Middletown Investments Limited (previously Middletown Properties Limited)

Company Registration Number: C 75568

Annual Report and Financial Statements

For the Year Ended 31 December 2018

Middletown Investments Limited

For the Year Ended 31 December 2018

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Middletown Investments Limited

Statement of Comprehensive Income

For the Year Ended 31 December 2018

The directors present their report and the audited financial statements for the year ended 31 December 2018.

Principal Activities

The company acts as a holding and investment company whose principal object is to own directly or indirectly, manage, administer and dispose of property of any kind, predominantly real estate lend and advance money, give credit, grant or provide guarantees, hypothecs, privileges, charges, security interests or other security, exclusively to, or in favour of companies or partnerships which form part of the same group of companies.

Financial performance of the company

The company's results for the year have been significantly impacted by the recognition of fair value gains of € 1,915,900 on the investment in associates acquired during the year. This fair value was arrived at on the basis of independent valuations prepared by independent specialists. Contrary to the preceding financial period, the company did not receive any dividends from its investments.

During 2018, the company also recorded an impairment of € 270,850 against the investment in C.T. Limited, in which the company holds 10% equity interest and which is currently in the process of voluntary winding up.

Financial position of the company

The company's total assets have increased from € 272,038 to € 4,048,089 as at 31 December 2018 mainly due to the acquisition during the year of investments in Horizon Finance plc, Shoreline Holdings Limited, Phoenix Capital Limited and GAIA Investments Limited, which investments have also been fair valued in accordance with the company's accounting policies. The company also advanced an interest-free loan of € 362,000 with no fixed maturity to an associate to assist it with the acquisition of the investment in The Convenience Shop (Holding) plc.

As at year end, the company's liabilities comprise mainly borrowings from an associate and the shareholders. All borrowings are unsecured, interest free and expected to be repaid after more than 12 months.

Developments in 2018

Horizon Finance plc, a subsidiary company, was incorporated on 1 October 2018, to carry on the business of a finance company, and the financing and re-financing of the company and the group.

The company has also acquired, through its associate GAIA Investments Limited, a 12.5% indirect shareholding in The Convenience Shop (Holding) plc which is in the retail business. The company also acquired a 30.89% direct shareholding in Shoreline Holdings Limited and its subsidiaries, which will be involved in the development, sale and leasing of residential and commercial property in Malta.

Outlook for 2019

The company intends to consolidate and scale up its investment in Shoreline Holdings Limited. No further changes are envisaged during the forthcoming year.

Principle risks and uncertainties

The company holds shares in entities involved in the real estate and retail industries. To this effect, the company recognises that both industries are highly competitive in nature which could bear a material adverse impact on the company's business and financial position. The company also recognises that its investments in the property market are relatively illiquid and subject to environment risks which, should they materialise, could have a negative impact on the company. The company also notes that supply chain interruptions and risks inherent to the franchising model adopted by The Convenience Shop (Holding) plc may also negatively impact the business of the company.

Financial risk management

The company's activities potentially expose it to the following financial risks: credit risk and liquidity risk. Further information on these risks and how they're mitigated by management is disclosed in note 16. to the financial statements.

Results and Dividends

The statement of comprehensive income is set out in page 4.

During the year under review, the directors did not recommend the payment of a dividend.

Directors

The directors of the Company who held office during the year were:

Kevin Deguara

Jean Carl Farrugia

In accordance with the company's Articles of Association, the present directors are to remain in office.

Statement of directors' responsibilities for the financial statements

Th directors are required by the Companies Act, Cap. 386 of the Laws of Malta to prepare financial statements for each financial year which give a true and fair view of the state of the affairs of the Company and of the profit or loss of the Company for that year.

In preparing these financial statements, the directors are responsible for:

- ensuring that the financial statements have been drawn up in accordance with International Financial Reporting Standards as adopted by the EU;
- selecting suitable accounting policies and apply them consistently;
- making judgements and estimates that are reasonable in the circumstances; and
- adopting the going concern basis unless it is inappropriate to presume that the Company will continue in the business.

The directors are also responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act (Cap. 386) enacted in Malta. This responsibility includes designing, implementing and maintaining such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The directors are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditor

CCPS Audit Limited have expressed their willingness to continue in office and a resolution for their reappointment will be proposed at the Annual General Meeting.

