

AX Investments p.l.c.

Report and financial Statements

31 October 2008

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AX Investments p.l.c.

Directors, officer and other information

Directors:

Dr Patrick J. Galea
Chev Philip A. Ransley
Mr Michael Sciortino (appointed on 1 November 2008)
Mr Michael Warrington
Mr Angelo Xuereb
Ms Claire Xuereb (resigned on 1 November 2008)

Secretary:

Mr Tonio Farrugia

Registered office:

AX House,
Mosta Road,
Lija,
Malta.

Country of incorporation:

Malta

*Company registration
number:*

C 27586

Auditors:

Brian Tonna & Co.
Pebbles,
Triq il-Mahsel,
Marsascala MSK3649
Malta.

Bankers:

Bank of Valletta p.l.c.,
Labour Avenue,
Naxxar,
Malta.

Legal adviser:

Dr David Wain
AX House,
Mosta road,
Lija,
Malta.

AX Investments p.l.c.

Directors' report

For the year ended 31 October 2008

The directors present their report and the audited financial statements of the company for the year ended 31 October 2008.

Principal activities

The company was formed principally to act as a finance and investment company, in particular the financing or re-financing of the funding requirements of related companies.

Performance review

The company's operating income for the year increased from €157,328 to €163,005. The profit before taxation decreased from €764,820 to €76,893. The 2007 profit before tax figure included a gain of €698,812 resulting from the fair value adjustment of its investment property. The net asset value at the balance sheet date amounted to €2,844,222 (2007 - €2,815,013)

Result and dividend

The profit for the year after taxation was €29,209 (€41,280). The directors do not recommend the payment of a dividend.

Directors

The directors who served during the period were:

Dr Patrick J. Galea

Chev Philip A. Ransley

Mr Michael Sciortino (appointed on 1 November 2008)

Mr Michael Warrington

Mr Angelo Xuereb

Ms Claire Xuereb (resigned on 1 November 2008)

In accordance with the company's articles of association the directors are to continue in office.

Auditors

A resolution to re-appoint Brian Tonna & Co. as auditors of the company will be proposed at the forthcoming annual general meeting.

Approved by the board of directors and signed on its behalf on 27 Febuaury 2009 by:



Mr Angelo Xuereb
Director



Mr Michael Warrington
Director

AX Investments p.l.c.

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 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:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- prepare the financial statements on a going concern basis, unless it is inappropriate to presume that the company will continue in business.

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.

AX Investments p.l.c.

Corporate governance – Statement of compliance

Pursuant to Listing Rules 8.36 to 8.38 issued by the Malta Financial Services Authority, AX Investments 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 a Finance Company to the AX Holdings Group of Companies and as such has minimal operations emanating from this task. Its primary function is the lending and monitoring of the proceeds of the Bonds issued to the public in 2006 by the Company and guaranteed by the parent company AX Holdings Limited.

Compliance

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

- The Company does not have a Chief Executive Officer as recommended in Principle Six, due to the nature of the Company and as such the Board carries out the policy decisions regarding the Company.
- The Company does not have a Remuneration Committee as recommended in Principle Eight, since the Company has no employees other than the Directors and the Company Secretary.

Board of Directors

The Board of Directors of AX Investments p.l.c. (the Board) is currently made up of five directors, three of whom are completely independent from the Company or any related Group company. Pursuant to generally accepted practices, as well as the Company’s Articles of Association, the appointment of directors to the Board is reserved exclusively to the Company’s shareholders.

The present directors are Mr Angelo Xuereb, Dr Patrick J. Galea, Chev Philip A. Ransley, Mr Michael Sciortino and Mr Michael Warrington. Mr Sciortino replaced Ms Claire Xuereb with effect from 1 November 2008.

Messrs Galea, Ransley and Sciortino are independent directors in that they have no involvement or relationship with the company or with the majority shareholder.

AX Investments p.l.c.

