaking, driving social change, to create a more inclusive future for all.

In 2021, the first edition of the AX Ability Awards were organised, aimed at advocating inclusivity, creativity and the ability of people who face invisible challenges, by celebrating their achievements and awarding their talents, commitments, and efforts. Ms. Alessia Bonnici, a very talented teenage artist, was the 2021 Award recipient.

The Group has also given a Christmas Gift to all children and families at the Rainbow Ward at Mater Dei Hospital –the local oncology ward for children. We have also presented the Ward's staff with a small token of appreciation for all they do with their little precious patients.

In December 2021, we have also donated to LifeCycle 2022, a local charitable organisation that will be embarking on a 2,000km trip from Buenos Aires (Argentina) to Santiago (Chile) this March in their noble quest to raise funds and awareness in support of renal patients across Malta and Gozo.

Over the years we continue to raise funds and awareness to help those in need and support several charities, initiatives and organisations.

Maltese Heritage

As a Group we value our local heritage and over the years we have taken up several renovation works across Malta, mainly on the bastions and in national museums. This is also outlined in the mission statement of AX Construction - "Building our future, restoring our heritage".

In 2021, we have completed renovation works of the 'Farsons Brewary' (which is a Grade 1 listed Building) and carried out works on the restoration of the Senglea Bastions, the Gate, Belvedere and 'Gardjola'. Infrastructural restoration works were also carried out at the Malta Maritime Museum in Birgu.

Moreover, we are also considering the possibility of creating specific cultural and gastronomic tours for tourists, providing them with an experience of the local tastes and lifestyle. These plans have been slowed down due to the pandemic but will resume once the situation is restored to normality.

Directors' Report – continued

STATEMENT ON NON-FINANCIAL INFORMATION - continued

Uphold good governance

As a large, listed company, AX Group has the necessary corporate governance structures in places, including in all of our subsidiaries. In 2021, we have also focused specifically on the creation of necessary structures and committees for the new listed subsidiary AX Real Estate plc.

Our internal auditor, who reports regularly to the Audit Committee, also ensures that all our internal controls are adhered to at all times.

Anti-bribery and corruption

Being one of the Group's core values, AX Group is committed to comply with local legislation and has zero-tolerance towards bribery and corruption. We stand by a code of ethics reflecting the ethical ethos of the Group. This is applicable to all employees and board members. The code of ethics sets out the principles and necessary controls to mitigate against bribery and corruption. All Group procedures and policies are built to ensure that this is achieved and that high ethical standards are maintained.

Through our Academy, we constantly remind our employees about the risks and obligations associated with bribery and corruption. Cognizant of the reputational damage, the Group has also set out procedures to ensure that its principal suppliers operate and comply with local legislation. AX Group is committed to uphold and enhance its policy against bribery and corruption.

Health and Safety

Due to the nature of certain operations within the Group, including AX Construction, but not only, health and safety procedures are of utmost importance within our business. For this reason, we continue integrating Health and Safety within all our processes, to ensure that both our employees', as well as our clients' (be it tourists, elderly, or any other individual) health is safeguarded.

In relation to our employees, we continue to provide the safety equipment where necessary and ensure that health and safety measures and processes are made known to all staff. We have also appointed an independent third party for the verification of Health and Safety through adequate supervision plans. It is with pleasure that we announce that in 2021 no major incidents were reported.

Moreover, as already specified, COVID-19 protocols and safety precautions have been adopted in all our sites to ensure the avoidance of the virus.

Concluding remarks

Moving forward, our Group remains adamant to be a catalyst in safeguarding the environment, whilst giving back to society and withholding the highest good governance processes. We acknowledge the ever-increasing importance of sustainability in businesses as well as the greater requests for Environment, Social and Governance data moving forward, both from regulators, clients and investors alike.

We thereby commit to continue working on integrating ESG aspects within the overall strategy of the Group, including the necessary structures and skills to lead this transition. Moreover, we will ensure that the right level of ESG data is collected and verified periodically so that future measures and investments are well placed and conducive to improving our non-financial position along with our financial position. This will ensure that AX Group is not only a profitable Group but also one which adds value to the community, whilst respecting the environment in which it operates in, in a just manner.

Approved by the Board of Directors and signed on its behalf on 18 February 2022 by:

MR ANGELO XUEREB Chairman	**MR MICHAEL WARRINGTON** 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 Listing Rule 5.97 issued by the Malta Financial Services Authority, AX Group p.l.c. (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 ultimate holding company to the AX Group of Companies and does not itself carry on any trading activities other than for the purpose of funding 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 Group p.l.c. (the Board) is currently made up of seven Directors, three 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, Ms Claire Zammit Xuereb, Mr Josef Formosa Gauci, Mr Christopher Paris, Mr John Soler and Mr Michael Warrington. Messrs Formosa Gauci, Paris and Soler 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 Mr Michael Warrington 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 Listing Rule 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 met seven times 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 John Soler, and its other members are Mr Josef Formosa Gauci 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 Josef Formosa Gauci is considered by the Board to be competent in accounting and auditing in terms of the Listing Rules.

The Company Secretary acts as secretary to the committee which also receives the assistance of the Group Chief Executive Officer; Mr Michael Warrington, and the Chief Financial Officer; Mr Albert Bonello.

The Audit Committee met six times during the year under review.

Remuneration and Nomination Committee

The Remuneration and Nomination Committee (the "RemNom Committee") is composed of Mr Josef Formosa Gauci (Chairperson), Mr Christopher Paris and Mr John Soler, 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 met one time 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 Listing 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.

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.

Corporate Governance – Statement of Compliance – continued

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.

Directors' remuneration

The Board determines the remuneration of the Directors. The Directors' and senior executives' annual remuneration for the financial year under review, as approved by the Board, amounted to EUR743,359. This is a fixed remuneration and there are no variable elements or share options included. For the purposes of clarity, although several directors sit on various committees of the Company, such directors did not receive extra remuneration for occupying such roles during the year under review.

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 stakeholders 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 rewards to be used within the Group to foster loyalty. This program, which is managed by AX Group p.l.c. executives, includes the issue of the AX Investments Platinum Card and the AX Group Gold and Platinum Cards and the periodic dissemination of the AX Investments Newsletter.

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 18 February 2022 and signed on its behalf by:

MR ANGELO XUEREB
Chairman

MR MICHAEL WARRINGTON
Chief Executive Officer

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INDEPENDENT AUDITOR'S REPORT

to the Shareholders of AX Group p.l.c.

Report on the audit of the financial statements

Opinion

We have audited the consolidated and separate financial statements of AX Group p.l.c. (the "Company") and its subsidiaries (the "Group"), set on pages 24 to 80, which comprise the consolidated and separate statements of financial position as at 31 October 2021, and the consolidated and separate statements of comprehensive income, the consolidated and separate statements of changes in equity and the consolidated and separate statements of cash flows for the year then ended, and notes to the consolidated and separate financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated and separate 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 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 Group p.l.c.

Report on the audit of the financial statements

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.

Going concern

As required by International Financial Reporting Standards and as disclosed in the Statement of Directors' Responsibilities, the Directors are required to adopt the going concern basis in the preparation of the financial statements, unless it is inappropriate to presume that the Group and the Company will continue in business in the foreseeable future.

As disclosed in Note 2.1 to the consolidated and separate financial statements, based on the Group's budget and forecast, the Directors confirm that they are satisfied that the Group will be able to meet its working capital commitments and assess that the Group has sufficient liquidity to meet all its obligations when and as they fall due in the foreseeable future. Given the nature of the Company and its function within the Group of which it is the ultimate parent, the Company is dependent on the Group for financial support.

At the time of approving these financial statements, the Directors have determined that there is a reasonable expectation that the Group and the Company have adequate resources to continue in operation and existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing these consolidated and separate financial statements.

The COVID-19 pandemic is of an unprecedented scale and has severely impacted the global economy and businesses across different industries. In the light of the persistence of this global outbreak, an overall lower economic activity and travel restrictions have created an uncertain environment which may impact significant assumptions that are used in the Group's assessment of its ability to continue as a going concern.

INDEPENDENT AUDITOR'S REPORT
to the Shareholders of AX Group p.l.c.

Report on the audit of the financial statements

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

Going concern - continued

The Group's liquidity forecast underlying the going concern assessment is subject to significant estimation and therefore represents a key audit matter.

Our audit procedures included evaluating the Directors' going concern assessment in order to assess whether there are events and conditions that exist that create material uncertainty that may cast significant doubt of the Group's ability to continue as a going concern. In obtaining sufficient, appropriate audit evidence we:

- Obtained the Group's cash flow forecast for the period subsequent to the reporting date up until April 2023 and discussed these with management, focusing on updates made to respond to the continued impacts and uncertainties around COVID-19 ongoing developments and expected recovery period. We also tested the arithmetical accuracy of the forecast.
- Evaluated the Directors' ability to accurately forecast by comparing actual to historical information. As part of our procedures on events after the reporting period, obtained an understanding of the precision of management's forecast and to identify any potential management bias included in such projections.
- Assessed for reasonableness of the main inputs and assumptions used in the projections, such as operational cash flows, inflows from sales of property, capital expenditures, debt financing and other funding availability against our understanding of the business and industry developments, historical data and any other available information.
- Performed an independent sensitivity analysis, stress-testing key inputs, assumptions and contingency plan to assess whether the liquidity headroom calculations are reasonable.
- Performed an analysis of the capital expenditure forecasted by the Group to be incurred on its major development projects and the availability of funding to finance such expenditure from the AX Real Estate p.l.c.'s equity and debt issue during February 2022 and other planned bank financing for these projects. We have assessed for reasonableness the net cashflows forecasted on these major development projects, taking into consideration the terms of the equity and debt issue as per the Offering Memorandum and bank sanction letter for additional financing.

We also assessed the relevance and adequacy of disclosures relating to going concern presented in Note 2.1 to the accompanying financial statements.

INDEPENDENT AUDITOR'S REPORT

to the Shareholders of AX Group p.l.c.

Report on the audit of the financial statements

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

Fair valuation of land and buildings classified as property, plant and equipment, and investment properties

The Group's land and buildings classified as property, plant and equipment, which are being further described in Notes 5.16, 6 and 17 to the accompanying financial statements, account for 65% of total assets as at 31 October 2021. Land and buildings are measured at fair value at the date of revaluation, less any subsequent accumulated depreciation and impairment losses.

The Group also holds investment properties, which are being further described in Notes 5.17, 6 and 18 to the accompanying financial statements, accounting for 13% of total assets of the Group 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 land and buildings classified as property, plant and equipment, and the investment properties, on the basis of assessments of the fair value of the property in accordance with international valuation standards and best practice. The valuations are arrived at by a combination of the income capitalization approach, the replacement cost 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;
- the estimated land value and going rates for construction, finishing, services and fittings under the replacement cost approach; and
- the market prices for comparable advertised properties under the market approach.

INDEPENDENT AUDITOR'S REPORT

to the Shareholders of AX Group p.l.c.

Report on the audit of the financial statements

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

Fair valuation of land and buildings classified as property, plant and equipment, and investment properties – continued

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 land and buildings classified as property, plant and equipment, and investment properties as a key audit matter.

Our audit procedures over the fair valuation of land and buildings classified as property, plant and equipment, and investment properties 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 land and buildings classified as property, plant and equipment, and investment properties presented in Notes 5.16, 5.17, 6, 17 and 18 to the accompanying financial statements.

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INDEPENDENT AUDITOR'S REPORT

to the Shareholders of AX Group p.l.c.

Report on the audit of the financial statements

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 Group and the Company 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.

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 Group's and the Company'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 Group's and the Company'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 Group and 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 Group p.l.c.

Report on the audit of the financial statements

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.

