

K.A. Holdings Limited

Report & Financial Statements

31 December 2018

Contents

Director's report	2
Income statement	4
Statement of financial position	5
Statement of changes in equity	7
Statement of cash flows	8
Notes to the financial statements	9
Independent auditor's report	26

Director's report

The director presents his report and the audited financial statements for the year ended 31 December 2018.

Principal activities

The company's principal activity is to act as a holding company and to rent its investment property to third parties.

Review of business

The company managed to rent out all its office space in Mriehel, to tenants operating in different industries mainly within the banking and financial sector (44%), medical aesthetics (17%) and creative marketing (10%). All the contracts entered by the company are for periods between 4 and 15 years. However, 77% of the contracts in terms of rental income are for periods of between 10 and 15 years. The contracts also stipulate a 2% yearly increase in rent payable by the tenants. Tenants are also responsible for the general repairs and maintenance on equipment which they have bought and installed within their rented space. Furthermore, any maintenance expense incurred by the company will be recharged to the tenants. As can be seen, in 2018, the company generated a total of €603,368 in rental income from its property in Mriehel, thus registering excellent return on its investment.

The company has also carried out a revaluation exercise at the end of the year under review recognising gains arising from increases in fair value of investment property for current and previous years. The company has increased its investment property portfolio by acquiring property at Swieqi and Gzira to execute a diversification strategy whereby such properties will be active in the hospitality industry. The Swieqi property will provide luxury self-catering apartments for short lets and the Gzira property will become a Boutique Hotel.

Results

The profit for the year amounted to € 1,355,347 (2017 (as restated): € 2,271,308).

Director

The following has served as director of the company during the year under review:

Mr Kurt Abela

In accordance with the company's Articles of Association, the present director remains in office.

Disclosure of information to the auditor

At the date of making this report the director confirms the following:

- As far as the director is aware, there is no relevant information needed by the independent auditor in connection with preparing the audit report of which the independent auditor is unaware, and
- The director has taken all steps that he ought to have taken as a director in order to make himself aware of any relevant information needed by the independent auditor in connection with preparing the audit report and to establish that the independent auditor is aware of that information.

Statement of director's responsibilities

The Companies Act, Cap 386 requires the director to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of the profit or loss of the company for that year. In preparing these financial statements, the director is required to:

- adopt the going concern basis unless it is inappropriate to presume that the company will continue in business;
- select suitable accounting policies and then 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 director is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable him to ensure that the financial statements have been properly prepared in accordance with the Companies Act, Cap 386. This responsibility includes designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error. He is also responsible for safeguarding the assets of the company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditor

Grant Thornton has intimated its willingness to continue in office and a resolution proposing its reappointment will be put to the Annual General Meeting.



Kurt Abela
Director

Registered address:
'Project Technik'
Cannon Road
Qormi QRM 9032
Malta

14 May 2019

Income statement

	Notes	2018 €	2017 (as restated) €
Rental income		603,368	441,788
Other income		82,239	42,142
Administrative expenses		(85,484)	(50,922)
Operating profit		600,123	433,008
Fair value gains on investment property	9	1,071,115	2,258,060
Finance costs	5	(129,386)	(89,492)
Profit before tax	6	1,541,852	2,601,576
Tax expense	7	(186,505)	(330,268)
Profit for the year		1,355,347	2,271,308

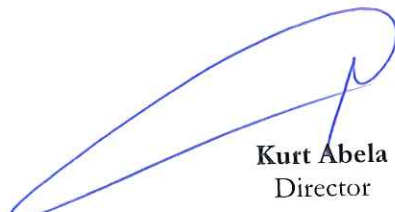
Statement of financial position

	Notes	31 December 2018 €	31 December 2017 (as restated) €	1 January 2017 (as restated) €
Assets				
Non-current				
Financial assets at fair value through other comprehensive income (2017: Available-for- sale financial assets)	8	36,736	36,736	36,736
Investment property	9	12,859,623	10,800,000	7,500,000
		12,896,359	10,836,736	7,536,736
Current				
Trade and other receivables	10	350,813	223,789	109,889
Cash and cash equivalents	11	12,361	42,282	2,565
		363,174	266,071	112,454
Total assets		13,259,533	11,102,807	7,649,190

Statement of financial position – continued

	Notes	31 December 2018 €	31 December 2017 (as restated) €	1 January 2017 (as restated) €
Equity				
Share capital	12	150,000	150,000	150,000
Revaluation reserve		6,739,623	5,764,508	3,770,448
Retained earnings		660,718	280,486	3,238
Total equity		7,550,341	6,194,994	3,923,686
Non-current liabilities				
Borrowings	13	1,855,722	1,914,123	1,081,521
Trade and other payables	14	1,218,372	403,053	658,844
Deferred tax liability	15	960,000	864,000	600,000
		4,034,094	3,181,176	2,340,365
Liabilities				
Current				
Borrowings	13	126,832	137,872	104,332
Trade and other payables	14	1,453,840	1,518,076	1,276,386
Current tax liability		94,426	70,689	4,421
		1,675,098	1,726,637	1,385,139
Total liabilities		5,709,192	4,907,813	3,725,504
Total equity and liabilities		13,259,533	11,102,807	7,649,190

The financial statements on pages 4 to 25 were approved, authorised for issue and signed by the director on 14 May 2019.