Corporate governance – Statement of compliance

Mr Angelo Xuereb chairs the Board which met five times during 2008. The Board has a formal schedule of matters reserved to it for decision. Directors receive board and committee papers 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.

Audit Committee

The Audit Committee held five meetings throughout 2008, besides having ongoing consultations with the Board of Directors, in the fulfilment of its task of monitoring and reviewing procedures and internal control systems.

The Committee is chaired by Chev. Philip A. Ransley, and its other members are Dr Patrick J. Galea and Mr Michael Sciortino. The audit committee is in compliance with the amendments to the Listing Rules effected on 6 October 2008. All three directors forming the audit committee are non-executive directors and are totally independent from the Company or the AX Group of Companies. Mr Sciortino is a Certified Public Accountant.

The Company Secretary acts as secretary to the committee which also receives the assistance of the Group Finance Director, Mr Michael Warrington, and the Group Financial Controller, Mr Albert Bonello.

Dealings by Directors and Senior Officers

Conscious of its responsibility for monitoring dealings by directors and senior officers in the Company's securities, the Board approved a Code of Conduct for Securities Transactions by Directors, Executives and Employees in compliance with Listing Rules 8.45 to 8.55. The code provides guidance to the Company's officers and serves as a minimum standard of good practice when dealing in the Company's securities.

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

AX Investments p.l.c.

Corporate governance – Statement of compliance

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.

The Audit Committee continued to review the Company's system of internal controls which are monitored by the Group's Finance Department, and is satisfied with their effectiveness.

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 reviews its risk management policies and strategies and oversees their implementation to ensure that identified operational risks are properly assessed and managed.

Directors' Remuneration

The Board determines the remuneration of the Directors. The directors' annual remuneration for the financial year under review, as previously approved by the Board, was as follows:

Chairman	€25,623
Other directors	€2,329 (per director)

Mr Angelo Xuereb indirectly, through Fulcrum Services Limited and AX Holdings Limited, holds a controlling interest in the Company. Mr Michael Warrington holds the position of Group Finance Director with the majority shareholder, AX Holdings Limited.

AX Investments p.l.c.

Corporate governance – Statement of compliance

Commitment to Maintain an Informed Market

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

The Board has also implemented an Investor Relations Program, which aims at giving Bondholders rewards to be used within the Group to foster loyalty. This program, which is managed by AX Holdings Limited executives, includes the issue of the AX Investments Platinum Card and the periodic dissemination of the AX Investments Newsletter.

The information as provided above is a fair summary of the AX Investments p.l.c. adoption of the Code of Good Corporate Governance. Overall, the Company has broadly implemented the Code where the Board believes that it would add value to the stakeholders. In certain areas, it was felt that the Code was more suited to companies who held equity on the Malta Stock Exchange and therefore its implementation would not be useful for a limited operating company like AX Investments p.l.c.

The Board will continue to monitor the Code in future years and will decide on an annual basis if the position stated above will apply.

Going Concern

Under Corporate Governance requirements, the Directors confirm that, having reviewed the Group's budget and forecast for 2009, they consider that the Group has adequate resources to continue in operation and existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing these financial statements.

Approved by the Board of Directors on 27 Febuaury 2009 and signed on its behalf by:



Mr Angelo Xuereb
Director



Mr Michael Warrington
Director

AX Investments p.l.c.

Independent auditor's report

to AX Investments p.l.c. on corporate governance matters

Pursuant to the Listing Authority Rules 8.37 and 8.38 issued by the Malta Financial Services Authority, the directors are required to include in their annual report a Statement of Compliance to 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 with these principles.

Our responsibility is laid down by Listing Rule 8.39 which requires us to include a report on the Statement of Compliance

We read the Statement of Compliance and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

We are not required to perform additional work necessary to, and we do not, express an opinion on the effectiveness of either the company's system of internal control or its corporate governance procedures.