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 Group and the Company and their 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 if in our opinion:

- proper accounting records have not been kept;
- the financial statements are not in agreement with the accounting records;
- 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 by the General Meeting of Shareholders 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, 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 Group and the Company and we remain independent of the Group and the Company 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 Group and the Company and its controlled undertakings.

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INDEPENDENT AUDITOR'S REPORT
to the Shareholders of AX Group p.l.c.

Report on other legal and regulatory requirements

Matters on which we are required to report by the Listing rules

Corporate governance statement
The Listing Rules issued by the Malta Listing 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 Listing 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 Group and the Company and its environment obtained in the course of the audit, we have identified material misstatements with respect to the information referred to in Listing 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.

Building a better working world

INDEPENDENT AUDITOR'S REPORT

to the Shareholders of AX Group p.l.c.

Report on other legal and regulatory requirements

Matters on which we are required to report by the Listing rules – continued

In our opinion:

- the corporate governance statement set out on pages 11 to 13 has been properly prepared in accordance with the requirements of the Listing Rules issued by the Malta Listing Authority
- in the light of the knowledge and understanding of the Company and the Group and its environment obtained in the course of the audit the information referred to in Listing Rules 5.97.4 and 5.97.5 are free from material misstatement

Under the Listing 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

18 February 2022

Statements of Profit or Loss and Other Comprehensive Income

	Notes	Group 2021 EUR	Group 2020 EUR	Company 2021 EUR	Company 2020 EUR
Revenue	8	**35,418,160**	28,715,967	**10,848,440**	333,333
Other operating income	9	**387,474**	340,528	**42,708**	-
Operating costs	13	**(17,423,517)**	(12,858,782)	**(2,374,882)**	(136,880)
Staff costs	10	**(11,702,298)**	(13,577,524)	**(1,673,110)**	-
Depreciation	17,19	**(6,814,538)**	(7,087,334)	**(329,628)**	-
Gain on revaluation of investment properties	18	**4,964,812**	-	**1,532,855**	
Gain on disposal of investment in subsidiaries	20	**-**	-	**46,017,445**	-
Operating profit/(loss)		**4,830,093**	(4,467,145)	**54,063,828**	196,453
Share of results of associates and joint ventures	20	**541,268**	(320,665)	**-**	-
Finance income	11	**28,058**	61	**12,993**	846,868
Finance costs	12	**(3,944,271)**	(3,441,854)	**(2,361,945)**	(749,075)
Profit/(loss) before taxation		**1,455,148**	(8,229,603)	**51,714,876**	294,246
Taxation	15	**473,130**	339,873	**1,377,123**	(7,090)
Profit/(loss) for the year		**1,928,278**	(7,889,730)	**53,091,999**	287,156
Attributable to:					
Owners of the parent		**1,823,582**	(7,846,470)		
Non-controlling interest		**104,696**	(43,260)		
		1,928,278	(7,889,730)		
Basic earnings/(loss) per share	16	**1.66**	(6.77)		
Other comprehensive income					
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods					
Gain/(loss) on property revaluations	17	**16,588,946**	(14,921,966)	**-**	-
Taxation	15	**1,580,743**	1,532,062	**-**	-
Other comprehensive income/(loss) net of tax		**18,169,689**	(13,389,904)	**-**	-
Total comprehensive income/(loss)		**20,097,967**	(21,279,634)	**53,091,999**	287,156
Attributable to:					
Owners of the parent		**19,993,271**	(21,236,374)		
Non-controlling interest		**104,696**	(43,260)		
Total comprehensive income/(loss)		**20,097,967**	(21,279,634)		

The notes on pages 31 to 80 form an integral part of these financial statements.

Statements of Financial Position

		Group		Company	
		2021	2020	2021	2020
	Notes	EUR	EUR	EUR	EUR
ASSETS AND LIABILITIES					
Non-current assets					
Property, plant and equipment	17	268,545,869	250,054,604	1,298,248	-
Investment properties	18	48,445,539	75,646,399	5,250,000	-
Right-of-use assets	19	-	-	4,945,553	-
Inventories	21	23,195,407	-	-	-
Investment in subsidiaries	20	-	-	30,461,427	1,655,298
Loans receivable	20	1,730,318	-	113,797,663	27,333,237
Investments in associates and joint ventures	20	7,401,701	6,512,096	-	-
		349,318,834	332,213,099	155,752,891	28,988,535
Current assets					
Inventories	21	3,509,837	4,968,461	762,466	-
Trade and other receivables	22	10,228,300	8,247,536	10,231,282	2,370
Current tax asset		843,882	1,041,232	644,270	-
Cash at bank and in hand	23	5,911,979	2,187,060	25,683	157,699
		20,493,998	16,444,289	11,663,701	160,069
Investment property held for sale	18	4,286,418	-	4,286,418	-
Total assets		374,099,250	348,657,388	171,703,010	29,148,604
Current liabilities					
Trade and other payables	25	13,684,744	13,410,560	2,987,024	5,274
Bank borrowings	26	6,474,023	5,375,904	1,142	-
Other financial liabilities	27	-	454,620	29,311,407	1,162,357
Debt securities in issue	28	2,316,985	2,320,208	746,712	749,935
Current lease liabilities	19	-	-	140,907	-
Current tax liabilities		-	-	-	7,090
		22,475,752	21,561,292	33,187,192	1,924,656
Non-current liabilities					
Trade and other payables	25	13,299,808	13,903,041	128,788	-
Bank borrowings	26	14,939,199	7,192,376	-	-
Other financial liabilities	27	-	-	30,021,228	-
Debt securities in issue	28	63,956,123	63,856,761	24,689,873	24,662,214
Non-current lease liabilities	19	-		4,869,126	-
Deferred tax liabilities	29	22,285,687	24,695,346	502,499	-
		114,480,817	109,647,524	60,211,514	24,662,214
Total liabilities		136,956,569	131,208,816	93,398,706	26,586,870
Net assets		237,142,681	217,448,572	78,304,304	2,561,734

Statements of Financial Position – continued

	Notes	Group 2021 EUR	Group 2020 EUR	Company 2021 EUR	Company 2020 EUR
EQUITY					
Capital and reserves					
Share capital	**30**	**1,164,688**	1,164,688	**1,164,688**	1,164,688
Revaluation reserve	**30**	**209,425,003**	185,890,949	**4,392,929**	-
Other reserves	**30**	**616,095**	616,095	**285,342**	-
Retained earnings	**30**	**25,224,212**	28,764,995	**72,461,345**	1,397,046
		236,429,998	216,436,727	**78,304,304**	2,561,734
Non-controlling interest		**712,683**	1,011,845	**-**	-
Total equity		**237,142,681**	217,448,572	**78,304,304**	2,561,734

The notes on pages 31 to 80 form an integral part of these financial statements.

The financial statements on pages 24 to 80 were approved by the Directors on 18 February 2022 and were signed on its behalf by:

MR ANGELO XUEREB
Chairman

MR MICHAEL WARRINGTON
Chief Executive Officer

Statements of Changes in Equity

GROUP

	Share capital EUR	Revaluation reserve EUR	Other reserves EUR	Retained earnings EUR	Attributable to equity holders of the parent EUR	Non-controlling interest EUR	Total EUR
At 31 October 2019	**1,164,687**	**200,861,644**	**616,095**	**35,364,007**	**238,006,433**	**1,109,005**	**239,115,438**
Loss for the year	-	-	-	(7,846,470)	(7,846,470)	(43,260)	(7,889,730)
Other comprehensive income for the year, net of tax	-	(13,389,904)	-	-	(13,389,904)	-	(13,389,904)
Total comprehensive loss for the year	-	(13,389,904)	-	(7,846,470)	(21,236,374)	(43,260)	(21,279,634)
Increase in share capital	1	-	-	-	1	-	1
Dividends paid (Note 31)	-	-	-	(333,333)	(333,333)	(53,900)	(387,233)
Fair value movement of investment properties, net of tax	-	(1,580,791)	-	1,580,791	-	-	-
At 31 October 2020	**1,164,688**	**185,890,949**	**616,095**	**28,764,995**	**216,436,727**	**1,011,845**	**217,448,572**
Profit for the year	-	-	-	1,823,582	1,823,582	104,696	1,928,278
Other comprehensive income for the year, net of tax	-	18,169,689	-	-	18,169,689	-	18,169,689
Total comprehensive income for the year	-	18,169,689	-	1,823,582	19,993,271	104,696	20,097,967
Loss of control of a subsidiary	-	-	-	-	-	(403,858)	(403,858)
Fair value movement of investment properties, net of tax	-	5,364,365	-	(5,364,365)	-	-	-
At 31 October 2021	**1,164,688**	**209,425,003**	**616,095**	**25,224,212**	**236,429,998**	**712,683**	**237,142,681**

Statements of Changes in Equity – continued

COMPANY	Share capital EUR	Revaluation reserve EUR	Other reserve EUR	Retained earnings EUR	Total EUR
At 31 October 2019	**1,164,687**	**-**	**-**	**1,443,223**	**2,607,910**
Profit for the year	-	-	-	287,156	287,156
Total comprehensive income for the year	-	-	-	287,156	287,156
Increase in share capital	1	-	-	-	1
Dividends paid	-	-	-	(333,333)	(333,333)
At 31 October 2020	**1,164,688**	**-**	**-**	**1,397,046**	**2,561,734**
Profit for the year	-	-	-	53,091,999	53,091,999
Total comprehensive income for the year	-	-	-	53,091.999	53,091,999
Fair value movement of investment properties, net of tax	-	1,410,226	-	(1,410,226)	-
Effect of merger (Note 3)	-	2,982,703	285,342	19,382,526	22,650,571
At 31 October 2021	**1,164,688**	**4,392,929**	**285,342**	**72,461,345**	**78,304,304**

The notes on pages 31 to 80 form an integral part of these financial statements.

Statements of Cashflows

		Group		Company	
		2021	2020	**2021**	2020
	Notes	**EUR**	EUR	**EUR**	EUR
Cash flows from operating activities					
Profit/(loss) before taxation		**1,455,148**	(8,229,603)	**51,714,876**	294,246
Adjustments for:					
Depreciation		**6,814,538**	7,087,334	**329,628**	-
Dividend declared		**-**	-	**(10,110,769)**	-
Share of results of associates and joint ventures		**(541,268)**	320,665	**-**	-
Movement in fair value of investment properties		**(4,964,812)**	-	**(1,532,855)**	-
Gain on disposal of investment in subsidiaries		**-**	-	**(46,017,445)**	-
Expected credit loss		**87,304**	(5,273)	**121,896**	42,839
Issue cost amortization		**99,362**	94,345	**27,659**	32,016
Interest expense		**3,944,271**	3,441,854	**2,361,945**	749,075
Interest income		**(28,058)**	-	**(12,993)**	(846,868)
Operating profit/(loss) before working capital changes		**6,866,485**	2,709,322	**(3,118,058)**	271,308
Movement in inventories		**1,378,306**	(1,913,540)	**-**	-
Movement in trade and other receivables		**(2,431,579)**	4,664,873	**(2,376,909)**	17,630
Movement in trade and other payables		**1,234,623**	(422,917)	**8,850,749**	412,553
Cash flows from operating activities		**7,047,835**	5,037,738	**3,355,782**	701,491
Interest paid		**(3,900,262)**	(3,441,854)	**(2,241,292)**	(749,075)
Interest received		**-**	-	**12,993**	846,868
Taxation paid		**(188,052)**	(2,183,985)	**-**	7,090
Net cash flows from/(used in) operating activities		**2,959,521**	(588,101)	**1,127,483**	806,374
Cash flows from investing activities					
Purchase of property, plant and equipment		**(4,909,990)**	(4,311,537)	**(925,023)**	-
Payments to acquire investment properties		**(1,814,934)**	(16,341,636)	**(23,485)**	-
Acquisition of financial assets		**-**	-	**(48,800)**	-
Movement in loan to subsidiary		**-**	-	**-**	(25,278,974)
Net cash flows used in investing activities		**(6,724,924)**	(20,653,173)	**(997,308)**	(25,278,974)
Cash flows from financing activities					
Movement in a new bank loan		**8,998,253**	(4,382,339)	**-**	-
Movement on other loans		**(1,354,620)**	(74,685)	**-**	-
Proceeds from debt securities in issue		**-**	24,613,720	**-**	25,000,000
Payment of debt securities in issue costs		**-**	(369,802)	**-**	(369,802)
Payment of lease liabilities		**-**	-	**(263,333)**	-
Dividends paid to minority interest		**-**	(53,900)	**-**	-
Dividends paid		**-**	(233,333)	**-**	-
Net cash flows from financing activities		**7,643,633**	19,499,661	**(263,333)**	24,630,198
Net movement in cash and cash equivalents		**3,878,230**	(1,741,613)	**(133,158)**	157,598
Cash and cash equivalents at beginning of year		**(166,501)**	1,575,112	**157,699**	101
Cash and cash equivalents at end of year	23	**3,711,729**	(166,501)	**24,541**	157,699