Approved by the directors on 30 May 2019 and signed by:

Kevin Deguara
Director

Jean Carl Farrugia
Director

Registered Address:
Il Piazzetta A. Suite 52, Level 5
Tower Road Sliema
Sliema SLM 1607
Malta

Middletown Investments Limited

Statement of Comprehensive Income

For the Year Ended 31 December 2018

	Note	2018 €	2017 €
Dividend income		-	159,950
Gain on fair value of investment in associates		1,915,900	-
Administrative expenses		(2,237)	(332)
Impairment of financial assets at amortised cost		(270,850)	-
Profit before tax	5.	1,642,813	159,618
Taxation	6.	(388,947)	-
Profit for the year - total comprehensive income		1,253,866	159,618

Middletown Investments Limited

Statement of Financial Position

As at 31 December 2018

	Note	2018	2017 (restated)	2016 (restated)
		€	€	€
ASSETS				
Non-current assets				
Investment in subsidiary	7.	46,598	-	-
Investment in associates	8.	3,637,100	-	-
Financial assets at amortised cost	9.	-	-	-
Available-for-sale investments	9.	-	270,970	110,970
Loan receivable	10.	362,000	-	-
Total non-current assets		4,045,698	270,970	110,970
Current assets				
Other receivables		-	-	1,180
Cash and cash equivalents	11.	2,391	1,068	-
Total current assets		2,391	1,068	1,180
TOTAL ASSETS		4,048,089	272,038	112,150

Middletown Investments Limited

Statement of Financial Position

As at 31 December 2018

	Note	2018	2017 (restated)	2016 (restated)
		€	€	€
EQUITY AND LIABILITIES				
Equity				
Share capital	12.	1,200	1,200	1,200
Retained earnings		1,523,794	269,928	110,310
Total equity		1,524,994	271,128	111,510
Liabilities				
Non-current liabilities				
Deferred tax liabilities	13.	388,947	-	-
Borrowings	14.	1,813,148	470	420
Total non-current liabilities		2,202,095	470	420
Current liabilities				
Other payables	15.	321,000	440	220
Total liabilities		2,523,095	910	640
TOTAL EQUITY AND LIABILITIES		4,048,089	272,038	112,150

These financial statements on pages 4 to 26 were approved by the directors on 30 May 2019 and were signed by:

Kevin Deguara
Director

Jean Carl Farrugia
Director

Middletown Investments Limited

Statement of Changes in Equity

For the Year Ended 31 December 2018

	Share capital	Retained earnings	Total equity
	€	€	€
At 1 January	1,200	269,928	271,128
Profit for the year	-	1,253,866	1,253,866
Balance at 31 December 2018	1,200	1,523,794	1,524,994

At 1 January	1,200	110,310	111,510
Profit for the year	-	159,618	159,618
Balance at 31 December 2017	1,200	269,928	271,128

Middletown Investments Limited

Statement of Cash Flows

For the Year Ended 31 December 2018

	Note	2018	2017
		€	€
Cash from operating activities:			
Profit for the year		1,253,866	159,618
Income tax expense		388,947	-
Dividend income		-	(159,950)
Gain on fair value of investment in associates		(1,915,900)	-
Impairment loss		270,850	-
Loss from operations		(2,237)	(332)
Movement in other receivables		-	1,180
Movement in other payables		320,560	220
Net cash flows from operating activities		318,323	1,068
Cash flows from investing activities:			
Payments to acquire investment in subsidiary		(46,598)	-
Payments to acquire investment in associates		(1,721,200)	-
Payments to acquire other financial assets		-	(160,000)
Proceeds from disposal of other financial assets		120	-
Proceeds from dividends received		-	159,950
Payments for loan made to related party		(362,000)	-
Net cash flows used in investing activities		(2,129,678)	(50)
Cash flows from financing activities:			
Proceeds from loans from related parties		1,812,678	50
Net cash flows from financing activities		1,812,678	50
Net movement in cash and cash equivalents		1,323	1,068
Cash and cash equivalents at beginning of year		1,068	-
Cash and cash equivalents at end of year	11.	2,391	1,068

1. Change in company's name

On 10 October 2018, the shareholders resolved to change the company's name from Middletown Properties Limited to Middletown Investments Limited.