In our opinion, the Statement of Compliance set out on pages 4 to 7 has been properly prepared in accordance with the requirements of Listing Rules 8.37 and 8.38.



Mr Brian Tonna

For and on behalf of
Brian Tonna & Co.
Certified Public Accountants

``Pebbles``
Triq il-Mahsel
St Thomas Bay
Marsascala MSK3649
Malta
Date: 27 Febuaury 2009

AX Investments p.l.c.

Independent auditor's report to the members of AX Investments p.l.c.

We have audited the accompanying financial statements of AX Investments p.l.c. which comprise the balance sheet as at 31 October 2008, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory

Directors' Responsibility for the Financial Statements

The Directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. 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; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

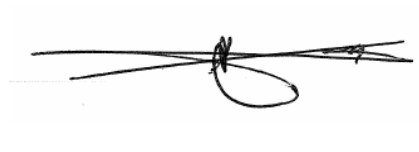
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

AX Investments p.l.c.

Independent auditor's report (continued) to the members of AX Investments p.l.c.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of AX Investments p.l.c. as of 31 October 2008 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards, and have been properly prepared in accordance with the Maltese Companies Act, 1995.



Mr Brian Tonna

For and on behalf of
Brian Tonna & Co.
Certified Public Accountants

``Pebbles``
Triq il-Mahsel
St Thomas Bay
Marsascala MSK3649
Malta
Date: 27 Febuaury 2009

AX Investments p.l.c.

Income statement

For the year ended 31 October 2008

	<i>Note</i>	2008 €	2007 €
Operating income	4	163,005	157,328
Administrative expenses		(109,890)	(95,488)
		<hr/>	<hr/>
Operating profit		53,115	61,840
Investment income	5	982,886	1,499,679
Finance costs	6	(959,108)	(796,699)
		<hr/>	<hr/>
Profit before tax	7	76,893	764,820
Income tax expense	8	(47,684)	(723,540)
		<hr/>	<hr/>
Profit for the year		29,209	41,280
		<hr/> <hr/>	<hr/> <hr/>
Earnings per share	9	0.02	0.03
		<hr/> <hr/>	<hr/> <hr/>

AX Investments p.l.c.

Balance sheet

At 31 October 2008

	Note	2008 €	2007 €
ASSETS			
Non-current assets			
Property plant and equipment	10	135,882	157,647
Investment property	11	5,357,559	5,357,559
Available for sale investments	12	2,536,385	2,536,385
Loans and receivables	12	10,564,121	9,578,446
		<u>18,593,947</u>	<u>17,630,037</u>
Current assets			
Trade and other receivables	13	6,619	-
Cash and cash equivalents	14	20	635,195
		<u>6,639</u>	<u>635,195</u>
Total assets		<u>18,600,586</u>	<u>18,265,232</u>
EQUITY AND LIABILITIES			
Capital and reserves			
Called up issued share capital	15	2,795,248	2,795,248
Retained earnings		48,974	19,765
Total equity		<u>2,844,222</u>	<u>2,815,013</u>
Non-current liabilities			
Debt securities in issue	16	14,067,278	13,832,506
Deferred tax liabilities	17	642,907	642,907
		<u>14,710,185</u>	<u>14,475,413</u>
Current liabilities			
Trade and other payables	18	797,658	773,967
Other financial liabilities	19	248,521	200,839
		<u>1,046,179</u>	<u>974,806</u>
Total liabilities		<u>15,756,364</u>	<u>15,450,219</u>
Net equity and liabilities assets		<u>18,600,586</u>	<u>18,265,232</u>

These financial statements were approved by the board of directors, authorised for issue on 27 Febuaury 2009 and signed on its behalf by:

Mr Angelo Xuereb
Director

Mr Michael Warrington
Director

AX Investments p.l.c.

