

K.A. Holdings Limited

Report & Consolidated Financial  
Statements

31 December 2019

## **Contents**

Director's report	2
Statement of director's responsibilities	5
Income statements	6
Statements of financial position	7
Statements of changes in equity	9
Statements of cash flows	11
Notes to the financial statements	12
Independent auditor's report	33

## Director's report

The director presents his report and the audited financial statements of K.A. Holdings Limited ('the company') and the consolidated financial statements of the group for the year ended 31 December 2019. The group is inclusive of KA Finance plc, which was incorporated on the 22 April 2019 and was formed to act as a financing company of the group.

### Principal activities

The group's principal activity is the rental of its investment properties to third parties and the raising of finance for related parties. The company's principal activity is acting as the group's holding company and the rental of its investment properties to third parties.

### Review of business

The group has rented out its entire office space in Mriehel to tenants operating in various industries, mainly within the banking (46%), financial services (20%), medical aesthetics (15%) and creative marketing (10%). All contracts entered into by the company are for periods between 2 and 15 years. Moreover, 80% of the contracts in terms of rental income are for periods with a term of over 8 years. The contracts also stipulate a yearly increase in rent payable by the tenants in line with the inflation index. During the period under review, the company generated total rental income of € 645,609 (2018: € 603,368).

The group obtained funding through MTF Prospects by means of an issue of €6,000,000 4.75% Secured Callable Bonds due between 2026 and 2029. In accordance with its company admission document, these Bond funds are being used to finance the projects of the group.

The company has undertaken a revaluation exercise at the end of the year under review, recognising gains arising from increases in fair value of investment property. As a result, total equity as at the end of the period for company amounted to €11,090,417, while the total equity of the Group amounted to €11,092,550.

### Key performance indicators

	<b>Group</b>	<b>Company</b>
	<b>2019</b>	<b>2019</b>
	<b>€</b>	<b>€</b>
Operating profit	597,494	593,799
Finance costs	108,490	108,490
Net profit after tax	3,542,208	3,540,076
Total equity and liabilities	23,102,732	20,863,633

The directors consider the company and the group to be a going concern. All the directors are responsible for this statement.

## **Principal Risks**

The main risks that the Company and the Group are exposed too are listed in a summarised format here below:

### **Risks related to the Property and Rental market**

The Company is developing the various properties through building, refurbishment and other various finishes. Therefore, the Group is exposed to fluctuations in the property and real estate markets. There are several factors that commonly affect the real estate market generally, many of which are beyond the control of company or the Group, and which could adversely affect the economic performance and value of any property under development, such as changes in general economic conditions, general industry trends, including the cyclical nature of the real estate market, changes in local market conditions, such as over-supply of similar properties, a reduction in demand for real estate or change of local preferences and tastes, increase in competition in the market segment in which the company is undertaking property market development may lead to an over-supply of office space for rental, which could lead to a lowering of prices and a corresponding reduction in revenue and general political developments.

The Company is reliant on rental income streams, with the rental of office space being the major business. The property rental market in Malta, including both commercial and residential properties, is very competitive. Any general economic downturn in Malta or any increase in supply of and any decline in demand for commercial and residential property to be leased may put downward pressure on the leases which the Group will be able to achieve, or make it challenging to even rent out the properties. This may have an adverse impact on the financial performance and condition of the Group.

### **Development risk**

The Company is subject to risks associated with the development of the real estate, including the risk relating to project financing, delays, cost over-run and risk of insufficiency of resources, risk of suspension of works from any applicable authority or administrative body, and the possibility of legal disputes. If these risks were to materialise, they could have an adverse and material effect on the Group's financial condition and the results of its operations.

### **Risks relating to the hospitality industry**

The Company plans to diversify and start operating in the hospitality industry in 2020. Thus the Group will be subject to a number of external factors that could adversely affect its business in the hospitality industry which include changes in travel patterns, any increase in or the imposition of new taxes on air travel, cutbacks and stoppages on Malta-bound airline routes, the impact of increased threats of terrorism or actual terrorist events, impediments to means of transportation (including airline strikes and border closures), extreme weather conditions, natural disasters, travel-related accidents, outbreaks of diseases and health concerns, or other factors that may affect travel patterns and reduce the number of business and leisure travellers. The impact of any of these factors (or a combination of them) may adversely impact room rates and occupancy levels or otherwise cause a reduction in revenue, which could have a material adverse effect on the Group's business, financial condition and results of operations.

The executive team of the Company together with the Board of Directors and Audit Committee at a group level are constantly reviewing all relevant risks why making sure that all internal controls are in place to pre-empt any risks as much as possible.

### **Dividends and Reserves**

No payment of dividend is being proposed and all profits will be transferred to Reserves.

**Directors**

The Company and Group Directors during the period were:

Mr. Kurt Abela (Director of K.A. Holdings Ltd & KA Finance Plc)

Mr. Etienne Borg Cardona (Independent Non-Executive Director of KA Finance Plc)

Mr. John Soler (Independent Non-Executive Director of KA Finance Plc)

The present Company and Group directors remain in office.