Kurt Abela
Director

Statement of changes in equity

	Share capital €	Revaluation reserves	Retained earnings €	Total equity €
At 1 January 2017 (as previously reported)	150,000	-	(18,006)	131,994
Effect of restatement (note 2.2)	-	3,770,448	21,244	3,791,692
At 1 January 2017 (as restated)	150,000	3,770,448	3,238	3,923,686
Profit for the year	-	-	2,271,308	2,271,308
Revaluation of investment property – net		1,994,060	(1,994,060)	-
At 31 December 2017 (as restated)	150,000	5,764,508	280,486	6,194,994
At 1 January 2018	150,000	5,764,508	280,486	6,194,994
Profit for the year	-	-	1,355,347	1,355,347
Revaluation of investment property – net	-	975,115	(975,115)	-
At 31 December 2018	150,000	6,739,623	660,718	7,550,341

Retained earnings include all current and prior period results as disclosed in the income statement.

Statement of cash flows

	Notes	2018 €	2017 (as restated) €
Operating activities			
Profit before tax		1,541,852	2,601,576
Adjustments	16	(941,729)	(2,168,568)
Net changes in working capital	16	624,059	(159,120)
Interest paid		(129,386)	(89,492)
Income tax paid		(66,768)	-
Net cash generated from operating activities		1,028,028	184,396
Investing activity			
Payments for improvements to investment property	9	(988,508)	(1,010,822)
Net cash used in investing activity		(988,508)	(1,010,822)
Financing activity			
(Re-payment of) advances from bank borrowings		(69,441)	892,373
Net cash generated from financing activity		(69,441)	892,373
Net change in cash and cash equivalents		(29,921)	65,947
Cash and cash equivalents, beginning of year		42,282	(23,665)
Cash and cash equivalents, end of year	11	12,361	42,282

Notes to the financial statements

1 Nature of operations

K.A. Holdings Limited (the 'company') is a holding company. It also rents out its investment property to third parties.

2 General information, statement of compliance with IFRS and restatement of prior period figures

2.1 General information and statement of compliance with IFRS

K.A. Holdings Limited, a private limited liability company, is incorporated and domiciled in Malta. The address of the company's registered office is 'Project Technik', Cannon Road, Qormi, Malta.

The financial statements of the company have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and as adopted by the European Union, and in accordance with the Companies Act, Cap 386.

The financial statements are presented in euro (€), which is also the functional currency of the company.

2.2 Restatement of prior period figures

The company presents a third statement of financial position as at the beginning of the preceding period when it applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items that has a material effect on the information in the statement of financial position at the beginning of the preceding period. The related notes to the third statement of financial position are not required to be disclosed.

In 2018, the company change its accounting policy for investment property from cost model to revaluation model. The change in accounting policy resulted in material changes on certain accounts in the statements of financial position, income statement and items in the statements of cash flows of prior years. Accordingly, the company presents a third statement of financial position as at 1 January 2017 without the related notes, except for the disclosures required under IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors.

The effects of prior period adjustments to certain accounts in the comparative financial statements as at and for the year-ended 31 December 2017 and corresponding figures as at 1 January 2017 are presented in the succeeding pages.

The effects of prior period adjustments on the affected assets, liabilities and equity components are shown below.

31 December 2017			
	As previously reported	Effect of prior period adjustment	As restated
	€	€	€
<i>Change in assets and liability –</i>			
Property, plant and equipment	339,740	(339,740)	-
Investment property	3,747,446	7,052,554	10,800,000
Deferred tax liability	-	(864,000)	(864,000)
Net increase in equity		<u>5,848,814</u>	
<i>Changes in components of equity –</i>			
Retained earnings	(196,180)	(84,306)	(280,486)
Revaluation reserves	-	(5,764,508)	(5,764,508)
		<u>(5,848,814)</u>	
1 January 2017			
	As previously reported	Effect of prior period adjustment	As restated
	€	€	€
<i>Change in assets and liability –</i>			
Property, plant and equipment	244,104	(244,104)	-
Investment property	2,864,204	4,635,796	7,500,000
Deferred tax liability		(600,000)	(600,000)
Net increase in equity		<u>3,791,692</u>	
<i>Changes in components of equity –</i>			
Retained earnings	18,006	(21,244)	(3,238)
Revaluation reserves	-	(3,770,448)	(3,770,448)
		<u>(3,791,692)</u>	

The effects of prior period adjustments in the income statement components as at 31 December 2017 are shown below.