Statement of changes in equity

For the year ended 31 October 2008

	Share capital €	Retained earnings €	Total €
Balance at 1 November 2006	2,795,248	(21,515)	2,773,733
Profit for the year	-	41,280	41,280
Balance at 1 November 2007	<u>2,795,248</u>	<u>19,765</u>	<u>2,815,013</u>
Profit for the year	-	29,209	29,209
Balance at 31 October 2008	<u><u>2,795,248</u></u>	<u><u>48,974</u></u>	<u><u>2,844,222</u></u>

AX Investments p.l.c.

Cash flow statement

For the year ended 31 October 2008

	2008	2007
<i>Note</i>	€	€
Cash flows from operating activities		
Profit before tax	76,893	764,820
<i>Adjustments for:</i>		
Depreciation	21,765	21,765
Issue costs amortisation	19,413	-
Interest expense	959,108	796,699
Interest income	(982,886)	(1,499,678)
Adjustment in fair value of debt securities	89,543	-
Adjustment in fair value of investment property	-	(698,812)
	<hr/>	<hr/>
Operating profit/loss before working capital movements	183,836	(615,206)
Movement in trade and other receivables	(6,619)	-
Movement in trade and other payables	71,373	771,330
	<hr/>	<hr/>
Cash flows from operations	248,590	156,124
Interest paid	(959,108)	(796,699)
Interest received	982,886	1,499,678)
	<hr/>	<hr/>
	272,368	859,103
	<hr/>	<hr/>
Cash flows from investing activities		
Purchase of financial assets	-	(131,653)
	<hr/>	<hr/>
Cash flows from financing activities		
Proceeds from issue of bonds	-	11,470,086
Proceeds from sale of repurchased bonds	125,816	-
Proceeds to related parties	(1,033,359)	(11,562,366)
	<hr/>	<hr/>
	(907,543)	(92,280)
	<hr/>	<hr/>
Net movement in cash and cash equivalents	(635,175)	635,170
Cash and cash equivalents at the beginning of the year	635,195	25
	<hr/>	<hr/>
Cash and cash equivalents at the end of the year	14 20	635,195
	<hr/> <hr/>	<hr/> <hr/>

AX Investments p.l.c.

Notes to the financial statements

For the year ended 31 October 2008

1. Accounting convention and basis of preparation

These financial statements are presented using the Euro, being the currency that reflects the economic substance of the underlying events and circumstances relevant to the company. They are prepared under the historical cost convention as modified by the fair valuation convention where required by International Financial Reporting Standards, in accordance with the provisions of the Companies Act, 1995 enacted in Malta, and the requirements of International Financial Reporting Standards issued by the International Accounting Standards Board. The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

The preparation of financial statements in conformity with International Financial Reporting Standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies (see Note 3 - Critical accounting estimates and judgements).

2. Significant accounting policies

Property, plant and equipment

The company's property, plant and equipment are classified as furniture and fixtures.

Property, plant and equipment are initially measured at cost. Subsequent costs are included in the asset's carrying amount when it is probable that future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably. Expenditure on repairs and maintenance of property, plant and equipment is recognised as an expense when incurred.

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

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

Furniture and fixtures	-	10% per annum
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AX Investments p.l.c.

Notes to the financial statements

For the year ended 31 October 2008

2. Significant accounting policies (continued)

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 property is initially measured at cost, including transaction costs. Subsequent to initial recognition, investment property is stated at fair value at the balance sheet date. Gains or losses arising from changes in the fair value of investment property are recognised in profit or loss in the period in which they arise.

Investment property is derecognised on disposal or when it is permanently withdrawn from use and no future economic benefits are expected from its disposal. Gains or losses on derecognition represent the difference between the net disposal proceeds and the carrying amount and are recognised in profit or loss in the period of derecognition.

Financial instruments

Financial assets and financial liabilities are recognised when the company becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially recognised at their fair value plus directly attributable transaction costs for all financial assets or financial liabilities not classified at fair value through profit or loss.