Statements of Cashflows - continued

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

		Group		Company	
	Notes	**2021 EUR**	2020 EUR	**2021 EUR**	2020 EUR
Non-cash investing activities					
Assets taken over upon merger	3	**-**	-	**5,934,314**	-
Proceeds upon disposal of subsidiaries	20	**-**	-	**83,695,921**	-
Effect of loss of control of subsidiary		**1,129,173**	-	**-**	-
Additional investment in subsidiaries		**-**	-	**1,962,993**	-
Sale of inventory to related parties	20	**830,318**	-	**-**	-
Non-cash financing activities					
Investment in subsidiaries taken over upon merger	3	**-**	-	**71,071,612**	-
Dividend declared by subsidiary	8	**-**	-	**10,110,769**	-
Sale of investment in subsidiaries	20	**-**	-	**(37,678,476)**	-
Reduction in capital contribution	20	**-**	-	**(6,600,000)**	-
Additional/(reduction) of loans to related parties	20	**900,000**	(457,228)	**12,701,083**	-
Effect of loss of control of subsidiary		**(402,131)**	-	**-**	-

The notes on pages 31 to 80 form an integral part of these financial statements

Notes to the Financial Statements

1. GENERAL INFORMATION

AX Group p.l.c. (C 12271) is a public limited liability company incorporated in Malta. The Company is the parent company of the Group, which is mainly involved in the provision of hospitality and entertainment services, healthcare services, construction and property development. The Company's registered office is at AX Group, AX Business Centre, Triq id-Difiza Civili, Mosta, MST 1741, Malta.

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 properties and land and buildings which are 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 and the Group'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

As at 31 October 2021, the Group's current liabilities exceeded its current assets by EUR1,981,754 (2020: EUR5,117,003) whereas the Group's total assets exceeded its total liabilities by EUR237,142,681 (2020: EUR217,448,572). The current liabilities position as at 31 October 2021 include a balance of EUR1,488,203 (2020 EUR2,330,167) that represents deferred income which does not have an impact on the Group's liquidity.

As at 31 October 2021, the Company's current liabilities exceeded its current assets by EUR21,523,491 (2020: EUR 1,764,587). Given the nature of the Company and its function within the Group of which it is the ultimate parent company ("the Company" or "the ultimate parent"), the Company is dependent on the Group for financial support.

Management has concluded that as a result of the strength of the Group's financial position and the measures being taken by management 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. 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 its obligations as and when they fall due over the foreseeable future and therefore, that the going concern basis adopted for the preparation of these consolidated and separate financial statements is appropriate.

Business update

2021 was another year characterised by various disruptions brought about by the COVID-19 pandemic. The Group's main operating divisions have on various levels continued to suffer from the effect of the COVID-19 pandemic.

Notwithstanding the negative impact, the Hospitality division remains the largest business division 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 operating profit 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 of Covid 19.

Notes to the Financial Statements – continued

2. BASIS OF PREPARATION - continued

2.1 Going concern - continued

Business update – continued

During the year, the development division completed the mixed-use development at Targa Gap in Mosta and the Falcon House development in Sliema. 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. All apartments at Falcon House have been sold during the year except one apartment which was sold after year end. 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.

The performance of the Care division was to a lesser extent, impacted by various restrictions and measures imposed by the health authorities throughout the year. The independent units at Hilltop Gardens Retirement Village were almost fully occupied throughout the year whilst the Group experienced challenges in achieving the budgeted occupancy at the Simblija Care Home. Additional operational costs were incurred due to the precautionary measures that were taken to safeguard the residents at Hilltop Gardens Retirement Village and the Simblija Care Home.

The Construction division was not materially affected by the pandemic and continued to operate with little disruption. The AX Group's investment in Valletta Cruise Port p.l.c. remained heavily impacted by the pandemic. Following the restrictions imposed on 5 March 2021, the retail outlets, bars and restaurants at the Valletta Waterfront were closed in accordance with the restrictions imposed by the Health Authorities. However, following the gradual easing of restrictions, business picked up in the summer months and operating profitability more than doubled in 2021 compared to 2020.

Profitability

During the year, the Group experienced an increase in revenue of 23% over the previous year and has reported a profit before tax of EUR 1,455,148 (2020: Loss before tax of EUR 8,229,603). Despite the impact of the pandemic on profitability, the Group managed to significantly improve performance over the prior year. One performance measure used by the Group is Earnings before Interest, Tax, Depreciation and Amortisation (“EBITDA”), which reconciles to the Group’s operating profit/(loss) before gain on revaluation of investment properties and depreciation on the Statement of Profit or Loss. During the year, the Group achieved a positive EBITDA of EUR 6,679,819 (2020: EBITDA of EUR 2,620,189). This result is attributable to several factors:

a. Focus on property development
As mentioned above, once the pandemic hit, the Group shifted its focus on developing and finishing two development projects- Targa Gap in Mosta and Falcon House in Sliema. During the year, the developments were finished, and most units were sold or rented out, significantly contributing to the Group’s profitability.

b. Management’s quick response
Management continued to adapt and respond to the changing circumstances by being pro-active and agile. Following the easing of restrictions in June 2021, Malta experienced an unparalleled labour shortage across all division, primarily in the hospitality division. Management responded to this crisis by moving personnel from other divisions to ensure a smooth operation with minimal disruption. Other measures to curtail both operational and capital expenditure remained key to minimise operational losses and preserve cash.

c. Internal operating structures
The decision taken last year to reorganise and centralise various administrative functions within the Group was crucial. During the year, the Group managed to launch the centralisation of various accounting processes, the procurement function and the payroll function. Apart from ensuring a streamlined process across these functions, this strategy has ensured a leaner structure and yielded economies of scale and cost efficiencies. The Group is now looking at opportunities to extend this strategy to a number of other administrative processes.

Notes to the Financial Statements – continued

2. BASIS OF PREPARATION - continued

2.1 Going concern - continued

Profitability - continued

d. Government support
A key element supporting the ability to operate at these low levels is the Government wage supplement. During the year under review the AX Group received EUR2,318,830 (2020: EUR1,629,944) in assistance from Malta Enterprise under the Wage Supplement Scheme (note 10).

Liquidity

During the year, management took various steps to retain a high level of liquidity in line with the Group's policy. As at reporting date, the Group had aggregate banking facilities of EUR27,412,974 (2020: EUR29,079,844) of which EUR6,011,835 (2020: EUR15,880,407) were undrawn banking facilities. During the financial year, the Group has availed itself of various bank loan repayment moratoriums with its' bankers.

Despite the increase in gearing, the Group still retains a low gearing ratio of 30.8% as at reporting date. The low gearing coupled with the healthy relationship that the Group enjoys with local banks places the Group in a good position should it need to raise further funding through bank loans.

In order to finance the Suncrest and Verdala Hotel developments, the Group went through a reorganisation exercise, with the ultimate aim of consolidating the main property letting activities of the Group into one newly formed division under AX Real Estate p.l.c. In February 2022, AX Group managed to successfully list AX Real Estate p.l.c. on the Malta Stock Exchange, with 25% of the ordinary A shares being taken up by the general public. Through this transaction, AX Real Estate p.l.c. raised EUR13,645,644. In conjunction with the share issue, AX Real Estate p.l.c. also issued EUR40million unsecured bonds redeemable in 2032. The general public subscribed to EUR18,354,600 bonds whilst the remaining EUR21,645,400 bonds were allocated by AX Real Estate p.l.c. to the Company through the part conversion of the existing intra-group loan with AX Real Estate p.l.c. It is the intention of AX Group p.l.c. to dispose of the allocated bonds at the opportune time to ascertain sufficient liquidity for the Suncrest and Verdala hotel developments. As disclosed in Note 38, subsequent to year end the Group has obtained additional bank financing of EUR15M on this project.

Following the above market transactions, the Group's projected gearing ratio would increase to around 36%. This takes into consideration the newly issued bond.

Cashflow Forecast

Management has prepared a forecast for the Group covering eighteen-months from reporting date 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 immovable property. Management is in advanced discussions with an interested third-party buyer and expects the asset to be realized 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. In addition to the Suncrest and Verdala projects which will be financed through the raising of funds by AX Real Estate p.l.c., the 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 Group is expected to continue to have sufficient liquidity relative to the funding available to it. Management also notes that the absolute majority of the Group's properties are unencumbered and could potentially be used as a guarantee in obtaining additional financing from banks should the need arises.

The Group has also identified a contingency plan should the expected economic recovery prolong or take a downturn. The 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 Group is expected to acquire in 2022.

Notes to the Financial Statements – continued

3. LEGAL MERGER

On 10 June 2020 the board of Directors of AX Holdings Limited, a company registered in Malta and the board of Directors of the Company, approved a *Draft Terms of Merger*, whereby AX Holdings Limited ("the company being acquired") was amalgamated into the Company. The merger became effective on the 24 March 2021, on which date AX Holdings 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 Company as from the effective date, this being in line to the provisions of article 358 of the Companies Act, Chapter 386 of the Laws of Malta.

Prior to the merger, the Company owned 100% of the ordinary shares in issue of AX Holdings Limited. The main business activity of AX Holdings Limited was that of an intermediate holding company of the Group. As a result of the legal merger, AX Holdings Limited transferred all its activities to the Company and ceased to operate.

No cash payment was made; the legal merger is in substance the redemption by AX Group p.l.c. of shares in AX Holdings Limited, in exchange for the assets of AX Holdings Limited. The assets acquired and liabilities assumed are recognised at the carrying amounts in the consolidated financial statements as of the date of the legal merger, are disclosed below:

	AX Holdings Limited 24 March 2021 EUR
ASSETS	
Non-current assets	
Property, plant and equipment	**4,652,359**
Investment properties	**4,550,000**
Investment in subsidiaries and associates	**71,071,612**
Total non-current assets	**80,273,971**
Current assets	
Inventories	**12,466**
Trade and other receivables	**21,561,363**
Current tax assets	**644,380**
Cash and cash equivalents	**8,890**
Total current assets	**22,227,099**
TOTAL ASSETS	**102,501,070**
LIABILITIES	
Current liabilities	
Trade and other payables	**615,040**
Other financial liabilities	**27,694,375**
Total current liabilities	**28,309,415**
Non-current liabilities	
Other financial liabilities	**50,758,274**
Deferred tax liabilities	**806,223**
Total non-current liabilities	**51,564,497**
TOTAL LIABILITIES	**79,873,912**
EQUITY	
Revaluation reserve	**2,982,703**
Other reserve	**285,342**
Retained earnings	**19,359,113**
TOTAL EQUITY	**22,627,158**

Notes to the Financial Statements – continued

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 Group p.l.c ("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.