**Events Subsequent to the Reporting Date**

The COVID-19 pandemic is affecting businesses on a national and worldwide level. The Group is closely monitoring the possible impact on its operations, financial performance and established timelines on its ongoing projects and is fully committed to take all necessary actions to mitigate any impact. The Group is assessing the developing situation on an on-going basis in order to ensure that executive management take the necessary decisions in a timely manner to safeguard the interests of all stakeholders. Due to the very exceptional and unprecedented circumstances brought about by this pandemic, it is too early to quantify precisely the effects on the Group's operations and financial performance.

**Auditors**

The auditors, Grant Thornton, shall remain in office and a resolution to this effect will be put forward at the next annual general meeting.

Approved by the Board of Directors and signed on its behalf on the 11 May 2020 by:



**Kurt Abela**  
Director

## **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 and its group as at the end of the financial year and of the profit or loss of the company and its group 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 and the group 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 the group 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 the group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.



**Kurt Abela**  
Director

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

11 May 2020

## Income statements

	Notes	Group		Company	
		2019	2018	2019	2018
		€	€	€	€
Rental income		645,609	603,368	645,609	603,368
Other income		107,660	82,239	107,660	82,239
Administrative expenses		(155,775)	(85,484)	(159,470)	(85,484)
<b>Operating profit</b>		<b>597,494</b>	<b>600,123</b>	<b>593,799</b>	<b>600,123</b>
Fair value gains on investment property	8	3,835,687	1,071,115	3,835,687	1,071,115
Finance costs	5	(108,490)	(129,386)	(108,490)	(129,386)
<b>Profit before tax</b>	6	<b>4,324,691</b>	<b>1,541,852</b>	<b>4,320,996</b>	<b>1,541,852</b>
Tax expense	7	(782,483)	(186,505)	(780,920)	(186,505)
<b>Profit for the year</b>		<b>3,542,208</b>	<b>1,355,347</b>	<b>3,540,076</b>	<b>1,355,347</b>

## Statements of financial position

	Notes	Group		Company	
		2019	2018	2019	2018
		€	€	€	€
<b>Assets</b>					
<b>Non-current</b>					
Investment property	8	20,551,008	12,859,623	20,551,008	12,859,623
Intangible asset		1,875	-	1,875	-
Investment in subsidiary	9	-	-	49,999	-
Financial assets at fair value through other comprehensive income	10	36,736	36,736	36,736	36,736
Trade and other receivables	11	61,741	-	61,741	-
		<b>20,651,360</b>	<b>12,896,359</b>	<b>20,701,359</b>	<b>12,896,359</b>
<b>Current</b>					
Trade and other receivables	11	140,525	350,813	140,520	350,813
Cash and cash equivalents	12	2,310,847	12,361	21,754	12,361
		<b>2,451,372</b>	<b>363,174</b>	<b>162,274</b>	<b>363,174</b>
<b>Total assets</b>		<b>23,102,732</b>	<b>13,259,533</b>	<b>20,863,633</b>	<b>13,259,533</b>



## Statements of financial position – continued

	Notes	Group		Company	
		2019	2018	2019	2018
		€	€	€	€
<b>Equity</b>					
Share capital	13	150,000	150,000	150,000	150,000
Revaluation reserve		9,891,231	6,739,623	9,891,231	6,739,623
Retained earnings		1,051,318	660,718	1,049,186	660,718
<b>Equity attributable to the owners of the parent</b>		<b>11,092,549</b>	<b>7,550,341</b>	<b>11,090,417</b>	<b>7,550,341</b>
Non-controlling interest		1	-	-	-
<b>Total equity</b>		<b>11,092,550</b>	<b>7,550,341</b>	<b>11,090,417</b>	<b>7,550,341</b>
<b>Non-current liabilities</b>					
Borrowings	14	1,916,113	1,855,722	1,916,113	1,855,722
Debt securities in issue	15	5,851,820	-	-	-
Trade and other payables	16	1,249,123	1,218,372	4,843,647	1,218,372
Deferred tax liability	17	1,644,079	960,000	1,644,079	960,000
		<b>10,661,135</b>	<b>4,034,094</b>	<b>8,403,839</b>	<b>4,034,094</b>
<b>Liabilities</b>					
<b>Current</b>					
Borrowings	14	232,602	126,832	232,602	126,832
Debt securities in issue	15	102,288	-	-	-
Trade and other payables	16	911,832	1,453,840	1,036,013	1,453,840
Current tax liability		102,325	94,426	100,762	94,426
		<b>1,349,047</b>	<b>1,675,098</b>	<b>1,369,377</b>	<b>1,675,098</b>
<b>Total liabilities</b>		<b>12,010,182</b>	<b>5,709,192</b>	<b>9,773,216</b>	<b>5,709,192</b>
<b>Total equity and liabilities</b>		<b>23,102,732</b>	<b>13,259,533</b>	<b>20,863,633</b>	<b>13,259,533</b>

The financial statements on pages 6 to 32 were approved, authorised for issue and signed by the director on 11 May 2020.