Financial assets and financial liabilities are offset and the net amount presented in the balance sheet when the company has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Financial assets are derecognised when the contractual rights to the cash flows from the financial assets expire or when the entity transfers the financial asset and the transfer qualifies for derecognition.

Financial liabilities are derecognised when they are extinguished. This occurs when the obligation specified in the contract is discharged, cancelled or expires.

AX Investments p.l.c.

Notes to the financial statements

For the year ended 31 October 2008

2. Significant accounting policies (continued)

Financial instruments(continued)

An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities.

(i) Investments

The company's investments are classified into the following categories – loans and receivables and available for sale financial assets.

The classification depends on the purpose for which the investments were acquired.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those that are held for trading or are designated upon initial recognition as at fair value through profit or loss or as available-for-sale financial assets or those for which the company may not recover substantially all of its initial investment other than because of credit deterioration.

After initial recognition loans and receivables are measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the financial asset is derecognised or impaired and through the amortisation process.

Available for sale financial assets are those non-derivative financial assets that are either designated in this category by the company or not classified as loans and receivables, held to maturity investments or financial assets at fair value through profit or loss. After initial recognition, available for sale financial assets are measured at their fair value. Gains and losses arising from a change in fair value are recognised directly in equity, except for impairment losses and foreign exchange gains and losses on monetary assets, until the financial asset is derecognised, at which time the cumulative gain or loss previously recognised in equity is recognised in profit or loss. Interest calculated using the effective interest method is recognised in profit or loss.

AX Investments p.l.c.

Notes to the financial statements

For the year ended 31 October 2008

2. Significant accounting policies (continued)

Financial instrument (continued)

(ii) Other borrowings

Subsequent to initial recognition, other borrowings are measured at amortised cost using the effective interest method unless the effect of discounting is immaterial.

(iii) Trade payables

Trade payables are classified with current liabilities and are stated at their nominal value.

(iv) Shares issued by the company

Ordinary shares issued by the company are classified as equity instruments.

(v) Debt securities in issue

Debt securities in issue are stated at amortised cost. The amortisation is calculated using the effective yield method and is recognised in the profit and loss over the period of the debt security.

Impairment

All assets are tested for impairment except for investment property measured at fair value.

At each balance sheet date, the carrying amount of assets is reviewed to determine whether there is any indication or objective evidence of impairment, as appropriate, and if any such indication or objective evidence exists, the recoverable amount of the asset is estimated.

An impairment loss is the amount by which the carrying amount of an asset exceeds its recoverable amount.

For loans and receivables, if there is objective evidence that an impairment loss has been incurred, the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate. The carrying amount of the asset is reduced directly or through an allowance account.

AX Investments p.l.c.

Notes to the financial statements

For the year ended 31 October 2008

2. Significant accounting policies (continued)

Impairment (continued)

The impairment loss on investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, is measured as the difference between the carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset.

When a decline in the fair value of an available for sale financial asset has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative impairment loss that had been recognised directly in equity is removed from equity and recognised in profit or loss and is measured as the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss.

In the case of assets tested for impairment, the recoverable amount is the higher of fair value less costs to sell (which is the amount obtainable from sale in an arm's length transaction between knowledgeable, willing parties, less the 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 directly against the asset's revaluation surplus to the extent that the impairment loss does not exceed the amount in the revaluation surplus for that asset.

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 directly against the asset's revaluation surplus to the extent that the impairment loss does not exceed the amount in the revaluation surplus for that asset.

For loans and receivables if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly.

AX Investments p.l.c.

Notes to the financial statements

For the year ended 31 October 2008

2. Significant accounting policies (continued)

Impairment (continued)

In the case of assets tested for impairment, an impairment loss recognised in a prior year is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years.

Impairment reversals are recognised immediately in profit or loss, unless the asset is carried at a revalued amount, in which case, the impairment reversal is recognised directly in equity, unless an impairment loss on the same asset was previously recognised in profit or loss.