31 December 2017			
	As previously reported	Effect of prior period adjustment	As restated
	€	€	€
<i>Change in profit or loss –</i>			
Administrative expenses	(113,984)	63,062	(50,922)
Fair value gains on investment property	-	2,258,060	2,258,060
Tax expense	(66,268)	(264,000)	(330,268)
Net increase in net profit		<u>2,057,122</u>	

The effects of restatement on the statement of cash flows for the year ended 31 December 2017 are summarised below.

	31 December 2017		
	As previously reported €	Effect of prior period adjustment €	As restated €
<i>Change in cash flow –</i>			
Cash flow from operating activities			
Profit before tax	280,454	2,321,122	2,601,576
Adjustments	152,555	<u>(2,321,122)</u>	<u>(2,168,567)</u>
		-	

3 Changes in accounting policies

3.1 New and revised standards that are effective for annual periods beginning on or after 1 January 2018

In 2018, the company adopted new standards, amendments and interpretations to existing standards that are mandatory for the company's accounting period beginning 1 January 2018. The adoption of these revisions to the requirements of IFRSs as adopted by the EU did not result in substantial changes to the company's accounting policies.

IFRS 9 'Financial Instruments'

IFRS 9 replaces IAS 39 'Financial Instruments: Recognition and Measurement'. It makes major changes to the previous guidance on the classification and measurement of financial assets and introduces an 'expected credit loss' model for the impairment of financial assets.

When adopting IFRS 9, the company has applied transitional relief and opted not to restate prior periods. Differences arising from the adoption of IFRS 9 in relation to classification, measurement, and impairment are recognised in retained earnings.

In adopting IFRS 9, the company made an irrevocable election to classify its investments in equity securities, previously classified as available-for-sale (AFS) financial asset, at fair value through other comprehensive income rather than through profit or loss as the company considers this measurement to be the most representative of the business model for these assets. They are carried at fair value with changes in fair value recognised in other comprehensive income and accumulated in the fair value through other comprehensive income reserve. Upon disposal any balance within fair value through other comprehensive income reserve is reclassified directly to retained earnings and is not reclassified to profit or loss.

On the date of initial application, 1 January 2018, all AFS financial assets were reclassified to financial assets at FVOCI. There were no changes to the carrying amounts of the assets as a result of the reclassification.

Except for the assets mentioned above, there were no other changes to the classification or measurement of financial assets as a result of the application of IFRS 9.

Initial application of IFRS 9 did not result to any changes to the classification or measurement of financial liabilities.

IFRS 15 'Revenue from Contracts with Customers'

In the current year, the company has applied IFRS 15 Revenue from Contracts with Customers (as amended in April 2016 by Clarifications to IFRS 15). IFRS 15 introduces a five-step approach to revenue recognition. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. IFRS 15 supersedes the following revenue Standards and Interpretations upon its effective date: IAS 18 *Revenue*, IAS 11 *Construction Contracts*, IFRIC 13 *Customer Loyalty Programmes*, IFRIC 15 *Agreements for the Construction of Real Estate*, IFRIC 18 *Transfers of Assets from Customers* and SIC 31 *Revenue – Barter Transactions Involving Advertising Services*.

The application of IFRS 15 has not had a significant impact on the financial statements of the company.

Amendments to IAS 40 Investment Property

The amendments clarify that a transfer to, or from, investment property necessitates an assessment of whether a property meets, or has ceased to meet, the definition of investment property, supported by observable evidence that a change in use has occurred.

These amendments are effective for annual periods beginning on or after 1 January 2018, with earlier application being permitted. The amendment has been endorsed by the EU. Changes in the use and consequent reclassification of the investment property held by the company is not expected in the foreseeable future. Accordingly, the management anticipate that the application of IAS 40 amendments has no material impact on the financial statements of the company in the period of initial application.

3.2 Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the company

At the date of authorisation of these financial statements, several new, but not yet effective Standards, amendments to existing Standards and Interpretations have been published by the IASB. None of these Standard, amendments or Interpretations have been adopted early by the company.

Management anticipates that all relevant pronouncements will be adopted for the first period beginning on or after the effective date of the pronouncement. New Standards, amendments and Interpretations neither adopted nor listed below have not been disclosed as they are not expected to have a material impact on the company's financial statements.

IFRS 16 'Leases'

IFRS 16 will replace IAS 17 'Leases' and three related Interpretations. It completes the IASB's long running project to overhaul lease accounting. Leases will be recorded in the statement of financial position in the form of a right-of-use asset and a lease liability. There are two important reliefs provided by IFRS 16 for assets of low value and short-term leases of less than 12 months.

IFRS 16 is effective from periods beginning on or after 1 January 2019. Early adoption is permitted; however, the company have decided not to early adopt.

IFRS 16 has not made any significant changes to the accounting for lessors, and therefore the company does not expect any changes for leases where they are acting as a lessor.

4 Summary of accounting policies

4.1 Overall considerations

The company's financial statements have been prepared on an accrual basis and under the historical cost convention except for investment property which is measured at fair value. Monetary amounts are expressed in Euro (€).

The significant accounting policies that have been used in the preparation of these financial statements are summarised below.