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.

Notes to the Financial Statements – continued

4. BASIS OF CONSOLIDATION – continued

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

	Group % of equity and voting rights held		Group % of preference shares held	
	2021	2020	**2021**	2020
AX Construction Limited	100	100	-	-
AX Contracting Limited	100	100	-	-
AX Finance Limited	100	100	-	-
AX Holdings Limited (merged into AX Group p.l.c.)	-	100	-	-
AX Hotel Operations p.l.c.	100	100	-	-
AX Investments p.l.c.	100	100	-	-
AX Port Holding Company Limited	100	100	-	-
AX Port Investments Company Limited	100	100	-	-
Capua Palace Investments Limited	100	100	-	-
Central Hotels Limited (merged into Central Leisure Developments Limited)	-	100	-	100
Central Leisure Developments Limited *	100	100	-	-
Harbour Connections Limited	100	100	-	-
Hardrocks Estates Limited **	50	51	-	-
Heritage Developments Limited *	100	100	-	-
Hilltop Gardens Retirement Village Limited	100	100	-	-
Hilltop Management Services Limited	100	100	-	-
Holiday Resorts Limited *	100	100	-	-
Luzzu Properties Limited (merged into Suncrest Hotels p.l.c.)	-	100	-	-
AX Business Park Limited	100	100	-	-
Palazzo Merkanti Leisure Limited *	100	100	-	-
Prime Buildings Limited	75	75	-	-
Renewables Limited	100	100	-	-
Royal Hotels Limited *	100	100	-	-
Simblija Developments Limited *	100	100	-	-
Skyline Developments Limited *	100	100	-	-
St. John's Boutique Hotel Limited *	100	100	-	-
Suncrest Finance Limited (merged into AX Finance Limited)	-	100	-	-
Suncrest Hotels p.l.c.*	100	100	-	-
The Waterfront Entertainment Venture Ltd	100	100	-	-
Verdala Mansions Limited	100	100	-	-
AX Real Estate p.l.c.(formerly AX Real Estate Limited)	100	100	-	-
Engage People Limited	100	100	-	-
Verdala Terraces Limited (incorporated on 30 September 2021)	100	-	-	-

** AX Group p.l.c. being the ultimate parent company of these entities through direct ownership of their immediate parent, AX Real Estates p.l.c.*

*** The investment in Hardrocks Estates Limited is accounted as an investment in a joint venture as from 9 September 2021, following the sale of 1% interest in the company. Following this sale, the shareholders of Hardrocks Estates Limited hold equal voting rights and rights for return.*

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 from contracts with customers

Revenue includes all revenues from the ordinary business activities of the Group and is recorded net of value added tax. Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The Group recognises revenue when (or as) it satisfies a performance obligation by transferring control of a promised good or service to the customer. The Group has generally concluded that it is the principal in its revenue arrangements.

The Group recognises revenue from the following major sources:

i. Sale of goods
ii. Provision of hospitality services primarily accommodation in hotels and boutique properties and catering services offered by the Group outlets
iii. The provision of accommodation services within a retirement home, independent living facilities and other ancillary services
iv. Construction, turnkey and restoration works of residential, commercial and industrial properties
v. Rental income
vi. Sale of inventory property – completed property and property under development

i. Sale of goods

The Group, through its subsidiaries, sells food and beverage products and healthcare items directly to customers through its own outlets. Revenue is recognised when control of the goods has transferred, being at the point the customer purchases the goods at the outlet or property. Customers do not have the right of return and no warranties are given on the items sold.

ii. Provision of services - Hospitality and healthcare

The Group, through various subsidiaries, provides hospitality and healthcare services.

Revenue from hospitality includes revenue from accommodation, foods and beverage services and other ancillary services. Each of the services rendered is recognised at a point in time when transferring control of the contracted service to the customer.

Revenue from health care services includes revenue recognised over time on a systematic basis based on the period consumed as a proportion of the total contractual period for: (i) revenue from Hilltop Gardens Retirement Village consisting of revenue from self-catering apartments and penthouses that are occupied by tenants for definite periods and (ii) revenue from Simblija Care Home consisting of revenue from stays for short term respite care, convalescence and post-operative recovery and intensive nursing care to the more dependent elderly residents; and revenue recognised at a point in time when transferring control of the contracted service to the customer – related to ancillary services provided at Simblija Care Home and other amenities.

iii. Provision of services – Construction

The Group provides construction related works to its customers. Revenue from construction works is recognised over time, based on the proportion of works performed to date. The Directors consider that this input method is an appropriate measure of the progress towards complete satisfaction of these performance obligations under IFRS15. The Group becomes entitled to invoice customers for construction works, when a third-party assessor signs off a certificate confirming the achievement of a milestone.

iv. 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 investment properties. Rental income arising from operating leases on investment properties 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. 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.

Notes to the Financial Statements – continued

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

5.4 Revenue from contracts with customers - continued

v. 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.

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 as a lessee

The Company applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Company recognises lease liabilities to make lease payments and right-of use assets representing the right to use the underlying assets.

i) Right-of-use assets

The Company recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use, initial direct costs incurred, and lease payments made at or before the commencement date less assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

Offices - 20 years

If ownership of the leased asset is transferred to the Company at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

The right-of-use assets are also subject to impairment.

Notes to the Financial Statements – continued

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

5.7 Leases - continued

ii) Lease liabilities

At the commencement date of the lease, the Company recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating the lease, if the lease term reflects the Company exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs. In calculating the present value of lease payments, the Company uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

The Company's lease liabilities are detailed in Note 19.

Group as lessor

Leases in which the Group does 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 recognized over the lease term on the same basis as rental income.

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 initially recognised as deferred income and subsequently 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 realized directly in equity is realized 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.

Notes to the Financial Statements – continued

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

5.9 Taxation - continued

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 realized or the liability is settled, based on tax rates that have been enacted or substantively enacted by the reporting date.

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

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 realized.

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.

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.

Notes to the Financial Statements – continued

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

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 recognized 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.

5.12 Investment in associates and joint ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decision of the investee but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

Group

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries. The Group's investment in its associate and joint venture are accounted for using the equity method.

Under the equity method, the investment in an associate or a joint venture is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate or joint venture since the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is not tested for impairment separately. The statement of profit or loss reflects the Group's share of the results of operations of the associate or joint venture after adjustments to align the accounting policies of the Group, from the date that significant influence commences until the year-ended 31 October 2021.

The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Groups' share of losses in an associated undertaking equals or exceeds its interest in the associated undertaking, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associated undertaking. The use of the equity method should cease from the date that significant influence ceases.

After application of the equity method, the Group determines whether it is necessary to recognize an impairment loss on its investment in its associate or joint venture. At each reporting date, the Group determines whether there is objective evidence that the investment in associate or joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value, and then recognizes the loss within "Share of profit of associates and joint ventures" in the statement of profit or loss.

Upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

Company

Investments in associates and joint ventures are initially recognized at cost. The Company subsequently measures the investments in associates and joint ventures at cost less any accumulated impairment losses.

Notes to the Financial Statements – continued

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

5.13 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

5.13 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

5.13 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

5.13 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

5.13 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.

5.14 Impairment of non-financial assets

All other assets are tested for impairment in terms of this accounting policy except for inventory and investment properties 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

5.15 Property, plant and equipment

Property, plant and equipment other than land and buildings are initially recorded at cost. These are subsequently stated at cost less accumulated depreciation and accumulated impairment losses, if any. Cost includes purchase price and any directly attributable cost of preparing the asset for its intended use.

Property, plant and equipment are derecognised on disposal or when no future economic benefits are expected from their use or disposal. Gains or losses arising from derecognition represent the difference between the net disposal proceeds, if any, and the carrying amount, and are included in profit or loss in the period of derecognition.

Depreciation is provided on the below items, at rates intended to write down the cost less residual value of the assets over their expected useful lives. The annual rates used, which are consistent with those applied in the previous year, are as follows:

Improvements	10% per annum
Furniture, fixtures and fittings	5% - 33% per annum
Computer equipment	20% per annum
Plant and machinery	5% - 20% per annum

Gains and losses on disposal of property, plant and equipment are determined by reference to their carrying amount and are taken into consideration in determining the operating profit. The residual useful lives of the assets are reviewed and adjusted as appropriate, at each financial reporting date. The carrying amount of an asset is written down immediately to its recoverable amount if the carrying amount of the asset is greater than its estimated recoverable amount.

Subsequent costs are included in the carrying amount of the asset or recognized as separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group during the financial period in which they are incurred.

5.16 Revaluation of land and buildings

Land and buildings are held for use in the production or supply of goods or services or for administrative purposes. Subsequent to initial recognition, land and buildings are stated at revalued amount at the date of the revaluation less any subsequent accumulated depreciation and subsequent impairment losses. Revaluations are made for the entire class of land and buildings and with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using revaluations at the date of the statement of financial position. Any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset.

Any revaluation increase arising on the revaluation is credited to the revaluation reserve unless it reverses a revaluation decrease for the same asset previously recognised in the profit and loss, in which case, the increase is credited to profit and loss to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation is recognised in profit and loss to the extent that it exceeds the balance, if any, held in the revaluation reserve relating to a previous revaluation of that asset.

An annual transfer from the asset revaluation surplus to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost. Additionally, accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation surplus relating to the particular asset being sold is transferred to retained earnings.

Depreciation commences when the depreciable assets are available for use and is charged to profit or loss so as to write off the cost /revalued amount, less any estimated residual value, over their estimated useful lives, using the straight-line method, on the following bases:

Buildings	2%

Notes to the Financial Statements – continued

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

5.17 Investment properties

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

Investment properties are initially measured at cost, including transaction costs, less impairment losses. Subsequent to initial recognition, investment properties are 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 derecognized 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 recognized 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 properties is determined in accordance with the requirements for determining the transaction price in IFRS 15.

Transfers are made to (or from) investment properties only when there is a change in use. For transfer from investment properties 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.

5.18 Inventories

Inventories are valued at the lower of cost and net realisable value. Cost is determined on a weighted average cost basis. Net realisable value is the price at which stocks can be sold in the course of business less anticipated costs of selling. Provision is made where necessary for obsolete, slow moving and defective stock.

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.

Inventory properties are classified as non-current when these are expected to be realised after more than one year from reporting date.

Notes to the Financial Statements – continued

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

5.19 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.

5.20 Non-current assets held for sale

The Group classifies non-current assets (principally investment properties) and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Non-current assets and disposal groups classified as held for sale (except for investment properties measured at fair value) are measured at the lower of their carrying amount and fair value less costs to sell. Costs to sell are the incremental costs directly attributable to the disposal of an asset (disposal group), excluding finance costs and income tax expense.

The criteria for held for sale classification is regarded as met only when the sale is highly probable, and the asset or disposal group is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sell will be withdrawn. Management must be committed to the plan to sell the asset and the sale is expected to be completed within one year from the date of the classification.

Investment properties held for sale continues to be measured at fair value. Assets and liabilities classified as held for sale are presented separately in the statement of financial position.

5.21 Legal merger

The merger is accounted using the book value method of accounting, whereby the acquiring company recognises the assets acquired and liabilities assumed at the carrying amounts in the consolidated financial statements as of the date of the legal merger, on the effective date of as stipulated in the Draft Terms of Merger.

5.22 Ordinary shares

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

5.23 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.

5.24 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.

Notes to the Financial Statements – continued

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

5.25 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. Related party accounts are carried at cost, net of any impairment charge.

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’.