2. Basis of preparation

a. Statement of compliance

The financial statements have been prepared and presented in accordance with the requirements of the International Financial Reporting Standards as issued by the International Accounting Standards Board and as adopted by the EU. These are the company's first financial statements prepared in accordance with IFRS (see note 21 for explanation of the transition to IFRS).

These standards require a parent company that has an investment in one or more subsidiaries to prepare consolidated financial statements as required by IFRS 10, Consolidated Financial Statements. Except for the requirement to prepare consolidated financial statements for the group of which the company is the parent, the financial statements have been prepared in accordance with the requirements of IFRSs.

These financial statements present information about the company as a single undertaking.

b. Basis of measurement

The financial statements have been prepared on the historical cost basis, except for the company's investments in subsidiary and associates, which are accounted for in accordance with IFRS 9's requirements for equity investments.

c. Functional and presentation currency

The financial statements are presented in euro (€), which is the Company's functional currency.

Transactions denominated in foreign currencies are converted to the functional currency at the rates of exchange ruling on the dates on which the transactions first qualify for recognition. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Foreign currency differences arising on retranslation are recognised in profit or loss.

3. Change in accounting policies

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

The company has not adopted any new standards or amendments that have a significant impact on the company's results or financial position.

In 2018, the company adopted new standards, amendments and interpretations to existing standards that are mandatory for the company's accounting period beginning on 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 impacting the company's financial performance and position.

3. Change in accounting policies (continued)

a. New and revised standards that are effective for annual periods beginning on or after 1 January 2018 (continued)

IFRS 9 - Financial instruments

IFRS 9, which is effective for accounting periods commencing on 1 January 2018, addresses the classification and measurement of financial assets, and replaces the multiple classification and measurement models in IAS 39 with a single model that has only three classification categories: amortised cost, fair value through Other Comprehensive Income ('OCI') and fair value through profit or loss. Classification under IFRS 9 is driven by the reporting entity's business model for managing the financial assets and the contractual characteristics of the financial assets. Furthermore, there is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. IFRS 9, also addresses the classification and measurement of financial liabilities, and retains the majority of the requirements in IAS 39 in relation to financial liabilities.

The adoption of IFRS 9 did not give rise to any material adjustments to the amounts recognised in the financial statements. The differences between IAS 39 and IFRS 9 consist solely of reclassifications between categories of financial assets with no impact to shareholders' equity. There is no change to the carrying value of financial instruments as a result of these reclassifications.

The application of IFRS 9 resulted in the reclassification of the company's financial assets from the 'Available-for-sale' and 'Loans and receivables' categories in IAS 39 to 'Financial assets at amortised cost' under IFRS 9. These assets comprise a minority equity investment, loan receivable, and cash and cash equivalents. The new classification requirements have not had a material impact on the company's accounting for these assets, which continue to be measured at amortised cost upon the adoption of IFRS 9. IFRS 9 also had no impact on the classification of the company's financial liabilities.

From 1 January 2018, the company has to assess on a forward-looking basis the expected credit losses associated with financial assets measured at amortised cost. IFRS 9 replaced the 'incurred loss' model in IAS 39 with 'an expected credit loss' (ECL) model, requiring the company to recognise credit losses whenever there has been a significant increase in credit risk for financial assets at amortised cost.

For the loan receivable from related party and cash and cash equivalents, which are both subject to the impairment requirements of IFRS 9, the expected credit losses are immaterial.

IFRS 15 - Revenue from contracts with customers

IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information about the nature, amount, timing and uncertainty of revenue and cash flows from an entity's contracts with customers. Revenue is recognised when customers obtain control of the good or service and thus have the ability to direct the use and obtained the benefits therefrom. The standard replaced IAS18, Revenue.

After considering the nature of the company's business activities, it was concluded that IFRS 15 had no impact on the company's results and financial position.

b. 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, certain new standards, and amendments to existing standards have been published by the IASB that are not yet effective, and have not been adopted early by the company.

Management anticipates that all relevant pronouncements will be adopted in the company's accounting policies for the first period beginning after the effective date of the pronouncement. The company does not expect that new standards, interpretations and amendments will have a material impact on the company's financial

3. Change in accounting policies (continued)

b. Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the company (continued)

statements.

4. Significant Accounting Policies

a. Investments in subsidiary and associates

A subsidiary is an entity which is controlled by the Company. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Associates are all entities over which the company has significant influence but not control or joint control. This is generally the case where the company holds between 20% and 50% of the voting rights.

