Registration number C 92104

AX REAL ESTATE P.L.C.

Annual Report and Consolidated and Separate Financial Statements
For the year-ended 31 October 2023

Contents

Directors, Officers and Other Information

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

Directors' Report

The Directors present their annual report and the audited financial statements of AX Real Estate p.l.c. ("the Company") and its subsidiaries (collectively, "the Group" or "the Estates Group") for the year-ended 31 October 2023.

Principal activities

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

Performance review

Company

During the year, the Company generated EUR9,193,771 (2022: EUR11,386,724) of revenue. This consists of EUR716,847 (2022: EUR617,493) in rental income and EUR8,476,924 (2022: EUR10,769,231) in dividends from its subsidiaries. The Company recognised an increase in the fair value of its investment property, the warehouses at Hardrocks Business Park and the Falcon House offices, of EUR47,755 (2022: EUR1,033,961).

Finance income generated by the Company amounted to EUR2,246,591 (2022: EUR1,085,344). The increase is driven by an increase in interest from loans to subsidiaries. Finance costs increased by EUR1,588,292 to EUR3,990,359 in 2023 (2022: EUR2,402,067) which reflects the first full year of interest on the bond issued and bank loan drawn in the prior year.

The Company's profit before tax amounted to EUR6,849,674 (2022: EUR10,411,386).

Group

The Group generated EUR11,754,326 (2022: EUR8,909,902) in revenue in 2023 which consists of EUR11,703,326 (2022: EUR8,155,774) in rental income from the lease of the Group's investment properties and EUR51,000 (2022: EUR754,128) in sales of property, solely from the sale of a garage at Targa Gap Complex in Mosta in 2023.

Rental income from the AX Group accounted to EUR10,729,073 (2022: EUR7,321,753) representing 92% (2022: 90%) of the rental revenues generated by the Group. The rental income by property type can be analysed as follows:

	Year ended 2023 EUR	Year ended 2022 EUR
Hospitality	**8,490,025**	5,147,186
Care Home	**1,689,315**	1,655,201
Offices	**769,029**	670,717
Residential	**325,633**	294,898
Warehousing	**429,324**	387,772
	11,703,326	8,155,774

The primary growth in revenue was driven by hospitality. The hospitality division of the AX Group has seen a significant rebound in business compared to last year. Tourism has regained its momentum and in the recent months, the industry has surpassed pre-covid levels of activity. The hotels have performed exceptionally well, with Sliema and Valletta surpassing their projected revenue and operating profits. As a result, the variable rent generated by the Group saw an increase compared to the prior year.

Furthermore, the AX ODYCY hotel had a soft opening in late May 2023. During the summer, the hotel operated at a reduced capacity as work on certain areas of the hotel and lido were still in progress. Despite these challenges, the hotel managed to exceed the budgeted rooms revenue in September and October. In terms of customer reviews, the property has already received outstanding feedback on booking sites.

Directors' Report – continued

Performance review – continued

Upon the opening of the AX ODYCY hotel and lido, the Group commenced receiving rental income from the AX Group in accordance with the lease agreement. This explains the significant increase in rental income over the prior year.

During 2023, the Group was focused on finishing the AX ODYCY hotel extension and its lido redevelopment as well as the development of the Verdala project in Rabat. Construction of the Verdala hotel is progressing steadily and it is expected that the hotel will open by end of 2024.

In January 2023, Suncrest Hotels p.l.c., a subsidiary of the Company, obtained a sanction letter from a local financial institution for a loan facility amounting to EUR30,500,000 which has been provided to enable the Group to further support its costs related to the extension of the AX ODYCY hotel. This loan facility is repayable over 15 years from the date of the first drawdown, inclusive of a 12-month moratorium period.

Other operating costs for the year amounted to EUR994,070 (2022: EUR1,191,066). The prior year balance included a sum of EUR472,659 representing the cost of property sold. Staff costs, inclusive of directors' remuneration, stood at EUR286,131 (2022: EUR286,239).

The Group recognised a decrease in the fair value of its investment properties of EUR1,817,549 (2022: increase in the fair value of EUR2,787,449).

During 2023, the Group registered an operating profit of EUR8,779,199 (2022: EUR10,335,715).

Finance costs totalled EUR5,219,009 (2022: EUR3,288,902), encompassing interest on debt securities in issue, bank borrowings, and interest payable on loans from related parties. The escalation in finance costs is attributed to the inclusion of the first full year of interest on the issued bond and interest on the new bank loan mentioned above.

Profit before tax in 2023 amounted to EUR4,578,298 (2022: EUR7,061,725).

As at year-end, the Group's net assets stood at EUR135,585,611 (2022: EUR142,032,510). The Group's balance sheet remains sound with a gearing ratio of 50.6% (2022: 43.6%).

As at date of reporting, all properties owned by the Group are fully taken up and leased for periods between 6 months to 20 years. In addition, the positive recovery experienced in the tourism industry augurs well for the Group in achieving the budgeted rental income from its hotels in the forthcoming year. Despite the positive trajectory projected, Directors and management are cautiously monitoring the situation to ensure a sustainable growth as well as a healthy performance.

Financial key performance Indicators

	Group		**Company**	
	Year ended 2023 EUR	Year ended 2022 EUR	**Year ended 2023 EUR**	Year ended 2022 EUR
Revenue	**11,754,326**	8,909,902	**9,193,771**	11,386,724
Adjusted EBITDA*	**10,596,748**	7,548,266	**8,545,687**	10,694,148
Operating profit	**8,779,199**	10,335,715	**8,593,442**	11,728,109
Profit after tax	**411,514**	3,597,510	**5,057,151**	7,083,365
Basic earnings per share	**0.00**	0.01		
Total equity and liabilities	**308,142,064**	286,863,726	**181,130,574**	178,364,864

**The Group measures Adjusted Earnings before Interest, Tax, Depreciation and Amortisation ("Adjusted EBITDA") and reconciles to the operating profit after adjusting for gain/(loss) on revaluation of investment properties. This key performance indicator is not defined by International Financial Reporting Standards but can be directly calculated with reference to the Statement of Profit or Loss.*

Directors' Report – continued

Going concern

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

Principal risks and uncertainties

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

3. Legislative risks

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

Financial risk management and exposures

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

Dividends and reserves

Net interim dividends of EUR0.025 per ordinary share equivalent to a total of EUR6,858,413 were declared during the year. The Directors do not recommend payment of a final dividend.

As per the Registration Document dated 6 December 2021, it is the Group's intention to pay out the majority of the Group's distributable profits earned during the year, provided that a minimum balance of EUR1 million in cash is retained within the Group at any given time. The interim dividends referred to above were paid in January and July 2023 in line with the indication given in the above-mentioned registration document. The extent of any dividend distribution will depend upon, amongst other factors, the profit for the year, the Directors' view on the prevailing market outlook, financial projections and forecasts, any debt servicing and repayment requirements, financial covenants and other restrictions contained in its facilities and other credit arrangements, the cash flows for the Company, working capital requirements, capital investment commitments and other investment opportunities and the requirements of the Companies Act, Cap. 386 of the Laws of Malta.

Events after the reporting period

In January 2024, the Company declared a gross interim dividend amounting to EUR4,060,183, in line with the indication given in the above-mentioned registration document.

Directors' Report – continued

Directors

In accordance with the Company's Articles of Association, the present Directors remain in office. The Directors who held office during the year were as listed on page 1.

Information pursuant to Capital Markets Rule 5.64

The authorised share capital of the Company is EUR500,000,000 divided into 2,000,000,000 ordinary 'A' shares of a nominal value of EUR0.125 each, and 2,000,000,000 ordinary 'B' shares of a nominal value of EUR0.125 each. The issued share capital of the Issuer is EUR34,292,087.50 divided into 97,193,600 ordinary 'A' shares of a nominal value of EUR0.125 each, representing 35.4% of the issued share capital, and 177,143,100 ordinary 'B' shares of a nominal value of EUR0.125 each, representing 64.6% of the issued share capital, subscribed for, allotted and taken up as follows:

AX Group p.l.c. (C 12271)	- -	72,854,900 ordinary 'A' shares of a nominal value of EUR0.125 each, fully paid-up, and 177,143,100 ordinary 'B' shares of a nominal value of EUR0.125 each, fully paid-up
AX Finance Limited (C 6867)	-	2,000 ordinary 'A' shares of a nominal value of EUR0.125, fully paid-up
Shares in public hands	-	24,336,700 ordinary 'A' shares of a nominal value of EUR0.125, fully paid-up

The Company's share capital is divided into two classes of shares, specifically, ordinary 'A' shares and ordinary 'B' shares. Ordinary 'A' shares and ordinary 'B' shares will entitle holders thereto the same rights, benefits and powers in the Company, save that ordinary 'B' shares shall not entitle their holders to vote on any matter at any general meeting of the Company, save in the following instances:

(i) in respect of a resolution which has the effect of reducing the capital of the Company;
(ii) in respect of a resolution for the winding up of the Company; and
(iii) in respect of a resolution which has the effect of directly affecting the rights and privileges of ordinary 'B' shareholders.

The shares are freely transferable in accordance with the rules and regulations of the Malta Stock Exchange applicable from time to time.

On the basis of the information available to the Company as at 31 October 2023, no shareholder other than AX Group p.l.c. has direct or indirect shareholding in excess of 5% of the Company's total issued share capital.

Every shareholder owning twelve per cent (12%) of the issued share capital of the Company having voting rights or more shall be entitled to appoint one Director for each and every twelve per cent (12%) of the issued share capital of the Company having voting rights owned by such shareholder and such shareholder may remove, withdraw or replace such Director at any time. Any appointment, removal, withdrawal or replacement of a Director to or from the Board of Directors shall take effect upon receipt by the Board of Directors or the Company secretary of a notice in writing to that effect from such shareholder. Any shares of the Company having voting rights not utilised for appointment of Directors may be used to fill the remaining unfilled posts of Directors at the annual general meeting of the Company or at an extraordinary general meeting convened for the purpose of electing Directors.

The rules governing the appointment, election or removal of Directors are contained in the Company's Articles of Association, Articles 84 to 87.3. A resolution approved by the shareholders in a general meeting in which shareholders holding at least seventy-five percent (75%) of the shares of the Company having voting rights are present is required to amend the Articles of Association.

The Chairman is appointed by the shareholder holding at least fifty percent (50%) of the shares of the Company having voting rights.

The powers and duties of Directors are outlined in Articles 82 to 121 of the Company's Articles of Association. In terms of Article 22 of the said Articles of Association, the Company may, subject to the provisions of the Maltese Companies Act, 1995 acquire any of its shares.

Directors' Report – continued

Information pursuant to Capital Markets Rule 5.64 – continued

It is hereby declared that, as at 31 October 2023, the Company is not party to any significant agreement pursuant to Capital Markets Rule 5.64.10 and 5.64.11.

Furthermore, the Board declares that the information required under Capital Markets Rules 5.64.5 and 5.64.7 are not applicable to the Company.