**Kurt Abela**  
 Director

## Statements of changes in equity

	Share capital	Revaluation reserves	Retained earnings	Equity attributable to owners of the parent	Non-controlling interest	Total equity
	€	€	€	€	€	€
<b>Group</b>						
At 1 January 2018	150,000	5,764,508	280,486	6,194,994	-	6,194,994
Profit for the year	-	-	1,355,347	1,355,347	-	1,355,347
Revaluation of investment property – net	-	975,115	(975,115)	-	-	-
<b>At 31 December 2018</b>	<b>150,000</b>	<b>6,739,623</b>	<b>660,718</b>	<b>7,550,341</b>	<b>-</b>	<b>7,550,341</b>
At 1 January 2019	150,000	6,739,623	660,718	7,550,341	-	7,550,341
Issuance of shares	-	-	-	-	1	1
Profit for the year	-	-	3,542,208	3,542,208	-	3,542,208
Revaluation of investment property – net	-	3,151,608	(3,151,608)	-	-	-
<b>At 31 December 2019</b>	<b>150,000</b>	<b>9,891,231</b>	<b>1,051,318</b>	<b>11,092,550</b>	<b>1</b>	<b>11,092,550</b>

## Statements of changes in equity - continued

	Share capital €	Revaluation reserves €	Retained earnings €	Total equity €
<b>Company</b>				
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)	-
<b>At 31 December 2018</b>	<b>150,000</b>	<b>6,739,623</b>	<b>660,718</b>	<b>7,550,341</b>
At 1 January 2019	150,000	6,739,623	660,718	7,550,341
Profit for the year	-	-	3,540,076	3,540,076
Revaluation of investment property – net	-	3,151,608	(3,151,608)	-
<b>At 31 December 2019</b>	<b>150,000</b>	<b>9,891,231</b>	<b>1,049,186</b>	<b>11,090,417</b>

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

## Statements of cash flows

	Notes	Group		Company	
		2019	2018	2019	2018
		€	€	€	€
<b>Operating activities</b>					
Profit before tax		4,324,691	1,541,852	4,320,996	1,541,852
Adjustments	18	(3,726,585)	(941,729)	(3,726,585)	(941,729)
Net changes in working capital	18	(362,710)	624,059	3,248,196	624,059
Income tax paid		(90,505)	(66,768)	(90,505)	(66,768)
<b>Net cash generated from operating activities</b>		<b>144,891</b>	<b>1,157,414</b>	<b>3,752,102</b>	<b>1,157,414</b>
<b>Investing activity</b>					
Payments for improvements to investment property		(3,747,894)	(988,508)	(3,747,894)	(988,508)
Purchase of intangible assets		(2,500)	-	(2,500)	-
Investment in subsidiary	9	-	-	(49,999)	-
<b>Net cash used in investing activity</b>		<b>(3,750,394)</b>	<b>(988,508)</b>	<b>(3,800,393)</b>	<b>(988,508)</b>
<b>Financing activity</b>					
Advances from (re-payment of) bank borrowings		178,639	(69,441)	178,639	(69,441)
Interest paid		(120,955)	(129,386)	(120,955)	(129,386)
Proceeds from issuance of shares		1	-	-	-
Net proceeds from bond issuance		5,846,304	-	-	-
<b>Net cash generated from (used in) financing activity</b>		<b>5,903,989</b>	<b>(198,827)</b>	<b>57,684</b>	<b>(198,827)</b>
Net change in cash and cash equivalents		2,298,486	(29,921)	9,393	(29,921)
Cash and cash equivalents, beginning of year		12,361	42,282	12,361	42,282
<b>Cash and cash equivalents, end of year</b>	12	<b>2,310,847</b>	<b>12,361</b>	<b>21,754</b>	<b>12,361</b>

## **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 properties to third parties.

The group is principally engaged in renting out investment properties and raising finance for related 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 QRM 9032, Malta.

The financial statements of the company and the consolidated financial statements of the group 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 and of the group. The amounts presented in the financial statements are rounded to the nearest euro.

### **3 Changes in accounting policies**

#### **3.1 New and revised Standards that are effective for annual periods beginning on or after 1 January 2019**

In 2019, the group adopted new Standards, amendments and Interpretations to existing standards that are mandatory for the company’s and the group’s accounting period beginning 1 January 2019. The adoption of these revisions to the requirements of IFRSs as adopted by the EU did not result in substantial changes to the group’s accounting policies.

#### **IFRS 16 ‘Leases’**

IFRS 16 has replaced IAS 17 ‘Leases’ and three related Interpretations. It completes the IASB’s long running project to overhaul lease accounting. Leases are 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.

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

### **3.2 Standards, amendments and Interpretations to existing Standards that are not yet effective and have not been adopted early by the group**

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 group.

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 have not been disclosed as they are not expected to have a material impact on the group's consolidated financial statements.

## **4 Summary of accounting policies**

### **4.1 Overall considerations and basis of preparation**

The 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 Basis of consolidation**

The group's consolidated financial statements consolidate those of the parent company and its subsidiary as of 31 December 2019. Its subsidiary has a reporting date of 31 December.

The parent controls a subsidiary if it is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. K.A. Holdings Limited obtains and exercises control through voting rights.