Judgements

In the process of applying the Group’s accounting policies, the Directors have made the following judgements:

Recoverability of deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon likely timing and level of future taxable profits together with future tax planning strategies (note 29).

Deferred tax on revalued land and buildings

The Group’s own-use land and buildings within property, plant and equipment are measured at revalued amounts under IAS16. In the financial statements of the property-owning subsidiaries, these land and buildings were classified as investment property at fair value, and the resulting deferred tax liability was measured on the basis that the value of these assets will be recovered through sale (rather than through use) under the rebuttable presumption in IAS12. In Malta, the income tax rate applicable to benefits generated through operating the asset (recovery through use) is 35%, while that applicable on sale of property is 8% or 10% on the sales proceeds.

Judgement is required in preparing these consolidated financial statements to determine whether the Group will recover the value of the land and buildings through use or through sale, or partially through use and sale. During the current year, management of the property-owning subsidiaries entered into contracts with other group subsidiaries for a period of twenty years for the management and operation of the assets. This is part of a restructuring exercise in line with the updated strategy of the Group. As a result, the Group has reassessed the expected manner of recover of these property, plant and equipment. In making this assessment, management made an estimation of the amount relating to non-depreciable assets, being land carried at fair value, where the deferred tax on revaluation assumes recovery through sale. For the depreciable portion, an estimation of the period over which management expects to recover the property, plant and equipment through use was made at twenty years, being the duration of the contract. The remaining balance beyond the period of use was assumed to be recovered through sale. Prior to the reorganisation, management made an assumption that it expected to recover the property, plant and equipment through sale – in the absence of long-term contracts and in line with the Group’s strategy at that time. Had management estimated recovering part of the depreciable portion of the property, plant and equipment through use, the deferred tax recognized would not have been materially different than the amount actually recognized.

Notes to the Financial Statements – continued

6. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS – continued

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 land and buildings and investment properties

The Group uses the services of professional valuers to revalue the land and buildings and investment properties. 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, maximizing the use of relevant observable inputs and minimising the use of unobservable inputs. As described in Note 18, 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 properties. Note 18 provides detailed information regarding these valuation methods and the key assumptions used in performing such valuations.

Provision for expected credit losses of trade receivables

The entity applies the simplified model of recognising lifetime expected credit losses for all trade receivables as these items do not have a significant financing component. In measuring the expected credit losses, the trade receivables have been assessed on a collective basis as they possess shared credit risk characteristics. They have been grouped based on the days past due and also according to the geographical location of customers.

Recoverability of loans receivable

The Directors have assessed the recoverability of loans receivable by reference to the cashflow projections of AX Real Estates p.l.c. ("the subsidiary"), including planned inflows, outflows and available financing facilities. AX Real Estates p.l.c. receives dividends from its own subsidiaries which, in turn, earn rental income on investment properties owned and leased to other Group companies and third parties. Moreover, subsequent to year end (note 38), the subsidiary issued 150,000,000 ordinary 'B' shares at a value of EUR0.3334 each in favour of the Company against the partial capitalisation of EUR50,000,000 from the loan balance receivable by the Company as at reporting date.

Notes to the Financial Statements – continued

7. SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on its products and services and has five reportable segments, as follows:

- Hospitality

The hospitality segment operates a portfolio of hotel properties located in Valletta, Sliema and Qawra. Revenue generated by the hospitality operating segment includes revenue from accommodation, foods and beverage services and other ancillary services. Each of the services rendered is recognised at a point in time when transferring control of the contracted service to the customer.

- Construction

This operating segment undertakes construction projects with an emphasis on civil engineering works, turnkey assignments and restoration works, rendering services to both third party customers as well as companies forming part of the Group. Revenue from construction works is recognised over time, based on the proportion of works performed to date. The Directors consider that this input method is an appropriate measure of the progress towards complete satisfaction of these performance obligations under IFRS15. The Group becomes entitled to invoice customers for construction works, when a third-party assessor signs off a certificate confirming the achievement of a milestone.

- Healthcare

The healthcare operating segment encompasses Hilltop Gardens Retirement Village and Simblija Care Home, which offer tailor-made packages covering different levels of long- and short-term care. Revenue generated from health care services includes revenue recognised over time on a systematic basis based on the period consumed as a proportion of the total contractual period for: (i) revenue from Hilltop Gardens Retirement Village consisting of revenue from self-catering apartments and penthouses that are occupied by tenants for definite periods and (ii) revenue from Simblija Care Home consisting of revenue from stays for short term respite care, convalescence and post-operative recovery and intensive nursing care to the more dependent elderly residents; and revenue recognised at a point in time when transferring control of the contracted service to the customer – related to ancillary services provided at Simblija Care Home and other amenities.

- Real Estate & Property Rentals

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 investment properties. Rental income arising from operating leases on investment properties 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. 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.

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.

- Administration, Finance & Investment

The administration, finance and investment segment comprises of a number of entities whose principal activity is that of either holding investments in associate undertakings or acting as a financing arm for the Group.

No operating segments have been aggregated to form the above reportable operating segments.

The Chief Operating Decision Maker (CODM) of the Group is deemed to be the Board of Directors, who monitors the operating results of the business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on profit or loss and is measured consistently with profit or loss in the consolidated financial statements. The Group’s financing (including finance costs, finance income and other income) and income taxes are managed on a group basis and are not allocated to operating segments.

Notes to the Financial Statements – continued

7. SEGMENT INFORMATION – continued

Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

Intra-segment revenues are eliminated upon consolidation and reflected below.

Segments for the year-ended 31 October 2021

	Hospitality EUR	Construction EUR	Healthcare EUR	Real estate and property rentals EUR	Admin, finance and investment EUR	Adjustments and eliminations EUR	Consolidated EUR
Revenue	20,118,717	8,740,734	7,296,320	30,563,063	11,126,491	(36,682,811)	41,162,514
Other operating Income	-	21,602	21,488	301,677	52,082	(9,375)	387,474
Other operating costs	(5,596,249)	(4,706,352)	(2,900,248)	(18,869,483)	(2,614,732)	11,519,193	(23,167,871)
Staff costs	(4,141,152)	(3,741,842)	(2,607,897)	(14,377)	(1,711,649)	514,619	(11,702,298)
EBITDA	10,381,316	314,142	1,809,663	11,980,880	6,852,192	(24,658,374)	6,679,819
Depreciation	(1,013,618)	(183,466)	(28,444)	(923,626)	(124,965)	(4,540,419)	(6,814,538)
Gain on revaluation							4,964,812
Operating profit							4,830,093
Share of results of associates and joint ventures							541,268
Net finance costs							(3,916,213)
Profit before tax							1,455,148
Taxation							473,130
Profit for the year							1,928,278
Segment assets	96,411,900	7,767,515	61,333,857	425,255,183	247,175,337	(463,844,542)	374,099,250
Segment liabilities	(78,897,608)	(7,552,645)	(69,794,382)	(219,301,498)	(149,102,482)	387,692,046	(136,956,569)

Segments for the year-ended 31 October 2020

	Hospitality EUR	Construction EUR	Healthcare EUR	Real estate and property rentals EUR	Admin, finance and investment EUR	Adjustments and eliminations EUR	Consolidated EUR
Revenue	15,335,868	9,256,296	7,558,655	8,312,656	2,565,751	(14,313,259)	28,715,967
Other operating income	-	2,282	27,730	310,516	2,958	(2,958)	340,528
Other operating costs	(11,480,571)	(5,165,169)	(5,517,191)	(1,503,562)	(1,061,533)	11,869,244	(12,858,782)
Staff costs	(6,166,775)	(3,746,023)	(2,940,329)	-	(1,737,984)	1,013,587	(13,577,524)
EBITDA	(2,311,478)	347,386	(871,135)	7,119,610	(230,808)	(1,433,386)	2,620,189
Depreciation							(7,087,334)
Operating loss							(4,467,145)
Share of results of associates							(320,665)
Net finance costs							(3,441,793)
Loss before tax							(8,229,603)
Taxation							339,873
Loss for the year							(7,889,730)
Segment assets	28,842,868	12,054,279	13,449,910	345,736,248	205,763,211	(257,189,128)	348,657,388
Segment liabilities	(10,985,852)	(11,848,372)	(20,973,116)	(103,005,813)	(151,284,166)	166,888,563	(131,208,816)

Notes to the Financial Statements – continued

8. REVENUE

Revenue by category of activity:

	Group		Company	
	2021	2020	**2021**	2020
	EUR	EUR	**EUR**	EUR
Construction works and building materials	**6,465,732**	6,039,800	**-**	-
Hospitality and entertainment	**13,975,203**	14,987,031	**-**	-
Healthcare	**5,523,762**	5,876,608	**-**	-
Sale of property and real estate	**8,000,350**	750,000	**-**	-
Rental income	**1,453,113**	1,062,528	**111,574**	-
Management services	**-**	-	**626,097**	-
Dividends receivable	**-**	-	**10,110,769**	333,333
	35,418,160	28,715,967	**10,848,440**	333,333

Construction works, building materials and management services, hospitality and entertainment, healthcare and sale of property and real estate fall under IFRS 15 and are recognized as follows:

Timing of revenue recognition

Group

	2021	2020
	EUR	EUR
At a point in time		
Sale of property and real estate	**8,000,350**	750,000
Hospitality and entertainment	**13,975,203**	15,378,122
Healthcare	**1,580,059**	1,532,412
	23,555,612	17,660,534
Over time		
Construction works, building materials and management services	**6,465,732**	6,039,800
Healthcare	**3,943,703**	4,344,196
	10,409,435	10,383,996

9. OTHER OPERATING INCOME

	Group		Company	
	2021	2020	**2021**	2020
	EUR	EUR	**EUR**	EUR
Ancillary services	**387,474**	340,528	**42,708**	-

Notes to the Financial Statements – continued

10. STAFF COSTS

	Group		Company	
	2021	2020	**2021**	2020
	EUR	EUR	**EUR**	EUR
Personnel costs				
Wages and salaries	**10,605,931**	11,146,324	**1,603,885**	-
Social security costs	**904,924**	934,101	**69,225**	-
	11,510,855	12,080,425	**1,673,110**	-
Subcontracted labour	**1,135,626**	2,510,686	**-**	-
Salaries capitalised	**(944,183)**	(1,013,587)	**-**	-
Total staff costs	**11,702,298**	13,577,524	**1,673,110**	-

Wages and salaries are net of COVID-19 related wage supplement received from the Government of Malta during the year which amounted to EUR 2,318,830 (March to October 2020: EUR1,629,944).