4.2 Income and expense recognition

Revenue is measured by reference to the fair value of consideration received or receivable by the company for services provided excluding VAT.

Revenue from services provided is recognised when all the following conditions have been satisfied:

- The company has transferred to the buyer the significant risks and rewards of the services provided. This is generally when the customer has approved the services that have been provided.
- The amount of revenue can be measured reliably.
- It is probable that the economic benefits associated with the transaction will flow to the company, and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

Expenses are recognised in the income statement upon utilisation of the service or at the date of their origin.

4.3 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 end of the reporting period. 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, if any, and the carrying amount and are recognised in profit or loss in the period of derecognition.

Rental income and operating expenses from investment property are reported within 'rental income' and 'administrative expenses' respectively.

4.4 Financial instruments

Recognition, initial measurement and derecognition

Financial assets and financial liabilities are recognised when the company becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

As the accounting for financial assets and liabilities remains largely the same under IFRS 9 compared to IAS 39, the company's financial assets and liabilities were not impacted by the adoption of IFRS 9. However, for completeness, the accounting policy is disclosed below.

Classification and subsequent measurement of financial assets

Except for those trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with IFRS 15, all financial assets are initially measured at fair value adjusted for transaction costs (where applicable).

Financial assets are classified into the following categories:

- amortised cost
- fair value through profit or loss (FVTPL)
- fair value through other comprehensive income (FVOCI).

The company does not have any financial assets categorised as FVTPL in the periods presented.

The classification is determined by both:

- the entity's business model for managing the financial asset; and,
- the contractual cash flow characteristics of the financial asset.

All income and expenses relating to financial assets that are recognised in profit or loss are presented within 'finance costs' or 'finance income'.

Subsequent measurement of financial assets

Financial assets at amortised cost

Financial assets are measured at amortised cost if the assets meet the following conditions (and are not designated as FVTPL):

- they are held within a business model whose objective is to hold the financial assets and collect its contractual cash flows; and,
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial recognition, these are measured at amortised cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial. The company's cash and cash equivalents, trade and most other receivables fall into this category of financial instruments.

Financial assets at fair value through other comprehensive income (FVOCI)

The company accounts for financial assets at FVOCI if the assets meet the following conditions:

- they are held under a business model whose objective it is "hold to collect" the associated cash flows and sell; and
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Equity investments classified as AFS financial assets under IAS 39 have been classified as being at FVOCI under IFRS 9. All fair value gains in respect of those assets are recognised in other comprehensive income and accumulated in the equity investment reserve, and these are not recycled to profit or loss. Previously, under IAS 39, impairments of such assets were recognised in profit or loss, and gains and losses accumulated in reserves were recycled to profit or loss on disposal.

Financial assets classified as AFS under IAS 39 (comparative periods)

AFS financial assets are non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets (FVTPL or held to maturity and loans and receivables). The company's AFS financial assets include listed equity securities and debentures.

All AFS financial assets were measured at fair value. Gains and losses were recognised in other comprehensive income and reported within the AFS reserve within equity, except for interest and dividend income, impairment losses and foreign exchange differences on monetary assets, which are recognised in profit or loss. When the asset was disposed of or was determined to be impaired, the cumulative gain or loss recognised in other comprehensive income was reclassified from the equity reserve to profit or loss. Interest calculated using the effective interest method and dividends were recognised in profit or loss within finance income.

Impairment of financial assets

IFRS 9's impairment requirements use more forward-looking information to recognise expected credit losses – the 'expected credit loss (ECL) model'. This replaces IAS 39's 'incurred loss model'. Instruments within the scope of the new requirements included loans and other debt-type financial assets measured at amortised cost and FVOCI, trade receivables, contract assets recognised and measured under IFRS 15 and loan commitments and some financial guarantee contracts (for the issuer) that are not measured at fair value through profit or loss.

Recognition of credit losses is no longer dependent on the company first identifying a credit loss event. Instead the company considers a broader range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

In applying this forward-looking approach, a distinction is made between:

- financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk ('Stage 1') and,
- financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low ('Stage 2').

'Stage 3' would cover financial assets that have objective evidence of impairment at the reporting date.

'12-month ECL' are recognised for the first category while 'lifetime expected credit losses' are recognised for the second category.

Measurement of the ECL is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

Previous financial asset impairment under IAS 39

In the prior year, the impairment of receivables was based on the incurred loss model. Individually significant receivables were considered for impairment when they were past due or when other objective evidence was received that a specific counterparty will default. Receivables that were not considered to be individually impaired were reviewed for impairment in groups, which are determined by reference to the industry and region of the counterparty and other shared credit risk characteristics. The impairment loss estimate was then based on recent historical counterparty default rates for each identified group.

Trade and other receivables

The company makes use of a simplified approach in accounting for trade and other receivables as well as contract assets and records the loss allowance as lifetime expected credit losses. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial instrument. In calculating, the company uses its historical experience, external indicators and forward-looking information to calculate the expected credit losses using a provision matrix.