After initial recognition, the investments in subsidiary and associates are accounted for in accordance with IFRS 9's requirements for equity investments. The Company elects, on an instrument by instrument basis, whether its investments will be measured at fair value, with fair value movements recognised in profit or loss. Management has adopted the FVTPL election for all of its investments in subsidiaries and associates. The fair value of investments in subsidiary and associates is established by using valuation techniques.

The company gathers objective evidence that an investment is impaired using the same process disclosed in note 4(c). On disposal of the investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to profit or loss.

b. Impairment testing of non-financial assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other non-financial assets 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 carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period

c. Financial instruments

i. Recognition and derecognition

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

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

4. Significant Accounting Policies (continued)

c. Financial instruments (continued)

ii. Financial assets

Classification and initial measurement of financial assets

At initial recognition, the company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to the acquisition of the financial asset. Financial assets carried at fair value through profit or loss are initially recognised at fair value. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

From 1 January 2018, financial assets, other than those designated and effective as hedging instruments, are classified into the following categories:

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

The classification is determined by both:

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

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the company has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

All income and expenses relating to financial assets that are recognised in profit or loss are presented within finance costs or finance income, except for impairment of trade receivables which is presented within administrative expenses.

Applicable until 31 December 2017

The company classified its financial assets in the 'available-for-sale' and 'loans and receivables' categories. The classification depended on the purpose for which the financial assets were acquired. Management determined the classification of its financial assets at initial recognition.

Available-for-sale financial assets were those non-derivative financial assets that were designated as available-for-sale or were not classified as loans and receivables, held to maturity or held for trading investments. After initial recognition, the company carried its available-for-sale investments under the cost model as their fair value could not be reliably measured. Impairment losses (where applicable) and foreign exchange gains and losses on available-for-sale investments were recognised in profit or loss. Dividends on available-for-sale equity instruments were recognised in profit or loss when the entity's right to receive payment was established.

Loans and receivables were non-derivative financial assets with fixed or determinable payments that were not quoted in an active market. They arose when the company provided money, goods or services directly to a debtor with no intention of trading the asset. They were included in current assets, except for

4. Significant Accounting Policies (continued)

c. Financial instruments (continued)

ii. Financial assets (continued)

maturities greater than twelve months after the end of the reporting period. These were classified as non-current assets. The company's loans and receivables comprised cash and cash equivalents in the statement of financial position.

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
- 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 loan receivable, and cash and cash equivalents fall into this category of financial instruments.

Financial assets at fair value through profit or loss

The company subsequently measures all equity investments at fair value through profit or loss. Changes in the fair value of financial assets at FVTPL are recognised in investment income in the statement of profit or loss as applicable. Dividends from such investments continue to be recognised in profit or loss as finance income when the entity's right to receive payments is established.

Applicable until 31 December 2017

Financial assets were initially recognised at fair value plus transaction costs. Available-for-sale financial assets were subsequently carried at cost less impairment losses, if any. Loans and receivables were subsequently carried at amortised cost using the effective interest method. Amortised cost was the initial measurement amount adjusted for the amortisation of any difference between the initial and maturity amounts using the effective interest method.

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.

4. Significant Accounting Policies (continued)

c. Financial instruments (continued)

ii. Financial assets (continued)

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 expected credit losses' are recognised for the first category while 'lifetime expected credit losses' are recognised for the second category.

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

Applicable until 31 December 2017

In the prior year, the impairment of financial assets was based on the incurred loss model. Individually significant assets were considered for impairment when they were past due or when other objective evidence was received that a specific counterparty will default. Financial assets that were not considered to be individually impaired were reviewed for impairment in groups, which was 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.

iii. 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 borrowings and other payables.

Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs unless the company designated a financial liability at fair value through profit or loss.

Subsequently, financial liabilities are measured at amortised cost using the effective interest method except for derivatives and financial liabilities designated at FVTPL, which are carried subsequently at fair value with gains or losses recognised in profit or loss (other than derivative financial instruments that are designated and effective as hedging instruments).

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. Significant Accounting Policies (continued)

d. Cash and cash equivalents

Cash comprises cash on hand 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. Bank overdrafts, which are repayable on demand and form an integral part of the Company's cash and management, are a component of cash and cash equivalents.

e. Taxation

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that the tax arises from a transaction or event which is recognised directly in equity, in which case it is recognised in equity.