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

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

The financial statements give a true and fair view of the financial position of the Group and the Company as at 31 October 2023, and of the financial performance and the cash flows for the year then ended in accordance with the requirements of the International Financial Reporting Standards (IFRSs) as adopted by the EU and the requirements of the Companies Act, Cap. 386 of the Laws of Malta; and

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

Auditors

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

Approved by the Board of Directors and signed on its behalf on 21 February 2024 by Mr Angelo Xuereb (Chairman) and Ms Denise Xuereb (Chief Executive Officer) as per the Directors' Declaration on ESEF Annual Financial Report submitted in conjunction with the Annual Report 2023.

Statement of Directors' Responsibilities

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

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

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

Corporate Governance – Statement of Compliance

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

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

The Board

The Board of Directors of AX Real Estate p.l.c. ("the Board") is currently made up of seven Directors, three of whom are 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 Xuereb, Mr Michael Warrington, Dr Christian Farrugia, Mr Joseph Lupi, Mr Christopher Paris and Mr Stephen Paris. Messrs Farrugia, Lupi and S. Paris are independent non-executive directors. In the opinion of the Board, the independent non-executive directors are free from any significant business, family or other relationship with the Group, its shareholders or its management that would create a conflict of interest such as to impair their judgement.

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

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

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

The Board met eight 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 performance evaluation committee chaired by a non-executive Director in order to carry out a performance evaluation of its role.

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

The Company's management ensures that it provides Directors with relevant information to enable them to effectively contribute to Board decisions. All Directors have access to independent financial advice at the expense of the Company should they require.

Corporate Governance – Statement of Compliance – continued

Audit Committee

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

The Company Secretary acts as secretary to the committee which also receives the assistance of the Group Chief Executive Officer; Ms Denise Xuereb, and the Chief Financial Officer; Mr Joseph Borg. 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 Dr Christian Farrugia (Chairperson), Mr Michael Warrington and Mr Joseph Lupi. Dr Farrugia and Mr Lupi 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. Its objectives are those of determining a remuneration policy aimed to attract, retain and motivate directors, whether executive or non-executive, as well as senior management with the right qualities and skills for the benefit of the Company. It is responsible for making proposals to the Board on the individual remuneration packages of directors and senior management and is entrusted with monitoring the level and structure of remuneration of the non-executive directors. In addition, the RemNom Committee is responsible for reviewing the performance-based remuneration incentives that may be adopted by the Company from time to time, and is authorised to determine whether a performance-based bonus or other incentive should be paid out or otherwise.

In its function as nomination committee, the RemNom Committee's task is to propose to the Board of Directors candidates for the position of director, including persons considered to be independent in terms of the Capital Markets Rules, whilst also taking into account any recommendation from shareholders. It is to periodically assess the structure, size, composition and performance of the Board of Directors and make recommendations to the Board of Directors regarding any changes, as well as consider issues related to succession planning. It is also entrusted with reviewing the Board of Directors' policy for selection and appointment of senior management.

The RemNom Committee met one time during the year under review. No nominations were received from the Company's members for directors' nomination by the deadline of the 31st January 2023. The Directors were all re-appointed at the Annual General Meeting held during the year.

Given that every Director retires from office at the Annual General Meeting, the Company does not consider it necessary to have in place a succession policy. However, the recommendation to have in place such a policy will be kept under review.

Dealings by Directors and Senior Officers

Conscious of its responsibility for monitoring dealings by Directors and senior officers in the Company's securities, the Board approved a Code of Conduct for Securities Transactions by Directors, Executives and Employees in compliance with Capital Markets Rules 5.102 to 5.116. The Code provides guidance to the Company's officers and serves as a minimum standard of good practice when dealing in the Company's securities. Each Director has declared their interest in the share capital and debt securities of the Company to the other members of the Board. In accordance with the provisions of the Articles of Association of the Company, any actual, potential or perceived conflict of interest must be immediately declared by a director to the other members of the Board. In the event that the Board perceives such interest to be conflicting with the Director's duties, the conflicted director is required to leave the meeting and both the discussion on the matter and the vote, if any, on the matter concerned, are conducted in the absence of the conflicted director.

Corporate Governance – Statement of Compliance – continued

Internal Control

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

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

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.

Relations with Shareholders and with the Market, including Institutional Shareholders

The Company recognises the importance of maintaining a dialogue with its stakeholders to ensure that its strategies and performance are understood. The Company communicates with bondholders and shareholders 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 Bond and Equity holders rewards to be used within the AX Group to foster loyalty. This program, which is managed by AX Group p.l.c. executives, includes the issue of the AX Investors Loyalty Card and the periodic dissemination of the AX Group Newsletter.

The Board endeavours to protect and enhance the interests of both the Company and its shareholders, present and future. The Chairman ensures that the views of shareholders are communicated to the Board as a whole. The Board ensures fair and equal treatment towards holders of each class of capital and ensures that any decisions take into account the interests of future shareholders as well.

The Company also communicates with its shareholders through the Company's Annual General Meeting ("the AGM").

General Meetings

The manner in which the general meeting is conducted is outlined in Articles 71-81 of the Company's Articles of Association, subject to the provisions of the Companies Act.

The Annual General Meeting of the shareholders shall be convened within seven months of the end of the financial year. During the AGM the members will confirm the annual financial statements, the directors' and auditors' reports for the year, decide on any dividends recommended by the board, if necessary; elected directors, appoint auditors and set their remuneration. A presentation will be given to the shareholders present showing how the company operated in the light of prevailing economic and market conditions, and an assessment on future prospects will be given. The Chairman arranges for all directors to attend the Annual General Meeting.

In addition, and in terms of Article 73 of the Articles of Association of the company, the board of directors may convene an extraordinary general meeting. If at any time there are not in Malta sufficient Directors capable of acting to form a quorum of the Board, the Directors in Malta capable of acting, or if there are no Directors capable and willing to act, any Member or Members of the Company holding in aggregate not less than five per cent (5%) of the Equity Securities conferring a right to attend and vote at general meetings of the Company, may convene an extraordinary general meeting in the same manner, as nearly as possible, as that in which Meetings may be convened by the Directors.

Corporate Governance – Statement of Compliance – continued

General Meetings – continued

Adequate notice of general meetings must be given to shareholders as outlined in Articles 74 of the company's Articles of Association.

All shareholders registered in the Shareholders' Register on the Record Date as defined in the Capital Markets Rules have the right to attend, participate and vote in the general meeting. A shareholder who cannot participate in the general meeting can appoint a proxy by written or electronic notification to the company.

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 21 February 2024 and were signed on its behalf by Mr Angelo Xuereb (Chairman) and Ms Denise Xuereb (Chief Executive Officer) as per Directors' Declaration on ESEF Annual Financial Report submitted in conjunction with the Annual Report 2023.

Remuneration Report

Remuneration Policy

The Remuneration Policy was approved by the Shareholders at the AX Real Estate p.l.c. AGM held on Wednesday 26th April 2023 and can be found on the Group's investor relations website ***https://axinvestor-relations.mt/ax-real-estate/***.

The Remuneration Policy seeks to deliver and retain a fair and transparent remuneration for the Board of Directors, including the Company Secretary and the incumbent Chief Executive Officer and Chief Financial Officer of the Company (the 'Executives') with a view towards aligning the best interests of all stakeholders whilst safeguarding the interests and sustainability of the Company.

In order to achieve these strategic objectives, this Remuneration Policy provides a remuneration framework that defines the principles and guidelines to be applied in determining the remuneration to be paid to the Board and the Executives.

In general, to establish remuneration appropriately the RemNom Committee shall be guided by the extent of responsibilities and experience of the individual concerned.

The Remuneration Policy states that when establishing an appropriate remuneration to the individual Directors and Executives the following factors shall be considered:

I. The expectation that Directors and Executives are to be appropriately dedicated to their role;
II. The time, commitment and dedication required by Directors and Executives in accordance with their duties and the affairs of the Company; and
III. The provision of a fair, attractive, and competitive remuneration, benefits, and conditions, that are commensurate to the level of experience, expertise, qualifications, professional status and responsibilities of the appointed Directors and Executives.

The emoluments payable to the Board refer to the total fixed remuneration of the Directors.

In order to manage conflict of interest, the individual Directors appointed as members of the RemNom Committee shall not be present when his/her appointment, remuneration or other matters relating to him/her are being discussed by the RemNom Committee. If the member absenting himself/herself from such discussions relating to him/her is the Chairperson, another member of the RemNom Committee shall chair the meeting during the Chairperson's absence.

The RemNom Committee shall on annual basis ensure that the said Emolument remains commensurate with the performance of the individual concerned, as well as market conditions.

The duration of service of Directors is regulated by the Articles of Association of the Company. Directors are appointed to the Board of Directors by the shareholders at a general meeting and shall hold office until the next general meeting. The appointment of Executives is subject to employment laws and regulations. The engagement of both Directors and Executives are governed by a written engagement contract clearly setting out the duties, roles, responsibilities and remuneration.

Remuneration paid to Directors

The Remuneration Policy shall regulate the aggregate emoluments of all Directors in any one financial year, and any increases thereto which shall be such amount as may from time to time be determined by the Company in a general meeting.

Furthermore, the remuneration of the Directors is a fixed amount per annum and does not include any variable component relating to profit sharing, share options, pension benefits or contributions towards an early retirement scheme. The Directors' aggregate annual remuneration for the financial year under review, as approved by the Board, amounted to EUR140,000. 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. It is the shareholders, in terms of the memorandum and articles of association of the Company, who determine the maximum annual aggregate emoluments of the Directors by resolution at the annual general meeting of the Company. The maximum aggregate amount fixed for this purpose during the last annual general meeting was EUR200,000.

Remuneration Report – continued

Remuneration paid to Directors – continued

The following table provides a summary of the remuneration for the years ended 31 October 2023 and 2022 for each individual Director:

Directors' Emoluments – Year ended 31 October 2023		Fixed Remuneration EUR	Variable Remuneration EUR	Share Options EUR
Mr Angelo Xuereb	Executive Chairman	20,000	-	-
Ms Denise Xuereb	Executive Director & Chief Executive Officer	20,000	-	-
Mr Michael Warrington	Executive Director	20,000	-	-
Dr Christian Farrugia	Non-Executive Director	20,000	-	-
Mr Joseph Lupi	Non-Executive Director	20,000	-	-
Mr Christopher Paris	Non-Executive Director	20,000	-	-
Mr Stephen Paris	Non-Executive Director	20,000	-	-

Directors' Emoluments – Year ended 31 October 2022		Fixed Remuneration EUR	Variable Remuneration EUR	Share Options EUR
Mr Angelo Xuereb	Executive Chairman	25,000	-	-
Ms Denise Xuereb	Executive Director & Chief Executive Officer	25,000	-	-
Mr Michael Warrington	Executive Director	25,000	-	-
Dr Christian Farrugia	Non-Executive Director	25,000	-	-
Mr Joseph Lupi	Non-Executive Director	25,000	-	-
Mr Christopher Paris	Non-Executive Director	25,000	-	-
Mr Stephen Paris	Non-Executive Director	25,000	-	-

During 2023, Angelo Xuereb, Denise Xuereb, Michael Warrington and Christopher Paris also received an aggregate fixed remuneration of EUR703,640 from AX Group p.l.c. and AX Investments p.l.c. No variable elements or share options were paid during the period under review.