The average number of employees (including the Directors) during the year were:

	Group		Company	
	2021	2020	**2021**	2020
Management and administration	150	127	**36**	-
Operations and distribution	427	501	**2**	-
	577	628	**38**	-

11. FINANCE INCOME

	Group		Company	
	2021	2020	**2021**	2020
	EUR	EUR	**EUR**	EUR
Interest income from investments	**53**	61	**-**	-
Interest income from loans and receivables	**28,005**	-	**12,993**	846,868
	28,058	61	**12,993**	846,868

Notes to the Financial Statements – continued

12. FINANCE COSTS

	Group		Company	
	2021	2020	**2021**	2020
	EUR	EUR	**EUR**	EUR
Interest on bank loans and overdrafts	**670,224**	273,824	**-**	-
Interest on debt securities in issue	**3,225,495**	3,149,075	**860,137**	749,075
Interest on other loans	**33,714**	28,330	**-**	-
Interest on lease liabilities	**-**	-	**120,653**	-
Interest on amounts payable to subsidiary	**-**	-	**1,381,155**	-
Unrealised exchange differences	**14,838**	(9,375)	**-**	-
	3,944,271	3,441,854	**2,361,945**	749,075

13. OPERATING COSTS

	Group		Company	
	2021	2020	**2021**	2020
	EUR	EUR	**EUR**	EUR
Auditors' remuneration				
For audit services – statutory audit	**130,000**	109,500	**16,120**	6,000
For audit services – other assurance	**81,500**	-	**-**	-
For non-audit services	**9,800**	9,800	**300**	300
Stock consumed	**3,829,407**	3,644,414	**-**	-
Cost of constructing property sold	**4,191,262**	494,741		
Construction costs	**1,022,912**	873,965	**-**	-
Movement in allowance for expected credit losses	**87,304**	23,305	**121,896**	42,839
Provision against claims for damages	**1,750,000**	-	**1,750,000**	-
Amortisation of bond issue costs	**99,362**	94,345	**27,659**	32,016
Water and electricity	**1,234,784**	1,307,499	**18,008**	-
Repairs and maintenance	**469,638**	455,976	**40,052**	-
Professional fees	**554,470**	598,508	**165,989**	37,730
Other administrative costs	**3,963,078**	5,246,729	**234,858**	17,995
	17,423,517	12,858,782	**2,374,882**	136,880

14. KEY MANAGEMENT PERSONNEL COMPENSATION

	Group		Company	
	2021	2020	**2021**	2020
	EUR	EUR	**EUR**	EUR
Directors' compensation				
Short-term benefits	**786,358**	784,704	**743,359**	-
Other key management personnel compensation				
Salaries and social security contributions	**563,842**	517,237	**228,215**	-

Notes to the Financial Statements – continued

15. TAXATION

As at year-end, unabsorbed tax losses and other temporary differences for which no asset is recognised in the Group amounted to EUR10,875,846 (2020: EUR6,996,067).

	Group		Company	
	2021	2020	**2021**	2020
	EUR	EUR	**EUR**	EUR
Malta income tax:				
Current				
- for the year (i)	**385,402**	(163,802)	**-**	7,090
- losses surrendered to subsidiaries	**-**	-	**(1,073,399)**	-
Deferred tax through profit or loss	**(858,532)**	(176,071)	**(303,724)**	-
	(473,130)	(339,873)	**(1,377,123)**	7,090
Deferred tax through other comprehensive income	**(1,580,743)**	(1,532,062)	**-**	-
	(2,053,873)	(1,871,935)	**(1,377,123)**	7,090

(i) Current income tax credit for prior year related to tax at source refundable, net of withholding taxes

	Group		Company	
	2021	2020	**2021**	2020
	EUR	EUR	**EUR**	EUR
Profit/(Loss) before taxation	**1,455,148**	(8,229,603)	**51,714,876**	294,246
- Tax thereon at 35%	**509,302**	(2,880,361)	**18,100,207**	102,986
Tax effect of:				
Tax effect of permanent difference	**(2,563,175)**	1,008,426	**(19,477,330)**	(95,896)
Income tax (credit)/expense for the year	**(2,053,873)**	(1,871,935)	**(1,377,123)**	7,090

Notes to the Financial Statements – continued

16. EARNINGS PER SHARE

The earnings per share has been calculated on the Group's profit for the year of EUR1,928,278 (2020: loss for the year of EUR7,889,730) divided by the weighted average number of ordinary shares in issue during the year.

	Group	
	2021	2020
	EUR	EUR
Weighted average number of shares in issue	**1,164,688**	1,164,688
	EUR	EUR
Basic earnings / (loss) per share	**1.66**	(6.77)

Notes to the Financial Statements – continued

17. PROPERTY, PLANT AND EQUIPMENT

Group	**Land and buildings EUR**	**Improvements EUR**	**Plant and machinery EUR**	**Motor vehicles EUR**	**Furniture, fixtures and equipment EUR**	**Total EUR**
Fair value/Cost						
At 1.11.2019	243,932,512	29,333	21,681,156	822,629	43,083,747	309,549,377
Additions	777,572	-	608,102	9,000	3,041,658	4,436,332
Revaluation	(14,921,966)	-	-	-	-	(14,921,966)
Disposal	(118,081)	-	-	(11,188)	-	(129,269)
Write offs	-	-	-	-	-	-
Transfer*	(6,614,636)	-	-	-	-	(6,614,636)
At 31.10.2020	223,055,401	29,333	22,289,258	820,441	46,125,405	292,319,838
Additions	2,671,758	-	340,188	3,500	1,456,848	4,472,294
Revaluation	16,588,946	-	-	-	-	16,588,946
Disposal	(28,848)	-	-	-	-	(28,848)
Loss of control of a subsidiary	(1,409,750)	-	-	(16,509)	(178,819)	(1,605,078)
Transfer from Investment Property (note 18)	6,178,962	-	870,423	-	(1,300,605)	5,748,780
Transfer between classes	-	-	(4,097,408)	-	4,097,408	-
Other transfer*	(3,300,689)	-	-	-	-	(3,300,689)
At 31.10.2021	**243,755,780**	**29,333**	**19,402,461**	**807,432**	**50,200,237**	**314,195,243**
Depreciation						
At 01.11.2019	4,129,454	24,930	12,400,509	524,939	24,717,178	41,797,010
Provision for the year	3,093,290	4,403	918,942	17,542	3,053,157	7,087,334
Provision released on disposal	-	-	-	(4,474)	-	(4,474)
Transfer*	(6,614,636)	-	-	-	-	(6,614,636)
At 31.10.2020	608,108	29,333	13,319,451	538,007	27,770,335	42,265,234
Provision for the year	2,777,084	-	601,657	66,229	3,369,568	6,814,538
Loss of control of a subsidiary	-	-	-	(12,738)	(116,971)	(129,709)
Transfer*	(3,300,689)	-	-	-	-	(3,300,689)
At 31.10.2021	**84,503**	**29,333**	**13,921,108**	**591,498**	**31,022,932**	**45,649,374**
Net book value						
At 31.10.2021	**243,671,277**	**-**	**5,481,353**	**215,934**	**19,177,305**	**268,545,869**
At 31.10.2020	222,447,293	-	8,969,807	282,434	18,355,070	250,054,604
At 01.11.2019	239,803,058	4,403	9,280,647	297,690	18,366,569	267,752,367

*This transfer relates to accumulated depreciation at the date of revaluation, eliminated against the gross carrying amount for the asset.

Notes to the Financial Statements – continued

17. PROPERTY, PLANT AND EQUIPMENT – continued

The Group's land and buildings were revalued by independent professional qualified valuers. The surplus on revaluation was transferred to the revaluation reserve. Note 18 provides detailed information regarding the key assumptions used in performing such revaluation. The Directors assumed that the fair value of these additions is equivalent to its cost.

The carrying amount of land and buildings, had they been measured at cost, would have amounted to EUR60,254,474 (2020: EUR54,153,972).

Company

	Land and buildings	Furniture, fittings and equipment	Motor vehicles	Total
	EUR	EUR	EUR	EUR
	Fair value	Cost	Cost	
At 01.11.2020	-	-	-	-
Effect of merger (note 3)	4,180,079	1,471,786	432,055	6,083,920
Additions	-	948,508	-	948,508
Transfer to investment property (note 18)	(4,180,079)	-	-	(4,180,079)
At 31.10.2021	**-**	**2,420,294**	**432,055**	**2,852,349**
Depreciation				
At 01.11.2020	-	-	-	-
Effect of merger (note 3)	-	1,071,124	360,509	1,431,633
Provision for the year	-	113,840	8,628	122,468
At 31.10.2021	**-**	**1,184,964**	**369,137**	**1,554,101**
Net book value				
At 31.10.2021	**-**	**1,235,330**	**62,918**	**1,298,248**
Net book value				
At 31.10.2020	-	-	-	-

Notes to the Financial Statements – continued

18. INVESTMENT PROPERTIES

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

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

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

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

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

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

Valuation process

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

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

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

Notes to the Financial Statements – continued

18. INVESTMENT PROPERTIES – continued

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

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

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

(i) Investment Properties

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

(ii) Land and Buildings

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

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

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

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

Notes to the Financial Statements – continued

18. INVESTMENT PROPERTIES – continued

i. *Investment Properties*

Type of Property	Valuation Technique	Inputs	Sensitivity
Residential property amounting to EUR3,839,000	Income capitalisation approach	Capitalisation rate at 4% and a yearly rental income of €144,000	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 EUR9,970,035	Income capitalisation approach	The inputs used to calculate the total value of the property is an annual return of 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.
Land amounting to EUR18,757,836	Income capitalisation approach	The inputs used to calculate the total value of the property on completion is an annual return of EUR 145 per square meter at a capitalisation rate of 5%.	The higher the capitalisation rate, the lower the fair value.The higher the annual return per square meter the higher the fair value.
Land amounting to EUR5,827,678	Market approach	Market transaction	The higher the rates, the higher the fair value.
Residential property amounting to EUR410,990	Market approach	Based on prices of similar property	The higher the market rates, the higher the fair value
Residential property amounting to EUR5,250,000	Replacement Cost Approach	This method takes into account the actual physical building fabric constituting the facility, together with an estimated land value. The valuation relies on estimated going rates of the various components of the existing building.	The higher the rates for construction, finishings, services and fittings the higher the fair value.
Residential property amounting to EUR4,390,000	Market approach	The valuation of investment property was based on market rates for comparable advertised properties taking into account the size, fit out of the subject units, location of the property and current situation of the residential and commercial property market.	The higher the market rates, the higher the fair value.

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

Notes to the Financial Statements – continued

18. INVESTMENT PROPERTIES – continued

ii. Land and Buildings

Type of Property	Valuation Technique	Inputs	Sensitivity
Commercial property amounting to EUR7,703,880	Income capitalisation approach	The inputs used to calculate the total value of the property is an annual return in the range of EUR200 and EUR220 per square meter at a capitalisation rate of 6%	The higher the capitalisation rate, the lower the fair value. The higher the rental income and growth rate the higher the fair value.
Commercial property*	Income capitalisation approach	The main inputs used are a rental income of € 414,500 per annum, a management cost of 5% and a capitalisation rate of 5.75%.	The higher the capitalisation rate, the lower the fair value. The higher the rental income and the lower the management cost 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 EUR182,601,740	Average of income capitalisation approach and replacement cost approach	Income capitalization approach: EBIDTA range between €1,136,310 and €7,496,738, capitalisation yield of 8.33%, land appreciation of 4.5% per annum, discount rate for commercial property sale at termination 6% and discount rate for future income of 11.83% Replacement cost approach: This method takes into account the actual physical building fabric constituting the facility, together with an estimated land value. The valuation relies on estimated going rates of the various components of the existing building.	Income capitalization approach: The higher the EBITDA and capitalisation yield, the higher the fair value. Replacement cost approach: The higher the rates for construction, finishings, services and fittings, the higher the fair value.
Commercial property amounting to EUR9,025,159	Replacement cost approach	This method takes into account the actual physical building fabric constituting the facility, together with an estimated land value. The valuation relies on estimated going rates of the various components of the existing building to which a multiplication factor was applied to factor-in the property's unique characteristics. The main inputs used were EUR250/sqm for shell construction, EUR200/sqm for building services, EUR200/sqm to EUR250/sqm for finishing depending on the area.	The higher the rates for construction, finishing, services and fittings, the higher the fair value.
Commercial property*	Replacement cost approach	Market rate per square meter and € 1,750/sqm which was multiplied by 1.5 given the exclusive setting of the project and by 1.2 considering the location. Units enjoying country views have been factored upward by 25% while those enjoying town views have been factored upward by 15%. The value of the committed units was reduced taking into account a growth of 3.5% per annum discounted at a rate of 8.5%.	The higher the market rate, the higher the fair value. The higher the growth rate and the lower the discount rate the higher the fair value.
Commercial property*	Replacement cost approach	The main inputs used were € 350/sqm for shell construction, € 180/sqm for building services, €200/sqm to €300/sqm for finishings depending on the area, € 150/sqm for landscaped areas and €300/sqm for the pool area. Property, plant and equipment with a net book value of €10,400,000 was deducted from the total valuation.	The higher the rates the higher the fair value.