Current tax is based on the taxable profit for the year, as determined in accordance with tax laws, and measured using tax rates, which have been enacted or substantively enacted by the balance sheet date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profits. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to the investment in subsidiary to the extent that the Company is able to control the timing of the reversal of temporary differences and it is probable that those temporary differences will not reverse in the foreseeable future. Deferred tax assets for the carryforward of unused tax losses are recognised to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilised.

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

f. Equity

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

Retained earnings include current and prior period results.

Dividend distributions payable to equity shareholders are included with short term financial liabilities in the statement of financial position when the dividends are approved in general meeting prior to the end of the reporting year.

g. Revenue recognition

i. Dividends

Revenue is recognised when the Company's right to receive payment is established.

ii. Interest income

Revenue is recognised as interest accrues (using the effective interest method). Interest income is included in finance revenue in the income statement.

4. Significant Accounting Policies (continued)

h. Significant management judgement and estimates

International Financial Reporting Standards (IFRS) requires the use of certain critical accounting estimates in the preparation of financial statements. IFRS also requires management to exercise judgement in the process of applying the company's accounting policies. Any areas that involve a high degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are required to be separately disclosed. For the year ended 31 December 2018, there are no significant judgements and estimates that management believes are critical and require separate disclosure.

5. Profit before tax

Profit before tax is stated after charging the following:

	2018	2017
	€	€
Auditor's remuneration	750	100

6. Taxation

	2018	2017
	€	€
Current tax expense	-	-
Deferred tax expense	388,947	-
	388,947	-

6. Taxation (continued)

The tax expense and the result of profit before tax multiplied by the statutory income tax rate is reconciled as follows:

	2018	2017
	€	€
Profit before tax	1,642,813	159,618
Tax at 35%	574,985	55,866
Tax effect of:		
Expenses disallowed for tax purposes	95,580	116
Dividend income not subject to tax	-	(55,982)
Tax base of investments	(281,618)	-
	388,947	-

7. Investment in subsidiary

	2018	2017
	€	€
Opening balance	-	-
Additions	46,598	-
Change in fair value	-	-
At 31 December	46,598	-

On 1 October 2018, the company subscribed to 46,598 ordinary shares in Horizon Finance plc at nominal value.

The fair value of the company's investment in subsidiary, accounted for at fair value through profit or loss in terms of IFRS 9, has been determined by reference to its enterprise value.

Details of the company's investment in subsidiary are as follows:

Name	Nature of business	Class of shares	2018 %	2017 %
Horizon Finance plc - C 88540 Il Piazzetta A, Suite 52, Level 5 Tower Road, Sliema SLM 1607 Malta	Financing	Ordinary shares	99.996%	-

8. Investment in associates

	2018	2017
	€	€
Opening balance	-	-
Additions	1,721,200	-
Change in fair value	1,915,900	-
At 31 December	3,637,100	-

On 8 May 2018, the company assigned a receivable of € 320,000 to Shoreline Holdings Limited as non-cash consideration for the allotment of 320,000 ordinary C shares. Subsequently, on 30 November 2018 the company acquired an additional 1,750,000 ordinary C shares, 71.43% paid-up, for a cash consideration of € 1,250,000. The directors expect that the unpaid portion on these shares will be called up by Shoreline Holdings Limited in 2019.

The company acquired 50% of the issued share capital of Phoenix Capital Limited from the shareholders at nominal value on 22 November 2018.

On 24 May 2018, the company subscribed to 50% of the share capital of GAIA Investments Limited. The consideration was paid in cash.

The company has elected to measure its investment in associates at fair value through profit or loss in terms of IFRS 9, which fair value has been based on the associates' enterprise value.