Remuneration paid to Executives

The aggregate remuneration paid to executives of the Group, other than the Chief Executive Officer who is also an Executive Director, amounted to EUR120,000 during the year under review (2022: EUR120,000). In addition to the fixed remuneration, the total compensation received by the Executives may include a discretionary variable remuneration based on company performance as well as the individual's performance. All bonuses paid to the Executives shall be recommended by the CEO and approved by the RemNom committee. However, there was no variable remuneration paid to the executives during both the reporting year and the prior year.

The average employee remuneration (excluding Directors and Executives) on a full-time equivalent basis amounted to EUR36,302 (2022: EUR31,400) during the year under review.

There were no termination of Directors or executives during the year and therefore no compensation paid for any such terminations.

The contents of the Remuneration Report have been reviewed by the external Auditors to ensure that it conforms with the requirements of Appendix 12.1 to Chapter 12 of the Capital Market Rules.

Approved by the Board of Directors 21 February 2024 and were signed on its behalf by Mr Angelo Xuereb (Chairman) and Ms Denise Xuereb (Chief Executive Officer) as per Directors' Declaration on ESEF Annual Financial Report submitted in conjunction with the Annual Report 2023.

Statements of Profit or Loss and Other Comprehensive Income
for the year ended 31 October 2023

		Group		Company	
	Notes	**Year ended 2023 EUR**	Year ended 2022 EUR	**Year ended 2023 EUR**	Year ended 2022 EUR
Revenue	**6**	**11,754,326**	8,909,902	**9,193,771**	11,386,724
Other operating income	**7**	**122,623**	115,669	**39,566**	71,796
Other operating costs	**8**	**(994,070)**	(1,191,066)	**(401,519)**	(478,293)
Staff costs	**9**	**(286,131)**	(286,239)	**(286,131)**	(286,079)
(Loss)/gain on revaluation of investment property	**16**	**(1,817,549)**	2,787,449	**47,755**	1,033,961
Operating profit		**8,779,199**	10,335,715	**8,593,442**	11,728,109
Other income	**30**	**1,000,000**	-	**-**	-
Finance income	**10**	**18,108**	14,912	**2,246,591**	1,085,344
Finance costs	**11**	**(5,219,009)**	(3,288,902)	**(3,990,359)**	(2,402,067)
Profit before taxation		**4,578,298**	7,061,725	**6,849,674**	10,411,386
Income taxation	**13**	**(4,166,784)**	(3,464,215)	**(1,792,523)**	(3,328,021)
Profit for the year		**411,514**	3,597,510	**5,057,151**	7,083,365
Basic earnings per share	**14**	**0.00**	0.01		
Other comprehensive income		**-**	-	**-**	-
Total comprehensive income		**411,514**	3,597,510	**5,057,151**	7,083,365

The notes on pages 19 to 56 form an integral part of these financial statements.

Statements of Financial Position
as at 31 October 2023

		Group		Company	
		2023	2022	**2023**	2022
	Notes	**EUR**	EUR	**EUR**	EUR
ASSETS AND LIABILITIES					
Non-current assets					
Intangible assets	**15**	**1,596**	2,128	**1,596**	2,128
Investment property	**16**	**293,230,000**	260,255,000	**12,835,000**	12,650,000
Investments in subsidiaries	**18**	**-**	-	**104,514,114**	108,630,280
Loans receivable	**18**	**-**	-	**56,388,643**	46,372,639
		293,231,596	260,257,128	**173,739,353**	167,655,047
Current assets					
Inventories	**19**	**421,187**	438,198	**-**	-
Trade and other receivables	**20**	**6,783,216**	14,107,338	**5,221,094**	3,054,121
Current tax assets		**-**	-	**1,295,103**	531,012
Cash at bank and in hand	**21**	**7,706,065**	12,061,062	**875,024**	7,124,684
		14,910,468	26,606,598	**7,391,221**	10,709,817
Total assets		**308,142,064**	286,863,726	**181,130,574**	178,364,864
Current liabilities					
Trade and other payables	**22**	**5,762,737**	4,856,133	**370,038**	436,080
Bank borrowings	**23**	**4,266,777**	2,118,858	**1,473,230**	-
Other financial liabilities	**24**	**5,451,475**	6,404,455	**6,065,116**	3,984,024
Debt securities in issue	**25**	**1,024,110**	1,024,110	**1,024,110**	1,024,110
Current tax liabilities		**478,462**	552,890	**-**	-
		16,983,561	14,956,446	**8,932,494**	5,444,214
Non-current liabilities					
Trade and other payables	**22**	**87,909**	354,595	**-**	-
Bank borrowings	**23**	**41,872,976**	21,943,976	**13,517,233**	15,000,000
Other financial liabilities	**24**	**48,402,930**	45,437,579	**32,885,197**	30,390,069
Debt securities in issue	**25**	**39,556,055**	39,500,567	**39,556,055**	39,500,567
Deferred tax liabilities	**26**	**25,653,022**	22,638,053	**986,614**	975,771
		155,572,892	129,874,770	**86,945,099**	85,866,407
Total liabilities		**172,556,453**	144,831,216	**95,877,593**	91,310,621
Net assets		**135,585,611**	142,032,510	**85,252,981**	87,054,243
EQUITY					
Capital and reserves					
Share capital	**27**	**34,292,088**	34,292,088	**34,292,088**	34,292,088
Share premium	**27**	**41,374,079**	41,374,079	**41,374,079**	41,374,079
Revaluation reserve	**27**	**38,809,360**	40,407,988	**3,918,030**	3,874,095
Other reserves	**27**	**330,752**	330,752	**-**	-
Retained earnings	**27**	**20,779,332**	25,627,603	**5,668,784**	7,513,981
Total equity		**135,585,611**	142,032,510	**85,252,981**	87,054,243

The notes on pages 19 to 56 form an integral part of these financial statements.

The financial statements on pages 14 to 56 were approved by the Board of Directors on 21 February 2024 and were signed on its behalf by Mr Angelo Xuereb (Chairman) and Ms Denise Xuereb (Chief Executive Officer) as per Directors' Declaration on ESEF Annual Financial Report submitted in conjunction with the Annual Report 2023.

Statements of Changes in Equity
for the year ended 31 October 2023

GROUP

	Notes	Share capital EUR	Share premium EUR	Revaluation reserve EUR	Other reserves EUR	Retained earnings EUR	Total EUR
At 31 October 2021		**50,000**	**-**	**38,502,470**	**330,752**	**39,814,820**	**78,698,042**
Profit for the year		-	-	-	-	**3,597,510**	**3,597,510**
Other comprehensive income		-	-	-	-	-	-
Total comprehensive income for the year		-	-	-	-	**3,597,510**	**3,597,510**
Capitalisation of reserves	27	12,450,000	-	-	-	(12,450,000)	-
Capitalisation of shareholder loan	27	18,750,000	31,250,000	-	-	-	50,000,000
Issue of shares at a premium	27	3,042,088	10,124,079	-	-	-	13,166,167
Dividends	27	-	-	-	-	(3,429,209)	(3,429,209)
Fair value movement of investment property, net of tax		-	-	1,905,518	-	(1,905,518)	-
At 31 October 2022		**34,292,088**	**41,374,079**	**40,407,988**	**330,752**	**25,627,603**	**142,032,510**
Profit for the year		**-**	**-**	**-**	**-**	**411,514**	**411,514**
Other comprehensive income		**-**	**-**	**-**	**-**	**-**	**-**
Total comprehensive income for the year		**-**	**-**	**-**	**-**	**411,514**	**411,514**
Dividends	27	**-**	**-**	**-**	**-**	**(6,858,413)**	**(6,858,413)**
Fair value movement of investment property, net of tax		**-**	**-**	**(1,598,628)**	**-**	**1,598,628**	**-**
At 31 October 2023		**34,292,088**	**41,374,079**	**38,809,360**	**330,752**	**20,779,332**	**135,585,611**

Statements of Changes in Equity – continued
for the year ended 31 October 2023

COMPANY	Notes	Share capital EUR	Share premium EUR	Revaluation reserve EUR	Retained earnings EUR	Total EUR
At 31 October 2021		**50,000**	**-**	**2,922,851**	**17,261,069**	**20,233,920**
Profit for the year		-	-	-	7,083,365	7,083,365
Other comprehensive income		-	-	-	-	-
Total comprehensive income for the year		-	-	-	7,083,365	7,083,365
Capitalisation of reserves	27	12,450,000	-	-	(12,450,000)	-
Capitalisation of shareholder loan	27	18,750,000	31,250,000	-	-	50,000,000
Issue of shares at a premium	27	3,042,088	10,124,079	-	-	13,166,167
Dividends	27	-	-	-	(3,429,209)	(3,429,209)
Fair value movement of investment property, net of tax		-	-	951,244	(951,244)	-
At 31 October 2022		**34,292,088**	**41,374,079**	**3,874,095**	**7,513,981**	**87,054,243**
Profit for the year		**-**	**-**	**-**	**5,057,151**	**5,057,151**
Other comprehensive income		**-**	**-**	**-**	**-**	**-**
Total comprehensive income for the year		**-**	**-**	**-**	**5,057,151**	**5,057,151**
Dividends	27	**-**	**-**	**-**	**(6,858,413)**	**(6,858,413)**
Fair value movement of investment property, net of tax		**-**	**-**	**43,935**	**(43,935)**	**-**
At 31 October 2023		**34,292,088**	**41,374,079**	**3,918,030**	**5,668,784**	**85,252,981**

The notes on pages 19 to 56 form an integral part of these financial statements.