*Total fair value of such commercial properties amounts to EUR39,601,504.

During the year the Group used the same valuation techniques used in the previous year.

Notes to the Financial Statements – continued

19. LEASES

Group as a lessor

The operating leases relating to investment properties 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 EUR1,329,637 (2020: EUR529,378).

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

	2021 EUR	2020 EUR
Within one year	**1,132,838**	973,779
Between two and five years	**1,744,526**	1,900,827
Over five years	**598,646**	1,917,075
	3,476,010	4,791,681

Company as a lessee

On 1 November 2020, the Company entered into a new lease agreement with a subsidiary for the rental of its Head Office for a period of ten years. The lease was superseded by a new lease agreement made on 23 November 2021 with effect from 1 July 2021 for twenty years and four months. In terms of the current lease agreement, the Company pays annual rent of EUR352,450.

The carrying amounts of right-of-use assets recognized and the movements during the year are as follows:

	Offices EUR
Initial recognition at 1 November 2020	1,871,009
Lease modification at 1 July 2021	3,281,704
Depreciation on right-of-use assets	(207,160)
Closing balance at 31 October 2021	**4,945,553**

The carrying amounts of lease liabilities and the movements during the year are as follows:

	2021 EUR
Initial recognition at 1 November 2020	1,871,009
Lease modification at 1 July 2021	3,281,704
Accretion of interest	120,653
Amounts set-off in respect of payments	(263,333)
Closing balance at 31 October 2021	**5,010,033**
Current	140,907
Non-current	4,869,126
	5,010,033

Notes to the Financial Statements – continued

20. FINANCIAL ASSETS

Group

	Loans to shareholders EUR	Loans to other related party EUR	Investments in associates and joint ventures EUR
At 31 October 2019	-	457,228	6,832,761
Share of results	-	-	(320,665)
Transfer to payable account	-	(457,228)	-
At 31 October 2020	**-**	**-**	**6,512,096**
Loss of control of a subsidiary	-	-	348,337
Share of results	-	-	541,268
New loan origination	830,318	900,000	-
At 31 October 2021	**830,318**	**900,000**	**7,401,701**

Loans to shareholders and to other related party

Loans to shareholders and to other related party are unsecured, bear an interest rate of 4% and are repayable by 31 December 2023. The entity determines the expected credit loss allowance on these loans based on a probability of default of 0.16% and a loss given default of 100%.

Investments in associates and joint ventures

The Group has a 36% interest and voting rights in Valletta Cruise Port p.l.c. (2020: 36%), 33% interest and voting rights in Imselliet Solar Limited (2020: 33%) and 50% interest and voting rights in Hardrocks Estates Limited (2020: 51%). The entities are privately owned entities registered and operating in Malta and are not listed on any public exchange. The Group's interest in Valletta Cruise Port p.l.c., Imselliet Solar Limited and Hardrocks Estates Limited is accounted for using the equity method in the consolidated financial statement.

The Group's carrying amount of the investments includes goodwill amounting to EUR1,449,613 (2020: EUR1,449,613) resulting upon acquisition of an interest at an amount higher than its book value.

The following table illustrates the summarised financial information of the Group's investment in these entities:

	2021 EUR	2020 EUR
Current assets	**4,506,285**	3,656,023
Non-current assets	**53,818,502**	53,427,332
Current liabilities	**5,015,152**	4,739,872
Non-current liabilities	**37,132,325**	37,653,191
Revenue	**6,251,963**	3,373,376
Profit / (loss) for the year	**844,844**	(230,035)

The associates had no contingent liabilities or capital commitments at 31 October 2021 and 31 October 2020.

Notes to the Financial Statements – continued

20. FINANCIAL ASSETS – continued

Company

	Investment in subsidiaries EUR	Loans Receivable EUR
Cost		
At 1 November 2019	1,655,297	2,098,066
Additions	1	25,278,974
At 1 November 2020	1,655,298	27,377,040
Effect of merger	71,071,612	(27,377,040)
Additions	2,012,993	113,836,334
Disposals	(37,678,476)	-
Reduction in capital contributions	(6,600,000)	-
Transfer from current receivable	-	130,443
At 31 October 2021	**30,461,427**	**113,966,777**
Expected credit loss		
At 1 November 2019	-	1,497
Movement for the year	-	42,306
At 1 November 2020	-	43,803
Movement for the year	-	125,311
At 31 October 2021	**-**	**169,114**
Net book value		
At 31 October 2021	**30,461,427**	**113,797,663**
At 31 October 2020	1,655,298	27,333,237

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.

During the year, the Group went through a reorganisation exercise whereby the shares in a number of subsidiaries were sold to another subsidiary, AX Real Estates p.l.c., for the purpose of consolidating the main property letting activities of the Group into a newly formed sub-group. The Company sold the shares held in these subsidiaries for a consideration of EUR83,695,921, net of reversals of past capital contributions amounting to EUR6,600,000. The cost as at the date of disposal amounted to EUR37,678,476, resulting in a gain on disposal of investment in subsidiaries amounting to EUR46,017,445. The addition to investment in subsidiaries relates to an investment in a newly formed subsidiary, Verdala Terraces Limited which is a limited liability company incorporated in Malta on 30 September 2021.

Notes to the Financial Statements – continued

20. FINANCIAL ASSETS – continued

Loans receivable
Loans receivable include loans to shareholders amounting to EUR830,318 which are unsecured, bear an interest rate of 4% and are repayable by 31 December 2023. The remaining balance relates to subsidiary undertaking loans, which are unsecured, carries interest at 3% + Euribor (2020: 4%) and is repayable on 31 December 2034. The entity determines the expected credit loss allowance on the Group undertakings loans based on a probability of default of 0.16% and a loss given default of 100%. The increase in loan during the year ended 31 October 2021 mostly relates to the disposal of investment in subsidiaries and the reassignment of loans following a Group restructuring.

21. INVENTORIES

	Group		Company	
	2021	2020	**2021**	2020
	EUR	EUR	**EUR**	EUR
Property held for development and re-sale	**25,427,271**	3,619,793	**762,466**	-
Raw materials and consumables	**1,277,973**	1,348,668	**-**	-
	26,705,244	4,968,461	**762,466**	-
Current	**3,509,837**	4,968,461	**762,466**	-
Non-current	**23,195,407**	-	**-**	-
	26,705,244	4,968,461	**762,466**	-

22. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2021	2020	**2021**	2020
	EUR	EUR	**EUR**	EUR
Trade receivables (i)	**3,213,699**	3,160,479	**14,486**	-
Provision for doubtful debts (i)	**(406,531)**	(202,029)	**-**	-
Allowance for ECL on trade receivables (i)	**(154,994)**	(179,336)	**-**	-
	2,652,174	2,779,114	**14,486**	-
Amounts owed by associates (ii)	**1,269,399**	1,371,714	**-**	-
Amounts owed by other related parties (ii)	**141,590**	16,051	**19,217**	-
Amounts owed by subsidiaries (ii)	**-**	-	**7,486,452**	-
Shareholders' current account (ii)	**1,610,269**	450,686	**1,448,054**	-
Allowance for ECL on balances owed by related parties (ii)	**-**	-	**(20,894)**	-
Advanced deposits received	**1,822,996**	2,326,587	**1,283,252**	-
Prepayments and accrued income	**2,731,872**	1,303,384	**715**	2,370
	10,228,300	8,247,536	**10,231,282**	2,370

(i) Trade and other receivables are non-interest bearing, and repayable on 60 day terms.

Notes to the Financial Statements – continued

22. TRADE AND OTHER RECEIVABLES – continued

Impairment of financial assets – trade receivables

The entity applies the simplified model of recognising lifetime expected credit losses for all trade receivables as these items do not have a significant financing component. In measuring the expected credit losses, the trade receivables have been assessed on a collective basis as they possess shared credit risk characteristics. They have been grouped based on the days past due and also according to the geographical location of customers. The expected credit losses for trade receivables as at 31 October 2021 was determined as follows:

2021

		Current	**>30 days**	**>60 days**	**>90 days**	**>180 days**	**>365 days**	**Total**
Expected credit loss rate	%	0.10-3.03	0.18-3.70	0.47-6.50	1.14-30.12	1.47-32.68	100	
Gross carrying amount	EUR	1,899,844	578,357	156,623	101,927	153,544	323,404	3,213,699
Lifetime expected credit loss	EUR	12,750	3,086	2,489	4,230	9,105	123,334	154,994
Provision for doubtful debts	EUR	-	-	-	-	406,531	-	406,531

2020

		Current	**>30 days**	**>60 days**	**>90 days**	**>180 days**	**>365 days**	**Total**
Expected credit loss rate	%	0.09-2.39	0.12-2.94	0.16-3.78	0.85-6.9	1.73-8.68	100	
Gross carrying amount	EUR	858,783	190,487	189,925	243,652	1,206,674	470,958	3,160,479
Lifetime expected credit loss	EUR	426	1,536	2,550	464	27,566	146,694	179,336
Provision for doubtful debts	EUR	-	-	-	-	202,029	-	202,029

(ii) Amounts owed by associates, amounts owed by other related parties and amounts owed by subsidiaries are unsecured, interest-free and have no fixed date of repayment. Amounts owed by associates are dividends receivable.

23. CASH AND CASH EQUIVALENTS

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

	Group		**Company**	
	2021	2020	**2021**	2020
	EUR	EUR	**EUR**	EUR
Cash at bank and in hand	**5,911,979**	2,187,060	**25,683**	157,699
Bank overdrafts (Note 26)	**(2,200,250)**	(2,353,561)	**(1,142)**	-
	3,711,729	(166,501)	**24,541**	157,699

24. CONSTRUCTION CONTRACTS

As at year-end, retentions held by customers for contract works amounted to EUR300,761 (2020: EUR669,740).

Notes to the Financial Statements – continued

25. TRADE AND OTHER PAYABLES

	Group		Company	
	2021	2020	**2021**	2020
	EUR	EUR	**EUR**	EUR
Trade payables (i)	**3,781,668**	4,286,786	**125,685**	136
Other payables (ii)	**5,549,132**	3,938,336	**2,740,571**	-
Indirect taxation and social security	**32,844**	522,743	**218,694**	-
Accruals and deferred income (iii)	**17,620,908**	18,565,736	**30,862**	5,138
	26,984,552	27,313,601	**3,115,812**	5,274
Current	**13,684,744**	13,410,560	**2,987,024**	5,274
Non-current	**13,299,808**	13,903,041	**128,788**	-
	26,984,552	27,313,601	**3,115,812**	5,274

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

(ii) Other payables include a provision of EUR1,750,000 against claims for damages by the Commissioner of Lands for alleged illegal occupation of two tracts of land by two different subsidiaries of the Group. The subsidiaries are currently in negotiations with the commissioner to settle the matter amicably

(iii) Accruals and deferred income mainly relate to upfront receipts from retirement home residents which will be recognised as revenue when the performance obligation is satisfied.