All transactions and balances between group companies are eliminated on consolidation, including unrealised gains and losses on transactions between group companies. Where unrealised losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment losses from the group perspective. Amounts reported in the financial statements of the subsidiary have been adjusted where necessary to ensure consistency with the accounting policies adopted by the group.

Profit or loss and other comprehensive income or loss of subsidiary acquired or disposed of during the year are recognised from the effective date of acquisition, or up to the effective date of disposal, as applicable.

Non-controlling interests, presented as part of equity, represent the portion of a subsidiary's profit or loss and net assets that is not held by the group. The group attributes profit or loss of subsidiary between the owners of the parent and the non-controlling interests based on their respective ownership interests.

The consolidated financial statements have been prepared from the financial statements of the companies comprising the group as reported in note 9 of these financial statements.

### **4.3 Income and expense recognition**

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

To determine whether to recognise revenue, the group follows a 5-step process:

1. Identifying the contract with a customer
2. Identifying the performance obligations
3. Determining the transaction price
4. Allocating the transaction price to the performance obligations
5. Recognising revenue when/as performance obligation(s) are satisfied

Revenue arises from the sale of goods and rendering of services. It is measured by reference to the fair value of consideration received or receivable, excluding sales taxes, rebates and trade discounts. .

The group recognises revenue when the amount of revenue can be measured reliably; when it is probable that the economic benefits associated with the transaction will flow to the group, and when specific criteria have been met for each of the group's activities, as described below.

Dividend income, other than those from investments in associates, is recognised at the time the right to receive payment is established.

Administrative expenses are recognised in the income statement upon utilisation of the service or at the date they are incurred.

Interest income and expenses are reported on an accrual basis using the effective interest method and is presented within 'finance income' and 'finance costs' in the income statement

### **4.4 Borrowing costs**

Borrowing costs primarily comprise interest on the group's borrowings. Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that it is necessary to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed in the period in which they are incurred and reported within finance costs in the income statement.

### **4.5 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 the income statement 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 the income statement in the period of derecognition.

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

#### **4.6 Intangible assets**

Intangible assets comprise website development costs of the company. Intangible assets that are acquired by the company, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses. Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in the income statement as incurred.

Amortisation is recognised on a straight-line basis over the estimated useful life of the intangible asset from the date they are available for use as follows:

Website development costs	4 years
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Residual values and useful lives are reviewed at each reporting date. In addition, they are subject to impairment testing as described in note 4.7.

Amortisation has been included within 'administrative expenses' in the income statement.

#### **4.7 Impairment testing of intangible assets**

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

Cash-generating units to which goodwill has been allocated are tested for impairment at least annually. All individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount, which is the higher of fair value less costs of disposal and value in use. To determine the value-in-use, management estimates expected future cash flows from each cash-generating unit and determines a suitable discount rate in order to calculate the present value of those cash flows. Discount factors are determined individually for each cash-generating unit and reflect their respective risk profiles as assessed by management.

Impairment losses are recognised immediately in the income statement. Impairment losses for cash-generating units reduce first the carrying amount of any goodwill allocated to that cash generating unit. Any remaining impairment loss is charged pro rata to the other assets in the cash-generating unit. With the exception of goodwill, all assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist. An impairment loss that has been previously recognised is reversed if the cash-generating unit's recoverable amount exceeds its carrying amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been previously recognised.

#### **4.8 Investment in subsidiaries**

Investment in subsidiary is included in the company's statement of financial position at cost less any impairment loss that may have arisen. Income from investments is recognised only to the extent of distributions received by the company from post-acquisition profits. Distributions received in excess of such profits are regarded as a recovery of the investment and are recognised as a reduction of the cost of the investment.



At the end of each reporting period, the company reviews the carrying amount of its investment in subsidiary to determine whether there is any indication of impairment and, if any such indication exists, the recoverable amount of the investment is estimated. An impairment loss is the amount by which the carrying amount of an investment exceeds its recoverable amount. The recoverable amount is the higher of fair value less costs to sell and value in use. An impairment loss that has been previously recognised is reversed if the carrying amount of the investment exceeds its recoverable amount.

An impairment loss is reversed only to the extent that the carrying amount of the investment does not exceed the carrying amount that would have been determined if no impairment loss had been previously recognised. Impairment losses and reversals are recognised immediately in the income statement

#### **4.9 Financial instruments**

##### **Recognition, initial measurement and derecognition**

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

##### **Classification and initial 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 group 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 group'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.

### **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 group first identifying a credit loss event. Instead the group 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.

#### *Trade and other receivables*

The group 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 group uses its historical experience, external indicators and forward-looking information to calculate the expected credit losses using a provision matrix.

The group 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**

The group's financial liabilities include trade and other payables, borrowings and debt securities in issue.

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 the income statement are included within 'finance costs' or 'finance income'.

#### **4.10 Income taxes**

Tax expense recognised in the income statement comprises the sum of deferred tax and current tax not recognised 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.

#### **4.11 Cash and cash equivalents**

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

#### **4.12 Equity**

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

Revaluation reserves pertain 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.