The company assess impairment of trade receivables on a collective basis as they possess shared credit risk characteristics they have been grouped based on the days past due.

Classification and measurement of financial liabilities

As the accounting for financial liabilities remains largely the same under IFRS 9 compared to IAS 39, the company's financial liabilities were not impacted by the adoption of IFRS 9. However, for completeness, the accounting policy is disclosed below.

The company's financial liabilities include trade and other payables, bank loans and other financial liabilities.

Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs unless the company designates a financial liability at FVTPL.

Subsequently, financial liabilities are measured at amortised cost using the effective interest method.

All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included within 'finance costs' or 'finance income'.

4.5 Income taxes

Tax expense recognized in profit or loss comprises the sum of deferred tax and current tax not recognized in the other comprehensive income or directly in equity.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting periods, that are unpaid at the reporting date. Current tax is payable on taxable profit, which differs from profit or loss in the financial statements. Calculation of current tax is based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred income taxes are calculated using the liability method on temporary differences between the carrying amounts of assets and liabilities and their tax bases. However, deferred tax is not provided on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit.

Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realisation, provided they are enacted or substantively enacted by the end of the reporting period. Deferred tax liabilities are always provided for in full.

Deferred tax assets are recognised to the extent that it is probable that they will be able to be utilised against future taxable income. This is assessed based on the company's forecast of future operation results, adjusted for significant non-taxable income and expenses and specific limits on the use of any unused tax loss or credit.

Deferred tax assets and liabilities are offset only when the company has a right and intention to set off current tax assets and liabilities from the same taxation authority.

Changes in deferred tax assets or liabilities are recognised as a component of tax income or expense in profit or loss, except where they relate to items that are recognised in other comprehensive income or directly in equity, in which case the related deferred tax is also recognised in other comprehensive income or equity, respectively.

4.6 Cash and cash equivalents

Cash comprises cash at bank and demand deposits. Cash equivalents are short-term investments that are held to meet short-term cash commitments rather than for investment or other purposes.

4.7 Equity

Share capital represents the nominal value of shares that have been issued.

Revaluation reserves pertains to the fair value gains and losses from the remeasurement of investment property net of deferred tax and is not available for distribution to the company's shareholders.

Retained earnings include all current and prior period results.

4.8 Fair value

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.

For financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis, the company determines when transfers are deemed to have occurred between Levels in the hierarchy at the end of each reporting period.

4.9 Provisions and contingent liabilities

Provisions are recognised when present obligations as a result of a past event will probably lead to an outflow of economic resources from the company and amounts can be estimated reliably. Timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events, for example, product warranties granted, legal disputes or onerous contracts. Restructuring provisions are recognised only if a detailed formal plan for the restructuring has been developed and implemented, or management has at least announced the plan's main features to those affected by it. Provisions are not recognised for future operating losses.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. Provisions are discounted to their present values, where the time value of money is material.

In those cases where the possible outflow of economic resources as a result of present obligations is considered improbable or remote, no liability is recognised.

All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

4.10 Significant management judgements, estimates and assumptions

When preparing the financial statements, management makes a number of judgements, estimates and assumptions about the recognition and measurement of asset, liabilities, income and expense.

Significant management estimates

Fair value of investment property

The company carries its investment properties at fair value, with changes in fair value being recognised in the statement of profit or loss as they arise. This is based on market valuations performed by independent professional architects. In a year when market valuations are not performed by an independent professional architect, an assessment of the fair value of investment properties is performed internally to reflect market conditions.

In December 2018, a valuation of the investment property was carried out by an independent professionally-qualified architect, on the basis of market value. The valuation of the property was based on the direct knowledge of the site, the Maltese construction and property markets, the area within which this property is located, as well as experience of the architect in such valuations and analysis of data available on the property market.

5 Finance costs

The following amounts have been included in the income statement line for the reporting periods presented:

	2018 €	2017 €
Interest payable on bank borrowings	129,386	89,492

6 Profit before tax

The profit before tax is stated after charging:

	2018 €	2017 (as restated) €
Auditor's remuneration	1,700	1,200

7 Tax expense

The relationship between the expected tax expense based on the effective tax rate of K.A. Holdings Limited at 35% (2017: 35%) and the tax expense actually recognised in the income statement can be reconciled as follows:

	2018 €	2017 (as restated) €
Profit before tax	1,541,852	2,601,576
Tax rate	35%	35%
Expected tax (expense) income	(539,648)	(910,552)
Tax effect of:		
- Disallowable expenses	(47,153)	(35,084)
- Difference in tax rate	120,674	88,358
- Movement in fair value of property	374,890	790,320
- Deferred tax on revaluation of investment property	(96,000)	(264,000)
- Capital allowances absorbed	732	690
Actual tax expense, net	(186,505)	(330,268)
Comprising:		
Current tax expense	(90,505)	(66,268)
Deferred tax expense	(96,000)	(264,000)
	(186,505)	(330,268)

**8 Financial assets at fair value through other comprehensive income
 (2017: Available-for-sale financial assets)**

	2018 €	2017 €
Balance at 1 January/31 December	<u>36,736</u>	<u>36,736</u>

The company has unquoted investments in the following companies:

Name	Nature of business	% ownership
BIFF Limited	Construction, reconstruction, alterations, furnishing, maintenance and other services related to the building and construction industry	7
Refill Limited	Holding shares or other interests in, or securities of any other company	33

The registered office of Biff Limited is Forestals, Mriehel By-Pass, Mriehel. The registered office of Refill Limited is 147, John Birbal Street, Balzan.