Details of the company's investment in associates are as follows:

Name	Nature of business	Class of shares	2018 %	2017 %
Shoreline Holdings Limited - C 86187 Suite 407, Level 4 Block SCM 01, Smart City Malta Ricasoli, Kalkara SCM 1001 Malta	Real estate	Ordinary shares	30.89%	-
Phoenix Capital Limited - C 77880 Il Piazzetta A, Suite 52, Level 5 Tower Road, Sliema SLM 1607 Malta	Real estate	Ordinary shares	50%	-
GAIA Investments Limited - C 86458 Il Piazzetta A, Suite 52, Level 5 Tower Road, Sliema SLM 1607 Malta	Investment holding	Ordinary shares	50%	-

9. Financial assets at amortised cost (2017: available-for-sale investments)

	2018	2017 (restated)
	€	€
Opening balance	270,970	110,970
Additions	-	160,000
Disposal	(120)	-
Impairment	(270,850)	-
At 31 December	-	270,970

On 8 May 2018, the company transferred its investment in Shoreline Residence Limited to Shoreline Holdings Limited at nominal value. No gain or loss resulted from this disposal.

On 9 May 2018, C.T. Limited was placed into liquidation for voluntary winding up by means of an extraordinary resolution passed on the same date. The directors consider this investment to be fully impaired and have consequently written down the carrying amount of this investment. The directors expect that the winding up of this company be completed by end of 2019. The directors consider the carrying amount of this investment to be a reasonable approximation of its fair value.

Details of the company's financial assets at amortised cost (2017: available-for-sale investments) are as follows:

Name	Nature of business	Class of shares	2018 %	2017 %
C.T. Limited - C 71626 Suite 407, Level 4 Block SCM 01, Smart City Malta Ricasoli, Kalkara SCM 1001 Malta	Real estate	Ordinary shares	10%	10%
Shoreline Residence Limited - C 77212 Suite 407, Level 4 Block SCM 01, Smart City Malta Ricasoli, Kalkara SCM 1001 Malta	Real estate	Ordinary shares	-	10%

10. Loan receivable

	2018	2017
	€	€
Loan receivable from associate	362,000	-

The loan receivable from associate is unsecured, interest free and repayable after more than 12 months.

During 2018, the company revised its impairment methodology for all classes of assets, in line with the requirements of IFRS 9. As of 31 December 2018 and 2017, the loan receivable from associate was fully performing and therefore no impairment was recognised in these financial statements.

11. Cash and cash equivalents

Cash and cash equivalents for the purpose of the cash flow statement are as follows:

	2018	2017
	€	€
Bank balances	2,391	1,068
Total cash and cash equivalents	2,391	1,068

12. Share capital

	2018	2017
	€	€
Authorised		
1,200 Ordinary Shares of € 1 each	1,200	1,200
Issued and fully paid-up		
1,200 Ordinary Shares of € 1 each	1,200	1,200

The ordinary shares carry identical voting rights at general meetings of the Company, are equally entitled to any distribution of dividends, and rank simultaneously for any residual assets of the Company after the settlement of all liabilities in the event of the Company's winding up.

13. Deferred tax liabilities

Deferred taxes are calculated on all temporary differences under the liability method and are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled based on tax rates (and tax laws) that have been substantively enacted by the end of the reporting period.

The balance at 31 December represents temporary differences attributable to:

	2018	2017
	€	€
Investment in associates	388,947	-

The deferred tax liabilities reflected in profit or loss relate to fair value gains on investment in associates.

The movement in the company's deferred tax liabilities during the year was as follows:

	Balance, beginning of period, 2018	Recognised in profit or loss	Recognised in OCI	Balance, end of period, 2018
	€	€	€	€
Investment in associates	-	388,947	-	388,947

14. Borrowings

	2018	2017
	€	€
Loans payable to shareholders	812,798	-
Loan payable to associate	1,000,000	-
Amount payable to directors	350	470
	1,813,148	470

Loans payable to related parties are unsecured, interest free and repayable after more than 12 months.

Information about the company's exposure to liquidity risk arising from borrowings is disclosed in note 16.

15. Other payables

	2018	2017
	€	€
Accruals	1,000	440
Other payables	320,000	-
	321,000	440

Information about the company's exposure to liquidity risk arising from other payables is disclosed in note 16.

16. Financial risk management

Middletown Investments Limited is exposed to the following risks from its use of financial instruments:

- credit risk
- liquidity risk

Responsibility for risk management rests with the company's directors who develop and monitor risk management policies and oversees the management of the risks.

Credit risk

Credit risk is the risk of financial loss to the company if the counterparty fails to meet its obligation. Credit risk arises from operating activities from loan receivable, and cash and cash equivalents, which are subject to the expected credit loss model.