Impairment losses recognised in profit or loss for an available for sale investment in an equity instrument are not reversed through profit or loss. Impairment losses recognised in profit or loss for an available for sale investment in a debt instrument are reversed through profit or loss if an increase in the fair value of the instrument can be objectively related to an event occurring after the recognition of the impairment loss.

The impairment loss on investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured is not reversed in a subsequent period.

AX Investments p.l.c.

Notes to the financial statements

For the year ended 31 October 2008

2. Significant accounting policies (continued)

Revenue recognition

Revenue is recognised to the extent that it is probable that future economic benefits will flow to the company and these can be measured reliably. The following specific recognition criteria must also be met before revenue is recognised:

Interest income

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to the asset's net carrying amount.

Rental income

Rental income is accounted for on an accrual basis.

Taxation

Current tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

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. It is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

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

AX Investments p.l.c.

Notes to the financial statements

For the year ended 31 October 2008

2. Significant accounting policies (continued)

Taxation (continued)

Deferred tax is calculated 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 balance sheet date.

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

Employee benefits

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

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and deposits repayable on demand.

3. Judgements in applying accounting policies and key sources of estimation uncertainty

In the process of applying the company's accounting policies, management has made no judgements which can significantly affect the amounts recognised in the financial statements.

At the balance sheet date, there were no key assumptions concerning the future, or any other key sources of estimation uncertainty, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

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Notes to the financial statements

For the year ended 31 October 2008

4. Operating income

	2008 €	2007 €
Rental income	<u>163,005</u>	<u>157,328</u>

5. Investment income

	2008 €	2007 €
Interest income from group companies	982,886	800,867
Increase in fair value of investment property	-	698,812
	<u>982,886</u>	<u>1,499,679</u>

6. Finance costs

	2008 €	2007 €
Interest on bonds issued	<u>959,108</u>	<u>796,699</u>

7. Profit before tax

	2008 €	2007 €
<i>Profit before tax is stated after charging:</i>		
Auditor's remuneration	2,135	2,329
Depreciation charge	21,765	21,765
Directors remuneration	<u>34,939</u>	<u>29,117</u>

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Notes to the financial statements

For the year ended 31 October 2008

8. Income tax expense

	2008 €	2007 €
<i>Tax charge for the year:</i>		
Consideration paid for group losses claimed	47,684	80,633
Deferred taxation (note 17)	-	642,907
	<u>47,684</u>	<u>723,540</u>
Sub-total	47,684	723,540
<i>Tax paid:</i>		
Group losses claimed	(47,684)	(80,633)
Transfer to deferred taxation (note 17)	-	(642,907)
	<u>-</u>	<u>-</u>
Balance carried forward	-	-

Tax applying the statutory domestic income tax rate and the tax charge for the year are reconciled as follows:

	2008 €	2007 €
Profit before tax	76,893	764,820
Tax at the applicable rate of 35%	26,913	267,687
<i>Tax effect of:</i>		
Disallowable expenses	30,844	65,948
Tax liability on investment property	-	398,322
20% maintenance allowance	(11,410)	(9,757)
Deferred taxation not accounted for	1,337	1,340
	<u>47,684</u>	<u>723,540</u>
Income tax expense for the year	47,684	723,540

9. Earnings per share

The earnings per share has been calculated on the profit after tax of €29,209 (2007 - €41,280) divided by the weighted average number of ordinary shares in issue during the year.