Statements of Cash Flows
for the year ended 31 October 2023

	Notes	Group Year ended 2023 EUR	Group Year ended 2022 EUR	Company Year ended 2023 EUR	Company Year ended 2022 EUR
Cash flows from operating activities					
Profit before taxation		**4,578,298**	7,061,725	**6,849,674**	10,411,386
Adjustments for:					
Amortisation of intangible assets	15	**532**	532	**532**	532
Movement in fair value of investment property	16	**1,817,549**	(2,787,449)	**(47,755)**	(1,033,961)
Dividend income	6	**-**	-	**(8,476,924)**	(10,769,231)
Movement in expected credit losses	8	**(12,376)**	8,855	**(8,126)**	48,467
Amortisation of bond issue costs	11	**55,488**	55,494	**55,488**	55,494
Other finance costs	11	**5,163,521**	3,233,408	**3,934,871**	2,346,573
Interest income	10	**(18,108)**	(14,912)	**(2,246,591)**	(1,085,344)
Operating profit/(loss) before working capital changes		**11,584,904**	7,557,653	**61,169**	(26,084)
Movement in inventories		**17,010**	472,659	**-**	-
Movement in trade and other receivables		**3,806,851**	(3,718,975)	**87,744**	(2,702,509)
Movement in trade and other payables		**(4,844,743)**	2,186,527	**(66,043)**	72,366
Cash flows from/(used in) operating activities		**10,564,022**	6,497,864	**82,870**	(2,656,227)
Interest paid		**(3,122,698)**	(519,587)	**(2,345,972)**	(122,084)
Interest received		**18,108**	14,912	**-**	14,912
Taxation (paid)/refunded		**(1,226,243)**	64,925	**(68,846)**	-
Net cash flows from/(used in) operating activities		**6,233,189**	6,058,114	**(2,331,948)**	(2,763,399)
Cash flows from investing activities					
Purchase of investment property	16	**(26,712,925)**	(31,646,306)	**(137,245)**	(346,039)
Movement in loans to subsidiaries		**-**	-	**2,181,254**	(29,040,023)
Net cash flows (used in)/from investing activities		**(26,712,925)**	(31,646,306)	**2,044,009**	(29,386,062)
Cash flows from financing activities					
Movement in bank loans		**22,076,919**	12,849,862	**(9,537)**	15,000,000
Issue of share capital		**-**	13,166,168	**-**	13,166,168
Proceeds from new debt securities in issue		**-**	17,799,673	**-**	17,799,673
Movement in shareholder loan		**906,229**	(3,738,047)	**906,229**	(3,282,017)
Dividend paid		**(6,858,409)**	(3,429,209)	**(6,858,413)**	(3,429,209)
Net cash flows from/(used in) financing activities		**16,124,739**	36,648,447	**(5,961,721)**	39,254,615
Net movement in cash and cash equivalents		**(4,354,997)**	11,060,255	**(6,249,660)**	7,105,154
Cash and cash equivalents at beginning of year		**12,061,062**	1,000,807	**7,124,684**	19,530
Cash and cash equivalents at end of year	21	**7,706,065**	12,061,062	**875,024**	7,124,684

The notes on pages 19 to 56 form an integral part of these financial statements

Notes to the Financial Statements

1. GENERAL INFORMATION

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

2. BASIS OF PREPARATION

The financial statements have been prepared in accordance with the requirements of the International Financial Reporting Standards (IFRSs) as adopted by the EU and the requirements of the Companies Act, Cap. 386 of the Laws of Malta. The financial statements have been prepared on a historical cost basis, except for investment property which is stated at fair value.

The preparation of financial statements in conformity with IFRSs as adopted by the EU requires the use of certain accounting estimates. It also requires the Directors to exercise their judgement in the process of applying the Company’s accounting policies. Significant accounting policies are disclosed in Note 4 and accounting estimates are disclosed in Note 5.

These financial statements are presented in Euro (EUR) which is the Company’s 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

Profitability

During the year ended 31 October 2023, the Group experienced an increase in revenue of 32% over last year and has reported an adjusted EBITDA of EUR10,596,748 (2022: EUR7,548,266) which reconciles to the Group’s operating profit after adjusting for gain/(loss) on revaluation of investment properties, on the Statement of Profit or Loss. The increase in revenue corresponds to the commencement of a new lease on the newly opened AX ODYCY and lido in Qawra, as well as enhanced performance in the other hotel properties.

As at date of reporting, all properties owned by the Group are fully taken up and leased for periods between 6 months to 20 years.

Financial position

As at reporting date, the Company’s current liabilities exceeded its current assets by EUR1,541,273 (2022: current assets exceeded its current liabilities by EUR5,265,603). Given the nature of the Company and its function within the Group, of which it is the parent company, the Company is dependent on the AX Group for financial support.

As at reporting date, the Group’s current liabilities exceeded its current assets by EUR2,073,093 (2022: current assets exceeded its current liabilities by EUR11,650,152) whereas the Group’s total assets exceeded its total liabilities by EUR135,585,611 (2022: EUR142,032,510).

The current liabilities of the Company and the Group include balances of EUR6,065,116 (2022: EUR3,984,024) and EUR5,451,475 (2022: EUR6,404,455) respectively as at 31 October 2023 owed to the ultimate parent and other related parties. The ultimate parent and other related parties have confirmed in writing that they shall not request the repayment of amounts due to them until the Company and the Group are in a financial position to be able to do so.

Notes to the Financial Statements – continued

2. BASIS OF PREPARATION – continued

2.1 Going concern – continued

Financial position – continued

The Group is involved in the leasing of a diverse portfolio of real estate to subsidiary companies of AX Group p.l.c. and third parties. The majority of the current operative commercial leases are those entered into between the Group and operating and trading companies within the AX Group. Consequently, the risks inherent to AX Group's operations will affect the ability of those companies to operate efficiently, which in turn could have an effect on their ability to pay the rent due and or may result in lower variable rental income in the case of lease agreements featuring a combination of fixed and variable rent components. Management of the AX Group has prepared a cashflow forecast for the AX Group, as disclosed in the *AX Group p.l.c.'s business update* below, and has concluded that the AX Group will be able to sustain its operations over the foreseeable future in a manner that is cash flow positive.

Liquidity and capital funding

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 EUR52,491,997 (2022: EUR24,062,834) of which EUR6,352,244 (2022: nil) were undrawn banking facilities.

In January 2023, Suncrest Hotels p.l.c., a subsidiary of the Company, obtained a sanction letter from a local financial institution for a Loan Facility amounting to EUR30,500,000 which has been provided to enable the Group to further support its costs related to the extension of the AX ODYCY hotel. The Loan Facility is repayable over 15 years from the date of the first drawdown, inclusive of a 12-month moratorium period.

As at 31 October 2023, the Group had a gearing ratio of 50.6% (2022: 43.6%) which is expected to increase following the drawdown of the above mentioned facility.

Management has prepared a forecast considering significant events and transactions that have occurred and are expected to occur subsequent to period end. This also considers the servicing of current and projected debt, including debt at variable rates.

Conclusion

Accordingly, based on information available at the time of approving these financial statements, as a result of the strength of the Group's financial position and performance, as well as the AX Group's financial position and performance and availability of financing, the Directors have reasonable expectation that the Group and the Company will meet all their obligations as and when they fall due over the foreseeable future and therefore, that the going concern basis adopted for the preparation of these consolidated and separate financial statements is appropriate.

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

The AX Group is primarily engaged in four main business sectors namely, Care, Construction, Hospitality, Real Estate and Development and is also involved in renewable energy.

The Hospitality division has seen a significant rebound in business compared to last year. The AX Group's hotels have performed exceptionally well, with Sliema and Valletta surpassing their projected performance. The AX ODYCY hotel in Qawra had a soft opening in late May 2023. During the summer, the hotel operated at a reduced capacity as work on certain areas of the hotel and lido were still in progress.

The Healthcare division registered an increase in revenue of 10.5% compared to last year. The independent apartments at Hilltop Gardens were fully occupied throughout the year, reflecting the sustained demand for our healthcare offerings. The Construction division was largely occupied with the two main internal developments, the extension and refurbishment of the AX ODYCY hotel in Qawra and the redevelopment of the Verdala site in Rabat.

Notes to the Financial Statements – continued

2. BASIS OF PREPARATION - continued

2.1 Going concern – continued

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

Works on the Verdala project in Rabat are progressing steadily. As at the end of October 2023, finishing works on the residential blocks were underway whilst construction of the hotel was progressing steadily. By June 2023, a show apartment and a sales office were set up to visibly showcase prospective customers the luxury and level of detail of this exclusive development. The project was officially launched on the market at the end of June and, since then, a number of promise of sale agreements have already been signed.

In November 2023, AX Group p.l.c. released a EUR40 million bond with a 5.85% interest rate, aimed at redeeming the EUR40 million AX Investments p.l.c. ("AXI") bond scheduled to mature on 6 March 2024. The new bond experienced high demand, leading to an early closure of the offer period. The new bonds were admitted to listing on the Official List of the Malta Stock Exchange on 7 November 2023.

As at 31 October 2023, the AX Group maintained a healthy financial stance with a gearing ratio of 46.3%.

Management of the AX Group has prepared a cashflow forecast for the AX Group and has concluded that the AX Group will be able to sustain its operations over the foreseeable future in a manner that is cash flow positive.

Management of the AX Group has also considered a stress tested scenario to assess the AX Group's resilience and ability to handle unforeseen challenges. 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 a number of the AX Group's properties are unencumbered and could potentially be used as a guarantee in obtaining additional financing from banks should the need arise.

3. BASIS OF CONSOLIDATION

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

The consolidated financial statements comprise the financial statements of AX Real Estate p.l.c. ("the Company") and its subsidiaries (collectively, "the Group") as at 31 October 2023. 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.

Notes to the Financial Statements – continued

3. BASIS OF CONSOLIDATION – continued

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

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

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

	Group % of equity and voting rights held	
	2023	2022
Central Leisure Developments Limited	**100**	100
Heritage Developments Limited	**100**	100
Palazzo Merkanti Leisure Limited	**100**	100
Royal Hotels Limited	**100**	100
Simblija Developments Limited	**100**	100
Skyline Developments Limited	**100**	100
St. John's Boutique Hotel Limited (merged into Palazzo Merkanti Leisure Limited)*	**-**	100
Suncrest Hotels p.l.c.	**100**	100

** The merger of St.John's Boutique Hotel Limited into Palazzo Merkanti Leisure Limited became effective on the 5 October 2023, on which date St.John's Boutique Hotel Limited was struck off from the Malta Business Registry. The Draft Terms of Merger stipulated that the transactions of the company being acquired are accounted for in the annual accounts of the acquirer as from the 1 November 2022, this being in line to the provisions of article 358 of the Companies Act, Chapter 386 of the Laws of Malta. St.John's Boutique Hotel Limited's rights, obligations, assets and liabilities have been amalgamated with those of Palazzo Merkanti Leisure Limited as from this date.*

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.

4. 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.

4.1 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 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)

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.

Notes to the Financial Statements – continued

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

4.2 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:

- Amendments to IFRS 17 Insurance Contracts: Initial Application of IFRS 17 and IFRS 9 – Comparative Information (issued on 9 December 2021) (effective for financial year beginning on or after 1 January 2023)
- Amendments to IAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction (issued on 7 May 2021) (effective for financial year beginning on or after 1 January 2023)
- Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting Policies (issued on 12 February 2021) (effective for financial year beginning on or after 1 January 2023)
- Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates (issued on 12 February 2021) (effective for financial year beginning on or after 1 January 2023)
- 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 IAS 12 Income Taxes: International Tax Reform – Pillar Two Model Rules (issued on 23 May 2023) (effective for financial year beginning on or after 1 January 2023)
- Amendments to IFRS 16 Leases: Lease Liability in a Sale and Leaseback (issued on 22 September 2022) (effective for financial year beginning on or after 1 January 2024)
- Amendments to IAS 1 Presentation of Financial Statements:
  i. Classification of Liabilities as Current or Non-Current (issued on 23 January 2020);
  ii. Classification of Liabilities as Current or Non-Current – Deferral of Effective Date (issued on 15 July 2020); and
  iii. Non-Current Liabilities with Covenants (issued on 31 October 2022)

  (effective for financial year beginning on or after 1 January 2024)

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

Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting Policies

The amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Making Materiality Judgements provide guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting disclosures. The amendments are expected to have an impact on the Group's disclosures of accounting policies, but not on the measurement, recognition or presentation of any items in the Group's financial statements.