9 Investment property

	2018 €	2017 (as restated) €
Fair value		
Balance at 1 January	10,800,000	7,500,000
Additions	988,508	1,041,940
Increase in fair value	1,071,115	2,258,060
Balance at 31 December	<u>12,859,623</u>	<u>10,800,000</u>

The company owns properties in the localities of Mriehel, Swieqi and Gzira. The fair value of the property in Mriehel, an office building which is being leased out by the company, is € 12.0 million (2017: €10.8 million). The fair value of the property was determined based on a valuation performed by an independent valuer on 30 December 2018.

The properties in Swieqi and Gzira are still under construction and are carried at cost since fair value cannot be reliably measured. The fair values of these properties are expected to be reliably measurable upon their completion.

10 Trade and other receivables

	2018 €	2017 €
Trade receivables	28,462	8,264
Amounts due by related parties	91,241	176,308
Financial assets	<u>119,703</u>	<u>184,572</u>
Indirect taxation	41,183	31,065
Advance payments	178,748	6,552
Prepayments	11,179	1,600
Trade and other receivables – current	<u>350,813</u>	<u>223,789</u>

The carrying value of short-term receivables is considered a reasonable approximation of fair value.

Amounts owed by related parties are unsecured, interest free and repayable within one year.

11 Cash and cash equivalents

Cash and cash equivalents include the following component:

	2018 €	2017 €
Cash at bank	12,361	42,282

The company did not have any restrictions on its cash and bank balances at year end.

12 Share capital

The share capital of K.A. Holdings Limited consists only of ordinary shares with a par value of € 1. All shares are equally eligible to receive dividends and the repayment of capital and represent one vote at the shareholders' meeting of K.A. Holdings Limited.

	2018 €	2017 €
Shares issued and fully paid at 31 December 150,000 ordinary shares of € 1.00 each	<u>150,000</u>	<u>150,000</u>
Shares authorised at 31 December 150,000 ordinary shares of € 1.00 each	<u>150,000</u>	<u>150,000</u>

13 Borrowings

	2018 €	2017 €
Bank loan –		
Amounts falling due within one year	126,832	137,872
Amounts due after more than 1 year	1,855,722	1,914,123
Total borrowings	<u>1,982,554</u>	<u>2,051,995</u>

The company's facilities comprise of a loan of € 2,500,000. This is secured by general hypothecary guarantee over the company's assets, special hypotec on Block Centric built over plots C and D, Triq il-Palazz l-Ahmar, Santa Venera and a pledge on comprehensive insurance policy covering the full replacement property to be hypothecated. The loan bears interest at 5.25% per annum. The loan is repayable over 15 years through 180 monthly repayments of € 20,193 inclusive of interest.

The carrying value of borrowings is considered a reasonable approximation of fair value.

14 Trade and other payables

	2018 €	2017 €
Non-current		
Amounts owed to related company	812,319	-
Security deposits	406,053	403,053
Financial liabilities	<u>1,218,372</u>	<u>403,053</u>
Current		
Trade payables	45,749	15,523
Capital creditors	402,764	908,095
Amounts owed to related company	187,750	142,371
Due to shareholder	345,637	11,614
Accrued expenses	131,381	417,857
Other payables	340,559	-
Financial liabilities	<u>1,453,840</u>	<u>1,495,460</u>
Deferred income	-	19,470
Other payables	-	3,146
Trade and other payables - current	<u>1,453,840</u>	<u>1,518,076</u>
Total trade and other payables	<u>2,672,212</u>	<u>1,921,129</u>

Financial liabilities are carried at their nominal value which is considered a reasonable approximation of fair value.

Amounts owed to related companies include: (i) an amount of € 187,750 (2017: € 142,371) which is unsecured, interest free and repayable within one year, (ii) an amount of € 812,319 (2017: € nil) which is unsecured, interest free and has no fixed date of repayment.

Security deposits are amounts received from tenants in connection to the property being leased out by the company. These are to be repaid upon termination of the lease agreements and are presented within non-current trade and other payables in the statement of financial position.