#### **4.13 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 group determines when transfers are deemed to have occurred between Levels in the hierarchy at the end of each reporting period.

#### **4.14 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.

#### **4.15 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 income statement 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 2019, 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:

	<b>Group</b>		<b>Company</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
	<b>€</b>	<b>€</b>	<b>€</b>	<b>€</b>
Interest payable on bank borrowings	108,490	129,386	108,490	129,386

## **6 Profit before tax**

The profit before tax is stated after charging:

	<b>Group</b>		<b>Company</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
	<b>€</b>	<b>€</b>	<b>€</b>	<b>€</b>
Auditor's remuneration	7,950	1,700	2,200	1,700

**7 Tax expense**

The relationship between the expected tax expense based on the effective tax rate of K.A. Holdings Limited at 35% (2018: 35%) and the tax expense actually recognised in the income statement can be reconciled as follows:

	Group		Company	
	2019	2018	2019	2018
	€	€	€	€
Profit before tax	4,324,691	1,541,852	4,320,996	1,541,852
Tax rate	35%	35%	35%	35%
<b>Expected tax (expense) income</b>	<b>(1,513,642)</b>	<b>(539,648)</b>	<b>(1,512,349)</b>	<b>(539,648)</b>
Tax effect of:				
- Amortisation of intangible asset	(219)	-	(219)	
- Disallowable expenses	(58,248)	(47,153)	(57,978)	(47,153)
- Difference in tax rate	129,122	120,674	129,122	120,674
- Movement in fair value of property	1,342,490	374,890	1,342,490	374,890
- Deferred tax on revaluation of investment property	(684,079)	(96,000)	(684,079)	(96,000)
- Capital allowances absorbed	2,093	732	2,093	732
<b>Actual tax expense, net</b>	<b>(782,483)</b>	<b>(186,505)</b>	<b>(780,920)</b>	<b>(186,505)</b>
<b>Comprising:</b>				
Current tax expense	(98,404)	(90,505)	(96,841)	(90,505)
Deferred tax expense	(684,079)	(96,000)	(684,079)	(96,000)
	<b>(782,483)</b>	<b>(186,505)</b>	<b>(780,920)</b>	<b>(186,505)</b>

**8 Investment property**

	Group		Company	
	2019	2018	2019	2018
	€	€	€	€
<b>Fair value</b>				
Balance at 1 January	12,859,623	10,800,000	12,859,623	10,800,000
Additions	3,747,894	988,508	3,747,894	988,508
Increase in fair value	3,835,687	1,071,115	3,835,687	1,071,115
Capitalised borrowing costs	107,804	-	107,804	-
<b>Balance at 31 December</b>	<b>20,551,008</b>	<b>12,859,623</b>	<b>20,551,008</b>	<b>12,859,623</b>

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 (2018: € 12.0 million). The fair value of the property was determined based on a valuation performed by an independent valuer on 30 December 2018. The property has been valued by the Director at 31 December 2019.

The property located in Swieqi is still under construction, but the fair value of the property is deemed to be determinable using the valuation method of an independent architect. As at 31 December 2019, the fair value of the Swieqi property is assessed at € 1.3 million (2018: € 0.6 million).

In 2019, the company acquired another property in Mriehel which is also under construction, but the fair value of the property is deemed to be determinable using the valuation method of an independent architect. As at 31 December 2019, the fair value of this property is assessed at € 6.7 million (2018: nil).

The rental income of € 645,609 (2018: € 603,368) is shown within revenue and do not include any amounts from variable lease payments. Direct operating expenses of €24,000 (2018: € 24,000) are reported within administrative expenses, none of which is incurred on vacant properties that did not generate rental income.

Although the risks associated with rights that the company retains in underlying assets are not considered to be significant, the group employs strategies to further minimise these risks, for example, the collection of a security deposit on signing of lease contract.

The lease contracts are non-cancellable for a period known as ‘di fermo’ stipulated in each contract that can vary from 1 year to 5 years from commencement of the lease.

Future minimum lease rentals are as follows:

	Minimum lease payments due						
	Within 1 year	1 - 2 years	2 - 3 years	3 - 4 years	4 - 5 years	After 5 years	Total
<b>31 December 2019</b>	596,042	367,299	14,183	14,892	6,515	-	998,931
<b>31 December 2018</b>	553,017	489,017	329,558	-	-	-	1,371,931

**9 Investment in subsidiaries**

	<b>2019</b>
	<b>€</b>
At 1 January	-
Additions	49,999
At 31 December	<u>49,999</u>

On 22 April 2019, the company incorporated KA Finance plc and invested the amount of € 49,999 for a 99.99% ownership.

The company has unquoted investments in the below subsidiary:

<b>Name of company</b>	<b>Description of shares held</b>	<b>% Holding</b>	<b>2019 €</b>	<b>2018 €</b>	<b>Nature of business</b>
KA Finance plc	49,999 ordinary shares of € 1 each	99.99	49,999	-	Raising finance for related parties

The registered office of K.A. Finance plc is 'Project Technik', Cannon Road, Qormi QRM 9032.