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

These are as follows:

- Amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures: Supplier Finance Arrangements (issued on 25 May 2023)
- Amendments to IAS 21 The Effects of Changes in Foreign Exchange Rates: Lack of Exchangeability (issued on 15 August 2023)

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

Notes to the Financial Statements – continued

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

4.4 Revenue

The Group recognises revenue from the following major sources:

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

i. Rental income

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

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

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

iii. Dividend income

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

4.5 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.

4.6 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.

4.7 Leases

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

Company and Group as lessor

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

Notes to the Financial Statements – continued

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

4.8 Taxation

i. Current income tax

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

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

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

ii. Deferred income tax

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

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

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

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

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

Notes to the Financial Statements – continued

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

4.9 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.

4.10 Investment in subsidiaries

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

Company

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

Notes to the Financial Statements – continued

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

4.11 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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

4.11 Financial instruments – continued

i. Financial assets – 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.

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.

The Group holds no financial assets in this category.

Notes to the Financial Statements – continued

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

4.11 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, debt securities in issue 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.

Notes to the Financial Statements – continued

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

4.11 Financial instruments – continued

ii. Financial liabilities – continued

Subsequent measurement – continued

Financial liabilities at fair value through profit or loss – continued

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.

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.

Notes to the Financial Statements – continued

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

4.11 Financial instruments – continued

iii. Impairment of financial assets – continued

General approach – continued

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.

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.

4.12 Impairment of non-financial assets

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

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

Notes to the Financial Statements – continued

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

4.12 Impairment of non-financial assets – continued

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.

4.13 Intangible assets

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

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

Website	20% per annum

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

Notes to the Financial Statements – continued

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

4.14 Investment property

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

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

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

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

4.15 Inventories

Property held for development and re-sale is stated at the lower of cost and net realisable value. The cost includes the purchase price of the property and development costs incurred to date. Net realisable value represents the estimated selling price less all estimated costs to completion and costs to be incurred in marketing and selling. The cost of development and common costs are apportioned on the basis of the costs absorbed during the stage of development and the cost of land is apportioned on the basis of the floor area.

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

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

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

Notes to the Financial Statements – continued

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

4.16 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.

4.17 Ordinary shares

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

4.18 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.

4.19 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.

4.20 Related parties

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

Notes to the Financial Statements – continued

5. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

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

Estimates

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

Fair value of investment property

The Group uses the services of professional qualified valuers to revalue investment property on a rotation basis. 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.

In the years in which an independent valuation is not obtained, management reperforms fair valuations of the properties by verifying and updating all major inputs to the last independent valuation report prepared by an external independent valuer. Internal methods are therefore aligned with those used by external valuers. On a yearly basis, management assesses each property's change in value to determine whether the change is reasonable and holds discussions with the independent valuer, as necessary.

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

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

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

Notes to the Financial Statements – continued

5. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS – continued

Estimates – continued

Recoverability of loans receivable

The entity determines the expected credit loss allowance on the subsidiary undertaking loans based on a probability of default and a loss given default as described further in Note 4.11 to these financial statements. The Directors have assessed the recoverability of loans receivable by reference to the financial position and performance of the related party borrowers for the reporting period, as well as the cash flow projections of AX Group p.l.c. ("the AX Group") of which the Company is a subsidiary. As described further in Note 2.1 to these financial statements, management of the AX Group has prepared a cashflow forecast for the AX Group and has concluded that the AX Group will be able to sustain its operations over the foreseeable future in a manner that is cash flow positive.

6. REVENUE

Revenue by category of activity:

	Group		**Company**	
	Year ended 2023 EUR	Year ended 2022 EUR	**Year ended 2023 EUR**	Year ended 2022 EUR
Sale of property and real estate	**51,000**	754,128	**-**	-
Rental income	**11,703,326**	8,155,774	**716,847**	617,493
Dividend income	**-**	-	**8,476,924**	10,769,231
	11,754,326	8,909,902	**9,193,771**	11,386,724

Rental income of the Group includes EUR1,470,580 (2022: EUR785,607) of variable rent generated.

7. OTHER OPERATING INCOME

	Group		**Company**	
	Year ended 2023 EUR	Year ended 2022 EUR	**Year ended 2023 EUR**	Year ended 2022 EUR
Ancillary services	**122,623**	115,669	**39,566**	71,796

Notes to the Financial Statements – continued

8. OTHER OPERATING COSTS

	Group		Company	
	Year ended 2023 EUR	Year ended 2022 EUR	**Year ended 2023 EUR**	Year ended 2022 EUR
Auditors' remuneration				
For audit services – statutory audit	**43,500**	43,000	**16,000**	15,500
For non-audit services	**3,200**	2,700	**400**	300
Cost of constructing property sold	**17,011**	472,659	**-**	-
Movement in allowance for expected credit losses	**(12,376)**	8,855	**(8,126)**	48,467
Amortisation of intangible assets	**532**	532	**532**	532
Water and electricity	**38,480**	48,255	**6,103**	8,615
Repairs and maintenance	**50,372**	74,472	**16,705**	10,847
Marketing costs	**11,113**	9,391	**3,923**	8,307
Professional fees	**240,817**	170,817	**184,609**	147,830
Annual listing fees	**50,700**	50,700	**50,700**	50,700
Commissions	**27,072**	50,346	**20,000**	20,000
Bank charges	**38,493**	119,587	**7,823**	97,402
Other provisions (note 22)	**268,000**	-	**-**	-
Other administrative costs	**217,156**	139,752	**102,850**	69,793
	994,070	1,191,066	**401,519**	478,293

9. STAFF COSTS

	Group		Company	
	Year ended 2023 EUR	Year ended 2022 EUR	**Year ended 2023 EUR**	Year ended 2022 EUR
Personnel costs				
Wages and salaries	**278,471**	279,161	**278,471**	279,001
Social security costs	**7,660**	7,078	**7,660**	7,078
	286,131	286,239	**286,131**	286,079

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

	Group		Company	
	2023	2022	**2023**	2022
Management and administration	**10**	10	**10**	10

Notes to the Financial Statements – continued

10. FINANCE INCOME

	Group		Company	
	Year ended 2023 EUR	Year ended 2022 EUR	**Year ended 2023 EUR**	Year ended 2022 EUR
Interest on amounts receivable from related parties	**9,183**	-	**2,239,360**	1,070,432
Other interest income	**8,925**	14,912	**7,231**	14,912
	18,108	14,912	**2,246,591**	1,085,344

11. FINANCE COSTS

	Group		Company	
	Year ended 2023 EUR	Year ended 2022 EUR	**Year ended 2023 EUR**	Year ended 2022 EUR
Interest on bank loans and overdrafts*	**1,334,737**	574,140	**908,472**	191,548
Interest on debt securities in issue*	**1,116,822**	587,884	**1,400,000**	1,024,110
Interest on amounts payable to related parties	**2,529,363**	2,071,384	**1,588,899**	1,130,915
Amortisation of bond issue costs	**55,488**	55,494	**55,488**	55,494
Bank loan related fees	**182,599**	-	**37,500**	-
	5,219,009	3,288,902	**3,990,359**	2,402,067

** The Group continued work on the extension of the AX ODYCY hotel in Qawra. This project was completed during 2023. The project was partly financed through the debt securities in issue and a loan facility with a local financial institution. The amount of borrowing costs capitalised during the year ended 31 October 2023 as part of additions to investment property was EUR717,673 (2022: EUR436,226). The rates used to determine the amount of borrowing costs eligible for capitalisation were 2.85% + 3-month Euribor, 3.5% and 4.25% respectively per annum, which were the EIR of the specific borrowings.*

12. KEY MANAGEMENT PERSONNEL COMPENSATION

	Group		Company	
	Year ended 2023 EUR	Year ended 2022 EUR	**Year ended 2023 EUR**	Year ended 2022 EUR
Directors' compensation				
Short-term benefits included under staff costs	**140,000**	175,000	**140,000**	175,000
Other key management personnel Compensation				
Key management personnel compensation included under other administrative expenses	**120,000**	120,000	**120,000**	120,000

Notes to the Financial Statements – continued

13. INCOME TAXATION

	Group		Company	
	Year ended 2023 EUR	**Year ended** 2022 EUR	**Year ended 2023 EUR**	Year ended 2022 EUR
Current income tax				
- for the year	**1,151,815**	650,790	**1,781,679**	3,234,584
- losses surrendered by parent company	**-**	211,735	**-**	-
Deferred tax through profit or loss	**3,014,969**	2,601,690	**10,844**	93,437
Income tax expense	**4,166,784**	3,464,215	**1,792,523**	3,328,021

Reconciliation of income tax expense for the year and the accounting profit before taxation multiplied by Malta's domestic tax rate of 35%:

	Group		Company	
	Year ended 2023 EUR	Year ended 2022 EUR	**Year ended 2023 EUR**	Year ended 2022 EUR
Profit before taxation	**4,578,298**	7,061,725	**6,849,674**	10,411,386
Tax thereon at 35%	**1,602,404**	2,471,604	**2,397,386**	3,643,985
Tax effect of:				
Different rate of tax on investment property value	**3,675,220**	1,784,736	**(1,914)**	(251,486)
Lower rate of tax on rental and other income	**(871,210)**	(856,076)	**(114,959)**	(97,961)
Dividend and other income not subject to tax	**(350,000)**	-	**(490,000)**	-
Other permanent differences	**110,370**	63,951	**2,010**	33,483
Income tax expense for the year	**4,166,784**	3,464,215	**1,792,523**	3,328,021

Notes to the Financial Statements – continued

14. BASIC EARNINGS PER SHARE

The basic earnings per share has been calculated on the Group's profit for the year of EUR411,514 (2022: EUR3,597,510) divided by the weighted average number of ordinary shares in issue during the year.

	Group	
	2023	2022
Weighted average number of shares in issue	**274,336,700**	249,342,480
	EUR	EUR
Basic earnings per share	**0.00**	0.01

15. INTANGIBLE ASSETS

Group and Company

	Website EUR
Cost	
At 01.11.2021	2,660
Additions	-
At 31.10.2022	**2,660**
Additions	-
At 31.10.2023	**2,660**
Amortisation	
At 01.11.2021	-
Amortisation	532
At 31.10.2022	**532**
Amortisation	532
At 31.10.2023	**1,064**
Net book value	
At 31.10.2023	**1,596**
Net book value	
At 31.10.2022	2,128

Notes to the Financial Statements – continued

16. INVESTMENT PROPERTY

	Group EUR	Company EUR
Fair value		
At 31 October 2021	232,547,548	11,270,000
Additions	24,920,003	346,039
Revaluation	2,787,449	1,033,961
At 31 October 2022	**260,255,000**	**12,650,000**
Additions	34,792,549	137,245
Revaluation	(1,817,549)	47,755
At 31 October 2023	**293,230,000**	**12,835,000**

Valuation process

Investment property is revalued by professionally qualified architects on the basis of assessments of the fair value of the property in accordance with the international valuation standards and professional practice on a rotating basis. The latest revaluations by an independent valuer were obtained as at 31 October 2021, except for commercial property amounting to EUR130,300,000 as at 31 October 2023, for which the latest revaluation by an independent valuer was obtained as at 31 October 2023.