	2008 Number	2007 Number
Weighted average number of shares In issue	<u>1,200,000</u>	<u>1,200,000</u>
Earnings per share	<u>0.02</u>	<u>0.03</u>

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Notes to the financial statements

For the year ended 31 October 2008

10. Property, plant and equipment

	Furniture and fixtures €
Cost	
At 1 November 2006/ 1 November 2007 / 31 October 2008	217,652
Accumulated depreciation	
At 1 November 2006	38,240
Provision for the year	21,765
At 1 November 2007	60,005
Provision for the year	21,765
At 31 October 2008	81,770
Carrying amount	
At 31 October 2008	135,882
At 31 October 2007	157,647
At 31 October 2006	179,412

11. Investment property

	€
Fair value	
At 1 November 2006	4,658,747
Increase in fair value	698,812
At 1 November 2007/ 31 October 2008	5,357,559
Carrying amount	
At 31 October 2008	5,357,559
At 31 October 2007	5,357,559
At 31 October 2006	4,658,747

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Notes to the financial statements

For the year ended 31 October 2008

12. Financial assets

Available for sale investments

	Local unlisted €
At 31 October 2007/ 31 October 2008	2,536,385

These financial assets represent investments in local unlisted securities which present the company with opportunity for return through dividend or interest income and capital appreciation.

Loans and receivables

	Loan to parent €	Loans to other related parties €	Total €
Amortised cost			
At 1 November 2006	-	415,449	415,449
Proceeds	3,919,302	5,243,695	9,162,997
At 1 November 2007	3,919,302	5,659,144	9,578,446
Proceeds	708,951	276,724	985,675
At 31 October 2008	4,628,253	5,935,868	10,564,121

The above amounts are unsecured, have no fixed date of repayment and are not expected to be realised within twelve months after the balance sheet date. The weighted average interest rate earned during the year was of 9.19%.

13. Trade and other receivables

	2008 €	2007 €
Other receivables	2,135	-
Prepayments	4,484	-
	6,619	-

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Notes to the financial statements

For the year ended 31 October 2008

14. Cash and cash equivalents

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

	2008 €	2007 €
Cash at bank and in hand	<u>20</u>	<u>635,195</u>

15. Share capital

	2008 €	2007 €
Authorised 1,200,000 ordinary shares of €2.33 each	<u>2,795,248</u>	<u>2,795,248</u>
Called up issued and fully paid up 1,200,000 ordinary shares of €2.33 each	<u>2,795,248</u>	<u>2,795,248</u>

16. Debt securities in issue

	2008 €	2008 €
At beginning of year	13,832,506	-
Proceeds received net of issue costs	-	13,619,432
Repurchased bonds	-	(116,936)
Sale of previously repurchased bonds	<u>125,816</u>	-
	13,958,322	13,502,496
Adjustment to reflect fair value of debt securities	<u>89,543</u>	<u>313,038</u>
	14,047,865	13,815,534
Accumulated amortisation	<u>19,413</u>	<u>16,972</u>
At end of year	<u>14,067,278</u>	<u>13,832,506</u>

AX Investments p.l.c.

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For the year ended 31 October 2008

16. Debt securities in issue (continued)

On 15 December 2006 the company issued Lm5 million (€11,646,867), 6.7% bonds of Lm100 (€233) each redeemable at par between 2014 and 2016. On the same date the company also issued Lm928,000 (€2,161,659) 4% bonds of Lm100 (€ 233) redeemable at a premium of 40% in 2013. Interest on the bonds is due and payable annually in arrears on 15 December, of each year at the above mentioned rates. The bonds are listed on the Official Companies List of the Malta Stock Exchange and are guaranteed by AX Holdings Limited.

17. Deferred taxation

	2008 €	2007 €
<i>Arising on:</i>		
Revaluation of investment property	642,907	642,907

18. Trade and other payables

	2008 €	2007 €
Trade payables	2,396	6,350
Tax payable	12,238	-
Accruals	783,024	767,617
	797,658	773,967

19. Other financial liabilities

	2008 €	2007 €
Amounts owed to parent undertakings	128,317	80,635
Amounts owed to other related undertakings	120,204	120,204
	248,521	200,839

The above amounts are unsecured, interest free and repayable on demand.

AX Investments p.l.c.