15 Deferred tax liability

Deferred tax liability arising from temporary difference is summarised as follows:

	1 January €	Recognised in profit or loss €	31 December €
2018			
Investment property	864,000	96,000	960,000
2017 (as restated)			
Investment property	600,000	264,000	864,000

16 Cash flow adjustment and changes in working capital

The following cash flow adjustments and changes in working capital have been made to profit for the year to arrive at operating cash flow:

	2018	2017
	€	(as restated) €
Adjustments:		
Interest expense	129,386	89,492
Fair value gains on investment property	(1,071,115)	(2,258,060)
	<u>(941,729)</u>	<u>(2,168,568)</u>
Net changes in working capital:		
Change in trade and other receivables	(127,024)	(113,900)
Change in trade and other payables	751,082	(45,220)
	<u>624,058</u>	<u>(159,120)</u>

17 Related party transactions

The company's related parties include its director, shareholders, key management personnel and other companies ultimately owned by the same shareholders.

Unless otherwise stated, none of the transactions incorporate special terms and conditions and no guarantee was given or received. Transactions with related companies are generally effected on a cost plus basis. Outstanding balances are usually settled in cash. Amounts owed by/to related parties are shown separately in notes 10 and 14. There were no transactions with the director and key management personnel during the reporting period under review.

17.1 Transactions with related company

	2018	2017
	€	€
Finishing works charged by related company	-	459,546
Wages charged by related company	24,000	-
	<u>24,000</u>	<u>459,546</u>

18 Contingent liabilities

	2018	2017
	€	€
Guarantees given on behalf of related company	-	50,000
Guarantees given to third parties	2,283	2,283
	<u>2,283</u>	<u>52,283</u>

19 Fair value measurement of non-financial assets

The fair value of the property in Mriehel of € 12 million as at 31 December 2018 was determined based on valuation performed by an independent, professionally-qualified property architect and is classified within Level 3 of the fair value hierarchy. The significant inputs and assumptions are developed in close consultation with management. The valuation process and fair value changes are reviewed by the Director at each reporting date.

The valuation was carried out using a market approach that reflects observed prices for recent market transactions for similar properties and incorporates adjustments for factors specific to the property in question, including condition of property, the interest held, the nature and conditions prevalent in the market

at the date of valuation, location, permissible use, size and age. The property was revalued on 30 December 2018.

The significant unobservable input is the adjustment for factors specific to the property in question. The extent and direction of this adjustment depends on the number and characteristics of the observable market transactions in similar properties that are used as the starting point for valuation. Although this input is a subjective judgement, management considers that the overall valuation would not be materially affected by reasonably possible alternative assumptions.

20 Risk management objectives and policies

The company is exposed to credit risk, liquidity risk and market risk through its use of financial instruments. The company's risk management is coordinated by the director.

The financial risks to which the company may be exposed are described below.

20.1 Credit risk

The company's exposure to credit risk is limited to the carrying amount of financial assets recognised at the end of the reporting period, as summarised below:

	Notes	2018 €	2017 €
Classes of financial assets – carrying amounts			
Financial assets at fair value through profit or loss (2017: Available-for-sale financial assets)	8	36,736	36,736
Amounts due by related parties	10	91,241	176,308
Trade and other receivables	10	28,462	8,264
Cash and cash equivalents	11	12,361	42,282
		168,800	263,590

The company's management considers that the above financial assets that are not impaired for each of the reporting dates under review are of good credit quality, including those that are past due.

None of the company's financial assets is secured by collateral or other credit enhancements.

The company's concentration to credit risk arising from trade receivables and amounts due by related parties are considered limited as there were no indications that these counterparties are unable to meet their obligations. Management considers these to be of good credit quality. Management does not consider these receivables to have deteriorated in credit quality and the effect of management's estimate of the 12-month credit loss has been determined to be insignificant to the results of the company.

Cash at bank is placed with reliable financial institutions. The credit risk on liquid funds is limited because the counterparties are banks with high credit-rating assigned by international credit-rating agencies.

20.2 Liquidity risk

The company's exposure to liquidity risk arises from its obligations to meet its financial liabilities, which comprise borrowings and payables (see notes 13 and 14). The company has the financial support of its shareholder and related parties to ensure the availability of an adequate amount of funding to meet the company's obligations when they become due. The company's exposure to liquidity risk is therefore limited.

At 31 December 2018, the company's financial liabilities have contractual maturities which are summarised below:

	Current €	Non-current €
Bank loans	242,316	2,423,160
Amounts due to related companies	187,750	812,319
Due to shareholder	345,637	-
Trade and other payables	920,453	406,053
	<u>1,696,156</u>	<u>3,641,532</u>

As at 31 December 2017, the company's financial liabilities have contractual maturities as summarised below:

	Current €	Non-current €
Bank loans	242,316	2,477,738
Amounts due to related companies	142,371	-
Due to shareholder	11,614	-
Trade and other payables	1,341,475	403,053
	<u>1,737,776</u>	<u>2,880,791</u>

The above amounts reflect the contractual undiscounted cash flows which may differ from the carrying amounts of liabilities at the reporting date.

20.3 Foreign currency risk

Due to the fact that the company does not have any foreign currency transactions, it is not exposed to currency fluctuations.

20.4 Interest rate risk

The company's exposure to interest rate risk is limited to the variable interest rate of bank borrowings.