In the years where an independent valuation is not obtained, management reworks the fair value of the property by verifying all major inputs to the independent valuation report, assessing any property valuation movements when compared to the prior year valuation report and holds discussions with the independent valuer, as necessary. Internal methods are therefore aligned with those used by external valuers.

The Group entered into long-term lease agreements of 20 years with the respective operating companies of the AX Group responsible for the operation of the relevant investment properties with effect from dates ranging between 1 July 2021 to 1 January 2022. The Group entered into a long-term lease of 20 years with a related party for the operation of the redeveloped AX ODYCY hotel in Qawra and lido with effect from dates ranging between 1 May 2023 to 1 June 2023. For all properties, given the contractual obligations under the leases, their current use equates to the highest and best use.

The Group is committed to develop the Verdala hotel in Rabat. The Group's plans for its properties in Qawra envision two additional phases, one which will see the redevelopment of the Luzzu and Sunny Coast lido areas, and another phase which will focus on the demolition and rebuilding of the Sunny Coast Resort & Spa. The Group has the necessary planning permit for the Sunny Coast Resort & Spa redevelopment and is in the process of obtaining a full development permit for the redevelopment of the Luzzu and Sunny Coast lido areas. There are no immediate plans to commence the redevelopment of both phases. The Group has no further restrictions on the realisability of its investment properties and no contractual obligations to purchase, construct or develop investment properties or for repairs, maintenance and enhancements.

A portion of the investment properties owned is encumbered as they serve as securities for bank loans.

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 4.9.

Notes to the Financial Statements – continued

16. INVESTMENT PROPERTY – continued

Climate-related considerations

For investment properties, which are measured at fair value, the Group considers the effect of physical and transition climate-related risks and whether these could impact the value of the Group's properties.

Management has evaluated potential climate-related risks that could impact the value of the Group's investment properties, and these considerations have been included within the valuation process. These include possible physical risks from climate-change such as potential damage from extreme weather events, or transitional risks such as changes in property attractiveness due to shifting climate conditions and increasing requirement for energy efficiency of buildings.

Management has concluded that, based on the information currently available, these potential climate-related risks are not expected to have a material impact on the value of the Group's investment properties.

The Group remains vigilant and committed to continuously monitoring these climate-related considerations and will adjust the investment property valuations as necessary to reflect any significant changes in these risks or in their potential impact on our business.

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

Type of Property	**Level 3**	**Total**
Commercial property	283,740,000	283,740,000
Residential	9,490,000	9,490,000
At 31 October 2023	**293,230,000**	**293,230,000**

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.

Notes to the Financial Statements – continued

16. INVESTMENT PROPERTY – continued

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

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

Type of Property	Valuation Technique	Inputs	Sensitivity
Residential property amounting to EUR3,770,000 (2022: EUR4,160,000)	Income capitalisation approach	Income capitalization approach: total projected stabilised EBITDA of EUR746,476 (2022: EUR740,688) using an average growth of 2% (2022: 2%) and discount rate of future income of 12.83% (2022: 11.83%), estimated terminal land value, capitalisation yield of 4.5% (2022: 4.5%) and discount rate of 5% (2022: 5%).	The higher the capitalisation rate, the lower the fair value. The higher the rental income and growth rate the higher the fair value
Commercial property amounting to EUR21,200,000 (2022: EUR20,775,000)	Income capitalisation approach	The inputs used to calculate the total value of the property is an annual return in the range of EUR40 to EUR260 (2022: same) per square meter at a capitalisation rate ranging from 5.75% to 6% (2022: same).	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 EUR6,420,000 (2022: EUR6,220,000)	Income capitalisation approach	Income capitalization approach: total projected stabilised EBITDA of EUR1,952,779 (2022: EUR1,728,273) using an average growth of 2% (2022: 2%) and discount rate of future income of 12.83% (2022: 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 EUR218,830,000 (2022: EUR187,560,000)	Income capitalisation approach	The main inputs used are a fixed rental income of EUR10,026,836 (2022: EUR9,830,231) per annum, increasing by 2% (2022: 2%) per annum and with a discount rate between 6-9% (2022: 9-9.75%), and a variable rent with a discount rate of 8-11.83% (2022: 11.83-13.83%).	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 EUR37,290,000 (2022: EUR37,130,000)	Income capitalisation approach	The main inputs used are a rental income of EUR1,716,000 (2022: EUR1,650,000) per annum, increasing by 2% per annum and a discount rate of 7.75% (2022: same).	The higher the capitalisation rate, the lower the fair value. The higher the rental income and growth rate the higher the fair value
Residential property amounting to EUR5,720,000 (2022: EUR4,410,000)	Comparative methods (Market approach)	The valuation of investment property was based on market rates for comparable advertised properties taking into account the size, fit out of the subject units, location of the property and current situation of the residential and commercial property market (2022: same).	The higher the market rates, the higher the fair value

Notes to the Financial Statements – continued

17. LEASES

Group as a lessor

The operating leases relating to the investment property owned by the Group have terms between 1 and 20 years. The lessee does not have the option to purchase the property at the expiry of the lease period. The income earned under the operating lease amounted to EUR11,703,326 (2022: EUR8,155,774).

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

	2023 EUR	2022 EUR
Within one year	**12,859,510**	9,990,970
Between two and five years	**56,135,989**	55,385,384
Over five years	**214,380,542**	228,703,385
	283,376,041	294,079,739

Company as a lessor

The operating leases relating to the investment property owned by the Company 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 EUR716,847 (2022: EUR617,493).

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

	2023 EUR	2022 EUR
Within one year	**728,892**	684,481
Between two and five years	**1,774,002**	2,038,323
Over five years	**3,725,773**	4,133,650
	6,228,667	6,856,454

Notes to the Financial Statements – continued

18. FINANCIAL ASSETS

Company

	Investment in subsidiaries EUR	Subsidiary undertakings loans EUR
Cost		
At 1 November 2021	93,630,280	34,280,245
Additions	-	27,195,259
Capital contribution during the year	15,000,000	(15,000,000)
At 1 November 2022	108,630,280	46,475,504
Additions	-	9,999,339
Disposal	(4,116,166)	-
At 31 October 2023	**104,514,114**	**56,474,843**
Expected credit loss		
At 1 November 2021	-	55,046
Movement for the year	-	47,819
At 1 November 2022	-	102,865
Movement for the year	-	(16,665)
At 31 October 2023	**-**	**86,200**
Net book value		
At 31 October 2023	**104,514,114**	**56,388,643**
At 31 October 2022	108,630,280	46,372,639

Investment in subsidiaries

The consolidated financial statements comprise the results and position of the Company and the Group as at 31 October 2023, which is a common year-end of all subsidiaries forming part of the Group. The list of subsidiaries consolidated is disclosed in Note 3. 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 financial year, the Company transferred all of its shares in St. John’s Boutique Hotel Limited to another subsidiary, Palazzo Merkanti Leisure Limited, at the cost of EUR4,116,166 as disclosed in Note 30. As disclosed in Note 3 to these financial statements, St. John’s Boutique Hotel Limited was eventually merged into Palazzo Merkanti Leisure Limited by the year end.

Notes to the Financial Statements – continued

18. FINANCIAL ASSETS – continued

Subsidiary undertakings loans

The subsidiary undertakings loans are unsecured, carry interest at the weighted average borrowing rate of the Group which stood at 4.34% as at 31 October 2023 (2022: 3.25% to 3.75% + 3-month Euribor) and are repayable on 31 October 2031. The entity determines the expected credit loss allowance on the subsidiary undertaking loans based on a probability of default of 0.16% (2022: 0.16%) and a loss given default of 100% (2022: 100%).

19. INVENTORIES

	Group		Company	
	2023	2022	**2023**	2022
	EUR	EUR	**EUR**	EUR
Property held for development and re-sale	**421,187**	438,198	**-**	-

20. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2023	2022	**2023**	2022
	EUR	EUR	**EUR**	EUR
Trade receivables (i)	**202,535**	164,011	**62,617**	21,200
Amounts owed by subsidiaries (ii)	**-**	-	**4,886,189**	2,659,192
Amounts owed by other related parties (iii)	**2,739,311**	9,356,342	**151,377**	60,703
Other receivables (i)	**36,711**	147,793	**22,751**	8,221
Indirect taxation	**277,473**	598,764	**-**	146,323
Advance payments to third party suppliers	**2,025,934**	3,029,902	**52,544**	118,481
Prepayments and accrued income (iv)	**1,501,252**	810,526	**45,616**	40,001
	6,783,216	14,107,338	**5,221,094**	3,054,121

(i) Trade and other receivables are non-interest bearing and repayable on demand.
(ii) Amounts owed by subsidiaries are non-interest bearing and have no fixed date of repayment.
(iii) Amounts owed by other related parties, which include advance payments to related party suppliers, rent receivable and other balances, are non-interest bearing and have no fixed date of repayment.
(iv) Included within accrued income of the Group is an amount of EUR1,442,042 (2022: EUR762,602) of rent receivable that should become receivable from other related parties once invoiced.

21. CASH AND CASH EQUIVALENTS

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

	Group		Company	
	2023	2022	**2023**	2022
	EUR	EUR	**EUR**	EUR
Cash at bank and in hand	**7,706,065**	12,061,062	**875,024**	7,124,684

Notes to the Financial Statements – continued

21. CASH AND CASH EQUIVALENTS – continued

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

	Group		Company	
	2023	2022	**2023**	2022
	EUR	EUR	**EUR**	EUR
Non-cash investing activities				
Capital contribution to subsidiary	**-**	-	**-**	15,000,000
Dividends from subsidiaries	**-**	-	**8,476,924**	10,769,231
Transfer of shares in St. John's Boutique Hotel Limited	**-**	-	**4,116,166**	-
Non-cash financing activities				
Capitalisation of reserves	**-**	12,450,000	**-**	12,450,000
Capitalisation of shareholder loan	**-**	50,000,000	**-**	50,000,000
Waiver of amount owed to parent	**1,000,000**	-	**-**	-
Debt securities assigned to parent company	**-**	21,645,400	**-**	21,645,400

22. TRADE AND OTHER PAYABLES

	Group		Company	
	2023	2022	**2023**	2022
	EUR	EUR	**EUR**	EUR
Trade payables (i)	**3,861,312**	1,608,361	**90,241**	162,468
Other payables (ii)	**771,581**	885,563	**73,418**	57,752
Indirect taxation and social security	**-**	-	**22,498**	-
Accruals and deferred income (iii)	**1,217,753**	2,716,804	**183,881**	215,860
	5,850,646	5,210,728	**370,038**	436,080
Current	**5,762,737**	4,856,133	**370,038**	436,080
Non-current	**87,909**	354,595	**-**	-
	5,850,646	5,210,728	**370,038**	436,080

(i) Trade payables, which include capex creditors, are non-interest bearing and generally repayable within a 60-day term.