**10 Financial assets at fair value through other comprehensive income**

	<b>Group</b>		<b>Company</b>	
	<b>2019 €</b>	<b>2018 €</b>	<b>2019 €</b>	<b>2018 €</b>
<b>Balance at 1 January/31 December</b>	<u><b>36,736</b></u>	<u><b>36,736</b></u>	<u><b>36,736</b></u>	<u><b>36,736</b></u>

The company has unquoted investments in the following companies:

<b>Name</b>	<b>Nature of business</b>	<b>% ownership</b>
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 Lead Business Centre, Triq L-Intrapriza, Zone 4, Central Business District, Birkirkara CBD 4080, Malta. The registered office of Refill Limited is 147, John Birbal Street, Balzan, Malta.



**11 Trade and other receivables**

	Group		Company	
	2019	2018	2019	2018
	€	€	€	€
<b>Non-current</b>				
Amounts owned by related parties	61,741	-	61,741	-
<b>Financial assets</b>	<b>61,741</b>		<b>61,741</b>	<b>-</b>
<b>Current</b>				
Trade receivables	43,802	28,462	43,802	28,462
Amounts owned by related parties	-	91,241	-	61,741
Other receivables	29,705	-	29,700	29,500
<b>Financial assets</b>	<b>73,507</b>	<b>119,703</b>	<b>73,502</b>	<b>119,703</b>
Indirect taxation	40,999	41,183	40,999	41,183
Advance payments	10,435	178,748	10,435	178,748
Prepayments	15,584	11,179	15,584	11,179
<b>Trade and other receivables – current</b>	<b>140,525</b>	<b>350,813</b>	<b>140,520</b>	<b>350,813</b>
<b>Trade and other receivables</b>	<b>202,266</b>	<b>350,813</b>	<b>202,261</b>	<b>350,813</b>

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 have no fixed repayment date.

**12 Cash and cash equivalents**

Cash and cash equivalents include the following component:

	Group		Company	
	2019	2018	2019	2018
	€	€	€	€
Cash at bank	2,310,847	12,361	21,754	12,361

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

**13 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.

	2019	2018
	€	€
<b>Shares issued and fully paid at 31 December</b>		
150,000 ordinary shares of € 1.00 each	<u>150,000</u>	<u>150,000</u>
<b>Shares authorised at 31 December</b>		
150,000 ordinary shares of € 1.00 each	<u>150,000</u>	<u>150,000</u>

**14 Borrowings**

	Group		Company	
	2019	2018	2019	2018
	€	€	€	€
<b>Bank loan</b>				
Amounts falling due within one year	232,602	126,832	232,602	126,832
Amounts due after more than 1 year	1,916,113	1,855,722	1,916,113	1,855,722
<b>Total borrowings</b>	<b>2,148,715</b>	<b>1,982,554</b>	<b>2,148,715</b>	<b>1,982,554</b>

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 hypothec 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. Starting January 2020, the repayment of principal amounting to € 242,316 is to be done every January of each year.

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

**15 Debt securities in issue**

	Group		Company	
	2019	2018	2019	2018
	€	€	€	€
<b>4.75% Secured Callable Bonds redeemable 2026 - 2029</b>				
Amounts falling due within one year	102,288	-	-	-
Amounts falling due after more than one year	5,851,820	-	-	-
	<b>5,954,108</b>	<b>-</b>	<b>-</b>	<b>-</b>

By virtue of Company Admission Document dated 24 July 2019, KA Finance plc has issued €6,000,000 4.75% Secured Callable Bonds of nominal value of €100 per bond. Unless previously re-purchased or cancelled, the bonds are redeemable at their nominal value on 22 August 2029 with early redemption from 23 August 2026 at the option of KA Finance plc.

The bonds have been admitted on Prospects MTF, a multilateral trading facility operated by the Malta Stock Exchange, on 28 August 2019 with trading in the bonds commencing on 30 August 2019. The carrying amount of the bonds is €5,954,108. The market value of the debt securities on the last day before the reporting date was €6,132,000.

Interest is payable on the 23 August of each year at the rate of 4.75% per annum, payable annually in arrears on each interest payment date.

Transaction costs of € 153,696 directly related to the bond issue are being amortised over the life of the bond.

Proceeds from the bond issuance of € 3,594,524 were advanced to K.A. Holdings Limited.

The bonds are guaranteed by K.A. Holdings Limited.

The bonds are measured at the amount of net proceeds adjusted for the amortisation of the difference between net proceeds and the redemption value of the bonds using the effective interest methods as follows:

	2019 €
<b>4.75% Secured Callable Bonds redeemable 2026 - 2029</b>	
Fair value of bonds issued	6,000,000
Gross amount of bond issue costs	(153,696)
<b>Net proceeds from issuance</b>	<b>5,846,304</b>
Amortisation of bond issue costs	5,516
<b>Accumulated amortisation at 31 December 2019</b>	<b>5,516</b>
Unamortised bond issue costs	148,180
<b>Interest accrued as at 31 December 2019</b>	<b>102,288</b>
<b>Amortised cost and carrying amount</b>	<b>5,954,108</b>