Notes to the financial statements

For the year ended 31 October, 2008

20. Related party transactions

The parent and ultimate parent companies of AX Investments p.l.c. are AX Holdings Limited and Fulcrum Services Limited respectively, which are both incorporated in Malta. The individual financial statements of the company are incorporated in the group financial statements of AX Holdings Limited and Fulcrum Services Limited, the registered address of which is AX House, Mosta Road, Lija, Malta.

The directors consider the ultimate controlling party to be Mr Angelo Xuereb who holds a controlling interest in the equity of the ultimate parent company.

During the course of the year, the company entered into transactions with its parent and other related parties, as follows:

	2008	2007
	€	€
Interest receivable		
Related party transactions with:		
Parent	335,429	88,050
Other related parties	642,907	712,816
	<u>978,336</u>	<u>800,866</u>
Rent receivable		
Related party transactions with:		
Other related parties	163,005	157,328
	<u>163,005</u>	<u>157,328</u>

No expense has been recognised in the period for bad or doubtful debts in respect of amounts due by related parties.

The amounts due to/from related parties at year-end are disclosed in notes 12 and 19. The terms and conditions do not specify the nature of the consideration to be provided in settlement. No guarantees have been given or received.

AX Investments p.l.c.

Notes to the financial statements

For the year ended 31 October 2008

21. Fair values of financial assets and financial liabilities

At 31 October 2008 and 31 October 2007, the carrying amounts of financial assets and financial liabilities classified with current assets and current liabilities respectively approximated their fair values.

The fair values of non-current financial assets and non-current financial liabilities that are not measured at fair value are not materially different from their carrying amounts.

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are stated at cost, since the range of reasonable fair value estimates is significant and the probabilities of the various estimates cannot be reasonably assessed. It is not possible to disclose the range of estimates within which fair value is highly likely to lie.

22. Financial risk management

The exposures to risk and the way risks arise, together with the company's objectives, policies and processes for managing and measuring these risks are disclosed in more detail below.

The objectives, policies and processes for managing financial risks and the methods used to measure such risks are subject to continual improvement and development.

Where possible, the company aims to reduce and control risk concentrations. Concentrations of financial risk arise when financial instruments with similar characteristics are influenced in the same way by changes in economic or other factors. The amount of the risk exposure associated with financial instruments sharing similar characteristics is disclosed in more detail in the notes to the financial statements.

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Notes to the financial statements

For the year ended 31 October 2008

22. Financial risk management (continued)

Credit risk

Financial assets which potentially subject the company to concentrations of credit risk consist principally of receivables and cash at bank.

Receivables are presented net of an allowance for doubtful debts. An allowance for doubtful debts is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows. Credit risk with respect to receivables is limited due to credit control procedures and the credit quality of customers comprising the company's debtor base. Cash at bank is placed with reliable financial institutions.

The company assesses the credit quality of its customers by taking into account their financial standing, past experience and other factors. Management considers the credit quality of its financial assets as being acceptable.

Interest rate risk

The company has no bank facilities to finance its operations therefore the company is not exposed to cash flow interest rate risk on bank borrowings. Management monitors the movement in interest rates and, where possible, reacts to material movements in such rates by restructuring its financing structure.

The carrying amounts of the company's financial instruments carrying a rate of interest at the reporting date are disclosed in the notes to the financial statements.

Liquidity risk

The company monitors and manages its risk to a shortage of funds by monitoring forecast and actual cash flows.

The company's objectives when managing capital are to safeguard its ability to continue as a going concern and to maximise the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of the company consists of debt, which includes the borrowings disclosed in note 12, debt securities as disclosed in note 16 and cash and cash equivalents as disclosed in note 14 and items presented within equity in the balance sheet.

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For the year ended 31 October 2008

22. Financial risk management (continued)

The company's directors manage the company's capital structure and make adjustments to it, in light of changes in economic conditions. The capital structure is reviewed on an ongoing basis. Based on recommendations of the directors, the company balances its overall capital structure through the payments of dividends, new share issues as well as the issue of new debt or the redemption of existing debt.