(ii) Other payables of the Group include an amount of EUR394,819 (2022: EUR766,752) payable to the Planning Authority in relation to permits acquired for the AX ODYCY hotel in Qawra extension and the Verdala hotel projects as disclosed in Note 16 to these financial statements. This balance is governed by repayment agreements entered into between two subsidiaries with the Planning Authority and is repayable over a number of years. Other payables of the Group also includes a provision of EUR268,000 for ground rent payable to the Commissioner of Lands in relation to the Qawra foreshore. As at the reporting date, negotiations with the Commissioner of Lands are still ongoing and an agreement has not yet been signed.

(iii) Included within accruals of the Group is an amount of EUR228,922 (2022: EUR888,141) of additions to investment property that should become payable to other related parties once invoiced.

Notes to the Financial Statements – continued

23. BANK BORROWINGS

	Group		Company	
	2023	2022	**2023**	2022
	EUR	EUR	**EUR**	EUR
Bank loans	**46,139,753**	24,062,834	**14,990,463**	15,000,000

Bank loans are repayable as follows:

	Group		Company	
	2023	2022	**2023**	2022
	EUR	EUR	**EUR**	EUR
On demand or within one year	**4,266,777**	2,118,858	**1,473,230**	-
Between two and five years	**15,676,986**	19,541,903	**6,428,640**	15,000,000
After five years	**26,195,990**	2,402,073	**7,088,593**	-
	46,139,753	24,062,834	**14,990,463**	15,000,000
Current	**4,266,777**	2,118,858	**1,473,230**	-
Non-current	**41,872,976**	21,943,976	**13,517,233**	15,000,000
	46,139,753	24,062,834	**14,990,463**	15,000,000

The bank loans are secured by general hypothecs over the group assets, by special hypothecs over various immovable properties, by pledges over various insurance policies and identified receivables, and by personal guarantees of the ultimate controlling party. They bear interest at 3.9% to 2.85% + 3-month Euribor (2022: 3.25% to 4.25% + 3-month Euribor) per annum.

In January 2022, the Company obtained a EUR15 million bridge loan from a local bank to part finance the AX ODYCY hotel in Qawra extension and the Verdala hotel development. This loan has been renegotiated and rescheduled over a 10-year term with an 8-month moratorium as of March 2023.

In January 2023, Suncrest Hotels p.l.c., a subsidiary of the Company, obtained a sanction letter from a local financial institution for a Loan Facility amounting to EUR30,500,000 which has been provided to enable the Group to further support its costs related to the extension of the AX ODYCY hotel in Qawra. The Loan Facility is repayable over 15 years from the date of the first drawdown, inclusive of a 12-month moratorium period.

Notes to the Financial Statements – continued

24. OTHER FINANCIAL LIABILITIES

	Group		Company	
	2023	2022	**2023**	2022
	EUR	EUR	**EUR**	EUR
Amounts owed to parent (i)	**33,859,187**	31,626,970	**32,951,486**	31,521,329
Amounts owed to subsidiaries (ii)	**-**	-	**5,996,474**	1,728,417
Amounts owed to other related parties (iii)	**19,995,218**	20,215,064	**2,353**	1,124,347
Total other financial liabilities	**53,854,405**	51,842,034	**38,950,313**	34,374,093
Current	**5,451,475**	6,404,455	**6,065,116**	3,984,024
Non-current	**48,402,930**	45,437,579	**32,885,197**	30,390,069
Total other financial liabilities	**53,854,405**	51,842,034	**38,950,313**	34,374,093

(i) Amounts owed to parent for related party debt are unsecured, bear interest at the weighted average borrowing rate of the AX Group which stood at 4.98% as at 31 October 2023 and are repayable on 31 December 2034. The payment of the interest due on this loan is also deferred until 31 December 2032.
(ii) Amounts owed to subsidiaries are largely unsecured working capital balances, interest free and have no fixed date of repayment.
(iii) Amounts owed to other related parties for related party debt, except for an aggregate amount of EUR15,047,500 which bears interest of 6.25% and is repayable on 31 December 2034, are unsecured, interest-free and have no fixed date of repayment. The payment of the interest due on this loan is also deferred until 31 December 2032.

25. DEBT SECURITIES IN ISSUE

Group and Company

During 2022, AX Real Estate p.l.c. issued an aggregate principal amount of EUR40,000,000 (2022 – 2032), having a nominal value of EUR100 each, bearing interest at the rate of 3.5% per annum. These bonds are unsecured and subject to the terms and conditions in the prospectus dated 6 December 2021. The bonds are listed on the Official Companies List of the Malta Stock Exchange. The quoted market price as at 31 October 2023 for the 3.5% bonds (2022 – 2032) was EUR92.98 (2022: EUR97.01). The fair value of the bonds as at 31 October 2023 amounted to EUR37,192,000 (2022: EUR38,265,665).

As at year-end, the Company had a balance of EUR39,556,055 (2022: EUR39,500,567) from this bond issue. The amount is made up of the bond issue of EUR40,000,000 net of the bond issue costs of EUR554,927, which are being amortised over the life of the bonds. EUR21,645,400 of these bonds were assigned to AX Group p.l.c. as part conversion of the loan payable by the Company on issue.

Notes to the Financial Statements – continued

25. DEBT SECURITIES IN ISSUE – continued

Group and Company – continued

	2023 EUR	2022 EUR
At beginning of year	**39,500,567**	-
Bonds issued during the year (net of bond issue costs)	**-**	39,445,073
Bond issue costs amortization for the year	**55,488**	55,494
	39,556,055	39,500,567
Accrued interest	**1,024,110**	1,024,110
At end of year	**40,580,165**	40,524,677
Falling due within one year	**1,024,110**	1,024,110
Falling due between two and five years	**-**	-
Falling due after more than five years	**39,556,055**	39,500,567
	40,580,165	40,524,677

26. DEFERRED TAX LIABILITIES

	Group		Company	
	2023 EUR	2022 EUR	**2023 EUR**	2022 EUR
Arising on:				
Provision for doubtful debts	**(38,203)**	(43,695)	**(33,386)**	(36,229)
Unabsorbed tax losses and capital allowances	**(2,024,575)**	(1,808,252)	**-**	-
Revaluation of investment property	**27,715,800**	24,490,000	**1,020,000**	1,012,000
	25,653,022	22,638,053	**986,614**	975,771

Notes to the Financial Statements – continued

27. SHARE CAPITAL AND RESERVES

Group and Company

	2023	2022
	EUR	EUR
Authorised		
2,000,000,000 ordinary A shares of EUR0.125 and 2,000,000,000 ordinary B shares of EUR0.125 each (2022: 2,000,000,000 ordinary A shares of EUR0.125 and 2,000,000,000 ordinary B shares of EUR0.125 each)	**500,000,000**	500,000,000
Called up issued and fully paid up		
97,193,600 ordinary A shares of EUR0.125 and 177,143,100 ordinary B shares of EUR0.125 each (2022: 97,193,600 ordinary A shares of EUR0.125 and 177,143,100 ordinary B shares of EUR0.125 each)	**34,292,088**	34,292,088

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

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

In February 2022, AX Group p.l.c. 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, the Company raised EUR13,648,644 with shares issued at EUR0.5608 each, split as to EUR0.125 per share in nominal value and EUR0.4358 per share in share premium.

A dividend of EUR0.025 per ordinary share equivalent to EUR6,858,413 was declared during the year-ended 31 October 2023 (2022: EUR0.0125 per ordinary share equivalent to EUR3,429,209).

Share premium

The share premium reserve represents the amount by which the fair value of the consideration received for shares issued during the year-ended 31 October 2022 exceeds the nominal value of the shares, net of equity issue costs of EUR482,478.

Revaluation reserve

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

Notes to the Financial Statements – continued

27. SHARE CAPITAL AND RESERVES – continued

Group and Company – continued

Retained earnings

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

Other reserves

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

28. CONTINGENT LIABILITIES

At 31 October 2023, 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, subsidiaries had provided guarantees in favour of third parties amounting to EUR146,332 (2022: EUR171,332).

- The Commissioner of Lands is claiming for damages for alleged illegal occupation of land forming part of the AX ODYCY Lido and Sunny Coast Leisure Centre. The AX Group is currently in negotiations with the Commissioner to settle the matter amicably. AX Group p.l.c. has undertaken a commitment to pay any compensation eventually agreed with the Commissioner of Lands in order to settle this case.

29. CAPITAL COMMITMENTS

Commitments for capital expenditure with respect to the development and completion of a number of projects as at 31 October 2023 stand as follows:

	2023	2022
	EUR	EUR
Authorised and contracted	**5,167,411**	20,874,083
Authorised but not contracted	**11,758,306**	19,343,546

Notes to the Financial Statements – continued

30. RELATED PARTIES

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

Group and Company

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

Balances with related parties are disclosed in Note 18, Note 20, Note 22 and Note 24.

Transactions with related parties

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

	Group		**Company**	
	2023	2022	**2023**	2022
	EUR	EUR	**EUR**	EUR
Rental income from parent company	**378,048**	371,583	**23,342**	19,133
Rental income from related parties	**10,351,025**	6,950,170	**195,201**	177,308
Sale of property and real estate	**-**	310,000	**-**	-
Other operating income	**24,000**	-	**24,000**	-
Waiver of amount owed to ultimate parent*	**1,000,000**	-	**-**	-
Transfer of shares in St. John's Boutique Hotel Limited (Note 19)	**-**	-	**4,116,166**	-
Recharges of expenses from parent company	**41,991**	20,782	**41,991**	20,782
Interest income from loans to subsidiaries	**-**	-	**2,239,360**	1,070,432
Interest on loan from parent company	**1,588,899**	1,130,915	**1,588,899**	1,130,915
Interest on loans from other related parties	**940,464**	940,469	**-**	-
Investment property additions	**10,445,403**	8,056,398	**-**	74,762
Dividend received from subsidiaries	**-**	-	**8,476,924**	10,769,231
Dividend declared to parent company	**6,249,950**	3,124,975	**6,249,950**	3,124,975
Capitalisation of loan from parent company	**-**	50,000,000	**-**	50,000,000
Debt securities assigned to parent company	**-**	21,645,400	**-**	21,645,400
Interest on bonds payable to parent company	**639,575**	549,550	**639,575**	549,550
Capitalisation of reserves	**-**	12,450,000	**-**	12,450,000
Capital contribution to subsidiary	**-**	-	**-**	15,000,000

*The waiver of amount owed to ultimate parent relates to a waiver of a portion of an amount advanced by AX Group p.l.c. for additions to investment property.