**16 Trade and other payables**

	Group		Company	
	2019	2018	2019	2018
	€	€	€	€
<b>Non-current</b>				
Amounts owed to related companies	812,320	812,319	4,406,844	812,319
Security deposits	436,803	406,053	436,803	406,053
<b>Financial liabilities</b>	<b>1,249,123</b>	<b>1,218,372</b>	<b>4,843,647</b>	<b>1,218,372</b>
<b>Current</b>				
Trade payables	187,057	448,513	187,057	448,513
Amounts owed to related companies	204,861	187,750	204,861	187,750
Due to shareholder	447,043	345,637	447,043	345,637
Accrued expenses	44,257	131,381	175,795	131,381
Other payables	1,081	340,559	1,081	340,559
<b>Financial liabilities</b>	<b>884,299</b>	<b>1,453,840</b>	<b>1,015,837</b>	<b>1,453,840</b>
Deferred income	20,176	-	20,176	-
Statutory payables	7,357	-	-	-
<b>Trade and other payables - current</b>	<b>911,832</b>	<b>1,453,840</b>	<b>1,036,013</b>	<b>1,453,840</b>
<b>Total trade and other payables</b>	<b>2,160,955</b>	<b>2,672,212</b>	<b>5,879,660</b>	<b>2,672,212</b>

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 € 204,861 (2018: € 187,750) which is unsecured, interest free and repayable within one year, (ii) an amount of € 812,320 (2018: € 812,319) which is unsecured, interest free and repayable on or after 1 January 2021.

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.

## 17 Deferred tax liability

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

	1 January €	Recognised in profit or loss €	31 December €
<b>2019</b>			
Investment property	960,000	684,079	1,644,079
<b>2018</b>			
Investment property	864,000	96,000	960,000

## 18 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:

	Group		Company	
	2019 €	2018 €	2019 €	2018 €
<b>Adjustments:</b>				
Interest expense	108,477	129,386	108,477	129,386
Amortisation of intangibles	625	-	625	-
Fair value gains on investment property	(3,835,687)	(1,071,115)	(3,835,687)	(1,071,115)
	<b>(3,726,585)</b>	<b>(941,729)</b>	<b>(3,726,585)</b>	<b>(941,729)</b>
<b>Net changes in working capital:</b>				
Change in trade and other receivables	148,547	(127,024)	148,552	(127,024)
Change in trade and other payables	(511,257)	751,082	3,099,644	751,082
	<b>(362,710)</b>	<b>624,058</b>	<b>3,248,196</b>	<b>624,058</b>

## 19 Related party transactions

The group'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 affected on a cost-plus basis. Outstanding balances are usually settled in cash. Amounts owed by/to related parties are shown separately in notes 11 and 16. There were no transactions with the director and key management personnel during the reporting period under review.

### 19.1 Transactions with related parties

	Group		Company	
	2019 €	2018 €	2019 €	2018 €
Finishing works charged by related company	26,916	-	26,916	-
Wages charged by related company	24,000	24,000	24,000	24,000
Management fees	-	-	45,000	-
Recharges	-	-	5,157	-
Finance cost	-	-	102,288	-

**20 Contingent liabilities**

	Group		Company	
	2019 €	2018 €	2019 €	2018 €
Guarantees given on behalf of related company	2,893,207	-	2,893,207	-
Guarantees given to third parties	-	2,283	-	2,283
	<b>2,893,207</b>	<b>2,283</b>	<b>2,893,207</b>	<b>2,283</b>

**21 Fair value measurement of non-financial assets**

The fair values of the company's investment properties located in Mriehel and Swieqi amounting to € 6.7 million and € 1.3 million, respectively, as at 31 December 2019 were determined based on valuation performed by an independent, professionally-qualified property architect and is classified within Lever 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 2019.

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.

**22 Risk management objectives and policies**

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

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

## 22.1 Credit risk

The group'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	Group		Company	
		2019 €	2018 €	2019 €	2018 €
Classes of financial assets – carrying amounts					
Investment in subsidiary		-	-	49,999	-
Financial assets at fair value through other comprehensive income	10	36,736	36,736	36,736	36,736
Amounts owed by related parties	11	61,741	61,741	61,741	61,741
Trade and other receivables	11	73,507	28,462	73,502	57,962
Cash and cash equivalents	12	2,310,847	12,361	21,754	12,361
		<b>2,482,831</b>	<b>168,800</b>	<b>243,732</b>	<b>168,800</b>

The group'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 group's financial assets are secured by collateral or other credit enhancements.

The group's concentration to credit risk arising from trade receivables and amounts owed 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 group.

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.

## 22.2 Liquidity risk

The group's exposure to liquidity risk arises from its obligations to meet its financial liabilities, which comprise borrowings, debt securities in issue and trade and other payables (see notes 14, 15 and 16). The group has the financial support of its shareholder and related parties to ensure the availability of an adequate amount of funding to meet the group's obligations when they become due. The group's exposure to liquidity risk is therefore limited.