The following calculation illustrates the sensitivity of profit to a reasonably possible change in interest rates of + or - 100 basis points. This change is considered by management to be reasonably possible based on observation of current market conditions. The calculation is based on the company's financial instruments held at each reporting date. All other variables are held constant. In such circumstances the potential impact of the shift in interest rates with effect from the beginning of the year on the net results for the reporting period would be +/- € 19,826 (2017: € 20,520).

20.5 Summary of financial assets and liabilities by category

The carrying amounts of the company's financial assets and liabilities as recognised at the end of the reporting periods under review may also be categorised as follows. See note 4.4 for explanations about how the category of financial instruments affects their subsequent measurement.

	2018 €	2017 €
Non-current assets		
Financial assets at fair value through other comprehensive income (2017: Available-for-sale financial assets)	<u>36,736</u>	<u>36,736</u>
Current assets		
Financial assets measured at amortised cost:		
- Receivables	119,703	184,572
- Cash and cash equivalents	<u>12,361</u>	<u>42,282</u>
	<u>132,064</u>	<u>226,854</u>
Non-current liabilities		
Financial liabilities measured at amortised cost:		
- Bank borrowings	1,855,722	1,914,123
- Trade and other payables	<u>1,218,372</u>	<u>-</u>
	<u>3,074,095</u>	<u>1,914,123</u>
Current liabilities		
Financial liabilities measured at amortised cost:		
- Bank borrowings	126,832	137,872
- Trade and other payables	<u>1,453,840</u>	<u>1,495,460</u>
	<u>1,580,672</u>	<u>1,633,332</u>

21 Ultimate controlling party

The ultimate controlling party is Kurt Abela who owns 99.9% of the shares.

22 Capital management policies and procedures

The company's capital management objectives are to ensure its ability to continue as a going concern and to provide an adequate return to shareholders and benefits to other stakeholders by pricing products and services commensurately with the level of risk, and maintaining an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the company may adjust the amount of dividends paid, issue new shares or sell assets to reduce debt.

The company monitors the level of debt, which includes bank loans and trade and other payables less cash and bank balances against total capital on an ongoing basis. The directors consider the company's gearing level at year end to be appropriate for its business.

23 Post-reporting date events

No adjusting or significant non-adjusting events have occurred between the end of the reporting period and the date of authorisation.

Independent auditor's report

To the shareholders of K.A. Holdings Limited

Report on the audit of the financial statements

Opinion

We have audited the financial statements of K.A. Holdings Limited set out on pages 4 to 25 which comprise the statement of financial position as at 31 December 2018, and the income statement, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the company as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU), and have been properly prepared in accordance with the requirements of the Companies Act, Cap. 386 (the "Act").

Basis for opinion

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

Other information

The director is responsible for the other information. The other information comprises the director's report shown on pages 2 and 3 which we obtained prior to the date of this auditor's report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information.

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.

With respect to the director's report, we also considered whether the director's report includes the disclosures required by Article 177 of the Act.

Based on the work we have performed, in our opinion:

- The information given in the director's report for the financial year for which the financial statements are prepared is consistent with the financial statements, and
- the director's report has been prepared in accordance with the Act

In addition, in light of the knowledge and understanding of 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 director's report and other information that we obtained prior to the date of this auditor's report. We have nothing to report in this regard.

Responsibilities of those charged with governance for the financial statements

The director is responsible for the preparation of financial statements that give a true and fair view in accordance with IFRS as adopted by the EU and are properly prepared in accordance with the provisions of the Act, and for such internal control as the director determines 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 director is responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the director either intends to liquidate the company or to cease operations, or have no realistic alternative but to do so.

The director is responsible for overseeing the company's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

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.

Report on other legal and regulatory requirements

We also have responsibilities under the Companies Act, Cap 386 to report to you if, in our opinion:

- adequate accounting records have not been kept
- the financial statements are not in agreement with the accounting records.
- we have not received all the information and explanations we require for our audit.

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

The engagement partner on the audit resulting in this independent auditor's report is Mark Bugeja.



Mark Bugeja (Partner) for and on behalf of

GRANT THORNTON
Certified Public Accountants

Fort Business Centre
Mriehel Bypass
Birkirkara BKR 3000
Malta

14 May 2019

Income statement schedule

	2018 €	2017 €
Revenue		
Rental income	603,368	441,788
Recharge costs	82,239	42,142
Fair value gains on investment property	1,071,115	2,258,060
	1,756,722	2,741,990
Administrative expenses		
Auditor's remuneration	1,700	1,200
Bank charges	570	573
Commissions	-	11,187
Printing, postage and stationery	55	-
Repairs and maintenance	20,859	6,139
Subscriptions and licences	5,861	739
Subcontractors	24,000	-
Telecommunications	1,633	754
Water and electricity	25,501	25,495
Legal and professional fees	2,350	410
Insurance	2,464	4,425
Office utilities	491	-
	85,484	50,922
Finance costs		
Interest expense	129,386	89,492
	129,386	89,492
Profit before tax	1,541,852	2,601,576