Notes to the Financial Statements – continued

31. RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

Credit risk

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

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

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

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

Quoted investments are acquired after assessing the quality of the relevant investments. Cash is placed with reliable financial institutions.

Liquidity risk

The Group's and the Company's exposure to liquidity risk arises from its obligations to meet financial liabilities, which comprise bank borrowings, debt securities in issue, 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 2023 and 31 October 2022, the contractual maturities on the financial liabilities of the Group and the Company were as summarized below. Contractual maturities reflect gross cash flows, which may differ from the carrying values of financial liabilities at the date of the statement of financial position.

Group

2023	**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	3,165,023	3,373,317	22,559,348	30,990,631	60,088,319
Debt securities in issue	1,400,000	-	5,600,000	45,600,000	52,600,000
Other financial liabilities	5,451,475	-	-	48,402,930	53,854,405
Trade and other payables	4,632,893	-	-	-	4,632,893
Total	**14,649,391**	**3,373,317**	**28,159,348**	**124,993,561**	**171,175,617**

2022	**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	1,763,829	1,207,908	20,343,285	2,573,240	25,888,262
Debt securities in issue	1,400,000	-	5,600,000	47,000,000	54,000,000
Other financial liabilities	6,404,455	-	-	45,437,579	51,842,034
Trade and other payables	1,933,250	206,079	354,595	-	2,493,924
Total	**11,501,534**	**1,413,987**	**26,297,880**	**95,010,819**	**134,224,220**

Notes to the Financial Statements – continued

31. RISK MANAGEMENT OBJECTIVES AND POLICIES – continued

Liquidity risk - continued

Company

2023	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	1,171,958	1,279,313	9,250,491	8,172,197	19,873,959
Other financial liabilities	6,065,116	-	-	32,885,197	38,950,313
Debt securities in issue	1,400,000	-	5,600,000	45,600,000	52,600,000
Trade and other payables	163,659	-	-	-	163,659
Total	**8,800,733**	**1,279,313**	**14,850,491**	**86,657,394**	**111,587,931**

2022	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	281,250	281,250	15,187,500	-	15,750,000
Other financial liabilities	3,984,024	-	-	30,390,069	34,374,093
Debt securities in issue	1,400,000	-	5,600,000	47,000,000	54,000,000
Trade and other payables	220,220	-	-	-	220,220
Total	**5,885,494**	**281,250**	**20,787,500**	**77,390,069**	**104,344,313**

Foreign currency risk

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

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

Interest rate risk

The Group and the Company's exposure to interest rate risk is limited to the variable interest rates on borrowings. This applies to all of the Group's bank borrowings as per note 23 whose applicable interest rates are linked to either the 3-month Euribor or the bank's base rate, as well as the amounts owed to parent as per note 24 whose applicable interest rate is linked the AX Group's weighted average borrowing rate. Based on observations of current market conditions, the Directors consider an upward or downward movement in interest of 1% to 2% to be reasonably possible. However, the potential impact of such a variance is considered immaterial. The movement in the interest rate basis points is based on the currently observable market environment, showing a significantly higher volatility than in prior years.

32. CAPITAL MANAGEMENT

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

Notes to the Financial Statements – continued

32. CAPITAL MANAGEMENT – continued

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.

	2023	2022
	EUR	EUR
Interest bearing loans and borrowings	**86,719,918**	64,587,511
Other financial liabilities	**53,854,405**	51,842,034
Trade and other payables	**5,850,646**	5,210,728
Less: Cash and cash equivalents	**(7,706,065)**	(12,061,062)
Net debt	**138,718,904**	109,579,211
Share capital	**34,292,088**	34,292,088
Other reserves	**101,293,523**	107,740,422
Total capital	**135,585,611**	142,032,510
Capital and net debt	**274,304,515**	251,611,721
Gearing ratio	**50.6%**	43.6%

No changes were made in the objectives, policies and processes for managing capital during the years ended 31 October 2023 and 2022.

33. SUBSEQUENT EVENTS

In January 2024, the Company declared an interim dividend amounting to EUR4,060,183, in line with the indication given in the above-mentioned registration document.

Building a better working world

Ernst & Young Malta Limited
Regional Business Centre
Achille Ferris Street
Msida MSD 1751, Malta

Tel: +356 2134 2134
Fax: +356 2133 0280
ey.malta@mt.ey.com
ey.com

INDEPENDENT AUDITOR'S REPORT

to the Shareholders of AX Real Estate p.l.c.

Report on the audit of the financial statements

Opinion

We have audited the consolidated and separate financial statements of AX Real Estate p.l.c. (the "Company") and its subsidiaries (the "Group"), set on pages 14 to 56, which comprise the consolidated and separate statements of financial position as at 31 October 2023, 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 2023, 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 Group and the Company in accordance with the *International Code of Ethics for Professional Accountants (including International Independence Standards) as issued by the International Ethics Standards Board of Accountants (IESBA Code)* together with the ethical requirements that are relevant to our audit of the financial statements in accordance with the *Accountancy Profession (Code of Ethics for Warrant Holders) Directive issued in terms of the Accountancy Profession Act, Cap. 281 of the Laws of Malta*, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

INDEPENDENT AUDITOR'S REPORT

to the Shareholders of AX Real Estate p.l.c. - continued

Report on the audit of the financial statements - continued

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

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

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

Fair valuation of the Group's investment property

The Group holds investment property, which is being further described in Notes 4.14, 5 and 16 to the accompanying financial statements, accounting for 95.2% of its total assets as at 31 October 2023. 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 to revalue the investment properties on the basis of assessments of the fair value of the property in accordance with international valuation standards and professional practice. The valuations are arrived at by a combination of the income capitalisation approach and the market approach as applicable. In the years in which an independent valuation is not obtained, management reperforms the fair value of the property by verifying and updating all major inputs to the last independent valuation report prepared by an external independent valuer. Internal methods are therefore aligned with those used by external valuers. On a yearly basis, management assesses each property's change in value to determine whether the change is reasonable and holds discussions with the independent valuer, as necessary.

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

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

INDEPENDENT AUDITOR'S REPORT

to the Shareholders of AX Real Estate p.l.c. - continued

Report on the audit of the financial statements - continued

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

Fair valuation of the Group's investment property - continued

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

- evaluating the design and implementation of key controls over the Group's property valuation process by inquiring with the valuation process owners;
- performing tests relating to the valuation of the Group's property, focusing on management reviews over the property valuations by inspecting management workings and analyses, 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 latest available valuation reports and considered the independence and expertise thereof;
- obtaining an understanding of the process followed by management in the years where an independent valuation is not obtained and an update is performed internally;
- 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.

We also assessed the relevance and adequacy of disclosures relating to the Group's fair valuation of investment property presented in Notes 4.14, 5 and 16 to the accompanying financial statements.

INDEPENDENT AUDITOR'S REPORT

to the Shareholders of AX Real Estate p.l.c. - continued

Report on the audit of the financial statements - continued

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon.
Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon other than our reporting on other legal and regulatory requirements.

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

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

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

In preparing the financial statements, the directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the 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.

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

Report on the audit of the financial statements - continued

Auditor's responsibilities for the audit of the financial statements

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

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

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

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 Real Estate p.l.c. - continued

Report on the audit of the financial statements - continued

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

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

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

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

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INDEPENDENT AUDITOR'S REPORT

to the Shareholders of AX Real Estate p.l.c. - continued

Report on other legal and regulatory requirements

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

Directors' report

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

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

Other requirements

We also have responsibilities under the Companies Act to report to you if in our opinion:

- proper accounting records have not been kept;
- proper returns adequate for our audit have not been received from branches not visited by us;
- the financial statements are not in agreement with the accounting records and returns;
- we have not received all the information and explanations we require for our audit.

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

Appointment

We were appointed as the statutory auditor of the Company on 28 October 2020. The total uninterrupted engagement period as statutory auditor, including previous renewals and reappointments amounts to 4 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.

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

Report on other legal and regulatory requirements - continued

Report on compliance with the requirements of the European Single Electronic Format Regulatory Technical Standard (the "ESEF RTS"), by reference to Capital Markets Rule 5.55.6

We have undertaken a reasonable assurance engagement in accordance with the requirements of Directive 6 issued by the Accountancy Board in terms of the Accountancy Profession Act (Cap. 281) - the Accountancy Profession (European Single Electronic Format) Assurance Directive (the "ESEF Directive 6") on the annual financial report of AX Real Estate p.l.c. for the year ended 31 October 2023, entirely prepared in a single electronic reporting format.

Responsibilities of the directors
The directors are responsible for the preparation of the annual financial report, including the consolidated financial statements and the relevant mark-up requirements therein, by reference to Capital Markets Rule 5.56A, in accordance with the requirements of the ESEF RTS.

Our responsibilities
Our responsibility is to obtain reasonable assurance about whether the annual financial report, including the consolidated financial statements and the relevant electronic tagging therein comply in all material respects with the ESEF RTS based on the evidence we have obtained. We conducted our reasonable assurance engagement in accordance with the requirements of ESEF Directive 6.

Our procedures included:
- Obtaining an understanding of the entity's financial reporting process, including the preparation of the annual financial report, in accordance with the requirements of the ESEF RTS.
- Obtaining the annual financial report and performing validations to determine whether the annual financial report has been prepared in accordance with the requirements of the technical specifications of the ESEF RTS.
- Examining the information in the annual financial report to determine whether all the required taggings therein have been applied and whether, in all material respects, they are in accordance with the requirements of the ESEF RTS.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion
In our opinion, the annual financial report for the year ended 31 October 2023 has been prepared, in all material respects, in accordance with the requirements of the ESEF RTS.

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

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

The Capital Markets Rules also require the auditor to include a report on the statement of compliance prepared by the directors. We are also required to express an opinion as to whether, in the light of the knowledge and understanding of the 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 Capital Markets Rules 5.97.4 and 5.97.5.

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

Report on other legal and regulatory requirements - continued

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

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

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

In our opinion:
- the corporate governance statement set out on pages 8 to 11 has been properly prepared in accordance with the requirements of the Capital Markets Rules issued by the Malta Financial Services Authority
- in the light of the knowledge and understanding of the Group and the Company and their environment obtained in the course of the audit, the information referred to in Capital Markets Rules 5.97.4 and 5.97.5 are free from material misstatement

Under the Capital Markets Rules we also have the responsibility to:
- review the statement made by the Directors, set out on page 4, 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.

Remuneration report
The Capital Market Rules issued by the MFSA require the directors to prepare and include in their annual report a Remuneration Report. Such report includes the contents as prescribed in Appendix 12.1 of the Capital Market Rules.

As referred to in Capital Market Rule 12.26N, the auditor is required to check that the information that needs to be provided in the remuneration report, in line with the terms required by Chapter 12 of the Capital Market Rules including Appendix 12.1, has been included in such report.

In our opinion, the remuneration report set out on pages 12 to 13 has been properly prepared in accordance with the requirements of the Capital Market Rules issued by the MFSA.

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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

21 February 2024