At 31 December 2019, the group's financial liabilities have contractual maturities which are summarised below:

	<b>Current</b> €	<b>Non-current</b> €
Bank loans	232,602	1,916,113
Debt securities in issue	102,288	5,851,820
Amounts due to related companies	204,861	812,320
Due to shareholder	447,043	-
Trade and other payables	232,395	436,803
	<b>1,219,189</b>	<b>9,017,056</b>

As at 31 December 2018, the group's financial liabilities have contractual maturities as summarised below:

	<b>Current</b> €	<b>Non-current</b> €
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
	<b>1,696,156</b>	<b>3,641,532</b>

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

### **22.3 Foreign currency risk**

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

### **22.4 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 +/- € 20,038 (2018: € 19,826).

## **22.5 Summary of financial assets and liabilities by category**

The carrying amounts of the group's and 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 4.9 for explanations about how the category of financial instruments affects their subsequent measurement.

	Group		Company	
	2019 €	2018 €	2019 €	2018 €
<b>Non-current assets</b>				
Financial assets at fair value through other comprehensive income	36,736	36,736	36,736	36,736
Investment in subsidiary	-	-	49,999	-
Amounts owed by related parties	61,741	-	61,741	-
	<b>98,477</b>	<b>36,736</b>	<b>148,476</b>	<b>36,736</b>
<b>Current assets</b>				
Financial assets measured at amortised cost:				
- Trade and other receivables	73,507	119,703	73,502	119,703
- Cash and cash equivalents	2,310,847	12,361	21,754	12,361
	<b>2,384,354</b>	<b>132,064</b>	<b>95,256</b>	<b>132,064</b>
<b>Non-current liabilities</b>				
Financial liabilities measured at amortised cost:				
- Bank borrowings	1,916,113	1,855,722	1,916,113	1,855,722
- Debt securities in issue	5,851,820	-	-	-
- Trade and other payables	1,249,123	1,218,372	4,843,647	1,218,372
	<b>9,017,056</b>	<b>3,074,095</b>	<b>6,759,760</b>	<b>3,074,095</b>
<b>Current liabilities</b>				
Financial liabilities measured at amortised cost:				
- Bank borrowings	232,602	126,832	232,602	126,832
- Debt securities in issue	102,288	-	-	-
- Trade and other payables	884,299	1,453,840	1,015,837	1,453,840
	<b>1,219,189</b>	<b>1,580,672</b>	<b>1,248,439</b>	<b>1,580,672</b>

## **23 Ultimate controlling party**

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

## **24 Capital management policies and procedures**

The group'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 group 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.



**25 Reconciliation of liabilities arising from financing activities**

The changes in the Group's liabilities arising from financing activities can be classified as follows:

	Short-term borrowings €	Long-term borrowings €	Debt securities €	Total €
<b>At 1 January 2019</b>	<b>126,832</b>	<b>1,855,722</b>	-	<b>1,982,554</b>
<b>Cash flows</b>				
- Repayment	(25,362)	-	-	(242,316)
- Interest paid	(108,477)	-	-	-
- Proceeds	-	300,000	6,000,000	<b>6,300,000</b>
- Transaction costs	-	-	(153,696)	<b>(153,696)</b>
<b>Non-cash</b>				
- Interest charged	-	108,477	-	<b>108,477</b>
- Reclassification	239,609	(239,609)	-	-
- Amortisation of transaction costs	-	-	5,516	<b>5,515</b>
<b>At 31 December 2019</b>	<b>232,602</b>	<b>1,916,113</b>	<b>5,851,820</b>	<b>8,000,535</b>
	€	€	€	€
<b>At 1 January 2018</b>	<b>137,872</b>	<b>1,915,123</b>	-	<b>2,051,995</b>
<b>Cash flows</b>				
- Repayment	(133,138)	-	-	(262,509)
- Interest paid	(129,371)	-	-	-
- Proceeds	-	63,697	-	<b>63,697</b>
<b>Non-cash</b>				
- Interest charged	-	129,371	-	<b>129,371</b>
- Reclassification	251,469	(251,469)	-	-
<b>At 31 December 2018</b>	<b>126,832</b>	<b>1,855,722</b>	-	<b>1,982,554</b>

**26 Post-reporting date events**

The COVID-19 pandemic is affecting businesses on a national and worldwide level. The Group is closely monitoring the possible impact on its operations, financial performance and established timelines on its ongoing projects and is fully committed to take all necessary actions to mitigate any impact. The Group is assessing the developing situation on an on-going basis in order to ensure that executive management take the necessary decisions in a timely manner to safeguard the interests of all stakeholders. Due to the very exceptional and unprecedented circumstances brought about by this pandemic, it is too early to quantify precisely the effects on the Group's operations and financial performance.

No adjusting or other 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 statement**

#### **Opinion**

We have audited the consolidated financial statements of K.A. Holdings Limited set out on pages 6 to 32 which comprise the consolidated and company statement of financial position as at 31 December 2019, and the consolidated income statement, consolidated statement of changes in equity, company statement of changes in equity, consolidated statement of cash flow and company 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 group as at 31 December 2019, 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 to 4 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. In particular, it is difficult to evaluate all the potential implications that COVID-19 will have on the company's trade, customers and suppliers, and the disruption to its business and overall economy.

- 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**

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11 May 2020