26. BANK BORROWINGS

	Group		Company	
	2021	2020	**2021**	2020
	EUR	EUR	**EUR**	EUR
Bank loans	**19,212,972**	10,214,719	**-**	-
Bank overdrafts (Note 23)	**2,200,250**	2,353,561	**1,142**	-
	21,413,222	12,568,280	**1,142**	-

Notes to the Financial Statements – continued

26. BANK BORROWINGS – continued

Bank loans and overdrafts are repayable as follows:

	Group		Company	
	2021	2020	**2021**	2020
	EUR	EUR	**EUR**	EUR
On demand or within one year	**6,474,023**	5,375,904	**1,142**	-
Between two and five years	**11,986,284**	4,946,695	**-**	-
After five years	**2,952,915**	2,245,681	**-**	-
	21,413,222	12,568,280	**1,142**	-
Current	**6,474,023**	5,375,904	**1,142**	-
Non-current	**14,939,199**	7,192,376	**-**	-
	21,413,222	12,568,280	**1,142**	-

The Group has aggregate bank facilities of EUR27,412,974 (2020: EUR29,079,844) of which EUR6,011,835 (2020: EUR15,880,407) were undrawn as at the reporting date. These facilities 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: 3.25% to 5.15%).

27. OTHER FINANCIAL LIABILITIES

	Group		Company	
	2021	2020	**2021**	2020
	EUR	EUR	**EUR**	EUR
Shareholder's loan (i)	**-**	-	**-**	1,162,357
Amounts owed to subsidiaries (ii)	**-**	-	**59,332,635**	-
Amounts owed to other related parties (iii)	**-**	454,620	**-**	-
Total other financial liabilities	**-**	454,620	**59,332,635**	1,162,357
Current	**-**	454,620	**29,311,407**	1,162,357
Non-current	**-**	-	**30,021,228**	-
Total other financial liabilities	**-**	454,620	**59,332,635**	1,162,357

(i) The shareholder's loan is unsecured, interest free and repayable on demand.
(ii) Amounts owed to subsidiaries, except for an aggregate amount of EUR30,021,228 which bears interest in the range of 3-10%, are unsecured, interest free and have no fixed date of repayment.
(iii) Amounts owed to other related parties are unsecured, interest-free and have no fixed date of repayment.

Notes to the Financial Statements – continued

28. DEBT SECURITIES IN ISSUE

Group and Company

During 2020, AX Group p.l.c. issued an aggregate principal amount of EUR25,000,000 bonds, split in two tranches of EUR15,000,000 (2020 – 2026) and EUR10,000,000 (2020 – 2029), having a nominal value of EUR100 each, bearing interest at the rate of 3.25% and 3.75% respectively per annum. These bonds are unsecured and subject to the terms and conditions in the prospectus dated 22 November 2020. The bonds are listed on the Official Companies List of the Malta Stock Exchange. The quoted market price as at 31 October 2021 for the 3.25% bonds (2020 – 2026) was EUR102.25 (2020: EUR100.25) and for the 3.75% bonds (2020 – 2029) was EUR103 (2020: EUR101.10). The fair value of the bonds as at 31 October 2021 amounted to EUR15,337,500 (2020: EUR15,037,500) and EUR10,303,000 (2020: EUR10,110,000) respectively, which amounts to an aggregated fair value of EUR25,640,500 (2020: EUR25,147,500). The carrying value of the bonds as at 31 October 2021 amounted to EUR24,689,873 (2020: EUR24,662,214).

As at year-end, the Company had a balance of EUR24,689,873 from this bond issue. The amount is made up of the bond issue of EUR25,000,000 net of the bond issue costs which are being amortised over the lifetime of the bonds.

In addition to the above, during 2014, AX Investments p.l.c., a subsidiary company, issued an aggregate principal amount of EUR40,000,000 bonds (2014 -2024), having a nominal value of EUR100 each, bearing interest at the rate of 6% per annum. These bonds are unsecured and subject to the terms and conditions in the prospectus dated 3 February 2014. The bonds are listed on the Official Companies List of the Malta Stock Exchange. The quoted market price as at 31 October 2021 for the 6% bonds (2014 – 2024) was EUR104 (2020: EUR104). The fair value of the bond as at 31 October 2021 amounted to EUR41,600,000 (2020: EUR41,600,000). The carrying value of the bond as at 31 October 2021 amounted to EUR39,851,606 (2020: EUR39,789,277). Interest on the bonds is due and payable annually in arrears on 6 March of each year at the above-mentioned rate. In terms of the offering memorandum of the "*6% AX Investments p.l.c. 2024 Bond*", AX Group p.l.c., has provided a corporate guarantee in favour of the bondholders to affect the due and punctual performance of all payment obligations undertaken by the subsidiary under the bonds if it fails to do so.

Notes to the Financial Statements – continued

28. DEBT SECURITIES IN ISSUE – continued

Group and Company – continued

As at year-end, AX Investments p.l.c. had a balance of EUR39,851,606 from this bond issue. The amount is made up of the bond issue of EUR40,000,000 net of the bond issue costs which are being amortised over the lifetime of the bonds.

As at year-end, the Group had a balance of EUR63,956,123 from the bond issues. The amount is made up of the bond issues of EUR65,000,000 net of bond issue costs which are being amortised over the life of the bonds.

Group

	2021 EUR	2020 EUR
At beginning of year	**63,856,761**	39,518,498
Bonds issued during the year (net of bond issue costs)	**-**	24,630,198
Bonds held by group entities	**-**	(386,280)
Bond issue costs amortization for the year	**99,362**	94,345
	63,956,123	63,856,761
Accrued interest	**2,316,985**	2,320,208
At end of year	**66,273,108**	66,176,969
Falling due within one year	**2,316,985**	2,320,208
Falling due between two and five years	**39,266,250**	39,194,547
Falling due after more than five years	**24,689,873**	24,662,214
	66,273,108	66,176,969

Company

	2021 EUR	2020 EUR
At beginning of year	**24,662,214**	-
Bonds issued during the year	**-**	25,000,000
Bond issue costs	**-**	(369,802)
Proceeds from bond issue	**24,662,214**	24,630,198
Bond issue costs amortised for the year	**27,659**	32,016
	24,689,873	24,662,214
Accrued interest	**746,712**	749,935
At end of year	**25,436,585**	25,412,149
Current	**746,712**	749,935
Non-current	**24,689,873**	24,662,214
	25,436,585	25,412,149

Notes to the Financial Statements – continued

29. DEFERRED TAX LIABILITIES

	Group		Company	
	2021	2020	**2021**	2020
	EUR	EUR	**EUR**	EUR
Arising on:				
Excess of capital allowances over depreciation	**(45,915)**	498,333	**14,110**	-
Provision for doubtful debts	**(270,587)**	(128,290)	**(66,503)**	-
Unabsorbed tax losses and capital allowances	**(4,331,994)**	(3,942,392)	**(185,453)**	-
Revaluation of investment properties	**26,934,183**	28,495,219	**762,913**	-
Net lease position	**-**	-	**(22,568)**	-
Movement in value of financial assets	**-**	(247,949)	**-**	-
Unrealised difference on exchange	**-**	20,425	**-**	-
	22,285,687	24,695,346	**502,499**	-

30. CALLED UP ISSUED SHARE CAPITAL

Company and Group

	2021	2020
	EUR	EUR
Authorised		
300,000,000 ordinary shares of EUR1 each	**300,000,000**	300,000,000
Called up issued and fully paid up		
1,164,688 (2020: 1,164,688) ordinary shares of EUR1 each	**1,164,688**	1,164,688

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 Company's revaluation reserve arises on the revaluation of investment properties and land and buildings. 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.

Notes to the Financial Statements – continued

30. CALLED UP ISSUED SHARE CAPITAL – continued

Dividend paid

No dividend was declared and paid during the year-ended 31 October 2021 (year-ended 31 October 2020: EUR0.28 per share).

31. 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.
- Various guarantees were given in favour of third parties amounting to EUR8,995,976 (2020: EUR2,299,266).

32. 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. In 2020, a subsidiary was adjudicated a compensation amounting to EUR310,848 for damages in a court case it had initiated relating to a building permit which was withheld. Both parties are appealing to this decision and are requesting a revision of the compensation.

Notes to the Financial Statements – continued

33. CAPITAL COMMITMENTS

Commitments for capital expenditure with respect to the development and completion of a number of projects stood as follows:

	2021 EUR
Authorised and contracted	5,365,926
Authorised but not contracted	23,934,074

34. RELATED PARTIES

The ultimate controlling party of the Group is Mr Angelo Xuereb, who holds 55% of the voting rights of the Company.

Group

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 22 and Note 27.

Company

All subsidiaries of AX Group p.l.c. are deemed to be related parties in these financial statements.

Transactions with related parties

The Company entered into transactions with related parties as follows:

	2021 EUR	2020 EUR
Interest payable to subsidiaries	1,381,155	-
Gain on disposal of investment in subsidiaries	46,039,416	-
Dividend received from subsidiaries	10,110,769	333,333

Balances with related parties

Balances with related parties are disclosed in Note 20, Note 22 and Note 27 respectively.

35. RISK MANAGEMENT OBJECTIVES AND POLICIES

The most significant financial risks to which the Group and the Company are 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.

Notes to the Financial Statements – continued

35. RISK MANAGEMENT OBJECTIVES AND POLICIES – continued

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 17, 20 and 27.

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 debt securities, 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 Company and the Group 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	3,121,832	1,678,418	13,121,373	3,213,842	21,135,465
Debt securities in issue	1,631,250	1,631,250	48,250,000	26,987,500	78,500,000
Other payables	9,330,800	-	-	-	9,330,000
Total	**14,083,882**	**3,309,668**	**61,371,373**	**30,201,342**	**108,966,465**

2020	**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	367,405	2,881,286	5,647,772	2,476,194	11,372,657
Debt securities in issue	1,631,250	1,631,250	57,969,486	26,731,123	87,963,109
Other payables	8,241,734	-	-	-	8,241,734
Total	**10,240,389**	**4,512,536**	**63,617,258**	**29,207,317**	**107,577,500**

Notes to the Financial Statements – continued

35. RISK MANAGEMENT OBJECTIVES AND POLICIES – continued

Foreign currency risk

Foreign currency transactions arise when the Group and the Company enter into transactions denominated in a foreign currency. Foreign currency transactions mainly comprise transactions in US Dollars and GB Pounds.

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.

36. 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 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

	2021	2020
	EUR	EUR
Interest bearing loans and borrowings	**85,369,345**	76,425,041
Other financial liabilities	**-**	454,620
Trade and other payables	**26,984,552**	29,633,809
Less: cash and cash equivalents	**(5,911,979)**	(2,187,060)
Net Debt	**106,441,918**	104,326,410
Equity	**1,164,688**	1,164,688
Other reserves	**235,265,310**	215,272,039
Total capital	**236,429,998**	216,436,727
Capital and net debt	**342,871,916**	320,763,137
Gearing ratio	**31.0%**	32.5%

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

Notes to the Financial Statements – continued

37. PRIOR PERIOD RECLASSIFICATIONS AND RESTATEMENTS

Certain amounts within the comparative statement of financial position have been reclassified to achieve better comparability with the current period. In this respect, EUR2,320,208 and EUR749,935 which relate to interest accrued on bonds payable were reclassified from trade and other payables to debt securities in issue within current liabilities for both the Group and the Company respectively.

38. SUBSEQUENT EVENTS

On 23 November 2021, AX Real Estate p.l.c., a subsidiary of the Company, issued 150,000,000 ordinary 'B' shares of a nominal value of EUR0.125 each in favour of the Company by virtue of the capitalisation of a loan due to the Company 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.

In February 2022, AX Real Estates p.l.c. 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 managed to successfully list AX Real Estate p.l.c. on the Malta Stock Exchange, with 25% of the ordinary A shares being taken up by the general public. Through this transaction, AX Real Estate p.l.c. raised EUR13,645,644. In conjunction with the share issue, AX Real Estate p.l.c. 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 the Company through the part conversion of the existing intra-group loan with AX Real Estate p.l.c. It is the intention of the Company to dispose of the allocated bonds at the opportune time to ascertain sufficient liquidity for the Suncrest and Verdala hotel developments.