The company measures credit risk and expected credit losses using probability of default, exposure at default and loss given default. Management considers both historical data and forward-looking information in determining any expected credit loss.

The maximum exposure to credit risk at the end of the reporting period in respect of these financial assets is equivalent to their carrying amount. The company does not hold any collateral as security in this respect.

Credit risk from trade and other receivables is minimised by establishing credit policies such as determining and monitoring customer credit limits, requiring credit approvals, and the monitoring of customer credit risks by grouping customers according to their credit characteristics. Other monitoring procedures are in place to recover overdue accounts, to ensure minimal dependencies on a small number of customers, and to assess impairment.

For the loan receivable from related company, management monitors credit exposures at individual entity level and ensures timely performance in the context of overall liquidity management. The company takes cognisance of the related party relationship with this debtor and management does not expect any losses from non-performance or default, based on 12-month expected credit losses.

The company's cash is placed with reputable financial institutions, such that management does not expect any institution to fail to meet repayments of amounts held. While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss was insignificant.

As at the end of the reporting period, the company had no past due or impaired financial assets.

16. Financial risk management (continued)

The company's credit risk exposure is as follows:

	2018	2017
	€	€
Financial assets measured at amortised cost (classified as loans and receivables in 2017)		
Loan receivable	362,000	-
Cash and cash equivalents	2,391	1,068
	364,391	1,068

Liquidity risk

Liquidity risk is the risk that the company will encounter difficulty in meeting its short-term obligations associated with financial liabilities.

Liquidity needs are monitored by the directors to ensure it has sufficient funds to meet its liabilities when due, under normal and unexpected conditions, without incurring unacceptable losses or breaches in borrowing limits or covenants. Liquidity is managed by reviewing expected cash flows through cash flow forecasts, maintaining sufficient liquid funds and committed credit facilities to meet the company's funding obligations, and matching maturity profiles of financial assets and liabilities.

At year-end, the company's financial liabilities have contractual maturities (including interest payments where applicable) as summarised below:

	Less than 1 year	1 to 5 years	Over 5 years
	€	€	€
31 December 2018			
Borrowings	-	350	1,812,798
Other payables	321,000	-	-
	321,000	350	1,812,798
31 December 2017			
Borrowings	-	470	-
Other payables	440	-	-
	440	470	-

17. Related parties

a. Ultimate controlling parties

The Company is controlled by Kevin Deguara and Jean Carl Farrugia, who collectively own all the company's issued share capital.

b. Transactions with related parties

	Transaction value for the year ended		Balance outstanding	
	2018	2017	2018	2017
	€	€	€	€
Transactions with associates:				
Loan advanced to	362,000	-	362,000	-
Loan advanced from	(1,000,000)	-	(1,000,000)	-
Transactions with shareholders:				
Loans advanced from	(812,798)	-	(812,798)	-
Purchase of investment in associate from	150,600	-	-	-
Transactions with directors:				
Repayment of amount advanced from/(amount advanced from)	120	(50)	(350)	(470)

18. Fair value measurement

a. Fair value measurement of financial assets

Financial assets measured at fair value in the statement of financial position are grouped into three levels of a fair value hierarchy. The three levels are defined based on the observability of significant inputs to the measurement, as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3: unobservable inputs for the asset or liability.

18. Fair value measurement (continued)

a. Fair value measurement of financial assets (continued)

The following table shows the levels within the hierarchy of financial assets and liabilities measured at fair value on a recurring basis:

	2018	2017
	€	€
Level 3		
Investment in subsidiary	46,598	-
Investment in associates	3,637,100	-
Financial assets at fair value	3,683,698	-

The company uses third party independent valuation specialists to perform valuations of the investments in subsidiary and associates for financial reporting purposes, including Level 3 fair values. Valuation techniques are selected based on the characteristics of each instrument, with the overall objective of maximising the use of market-based information. Valuation processes and fair value changes are discussed between the valuation specialists and management at least every year, in line with the company's reporting dates.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques based on assumptions and market conditions existing at the of each reporting period.

b. Financial instruments not carried at fair value

The carrying amounts of loan receivable, cash and cash equivalents, borrowings and other payables as shown in the statement of financial position are assumed to approximate their fair values.

19. Capital management policies

The company's objectives when managing capital are to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for the shareholders and benefits for other stakeholders.

The company sets the amount of capital in proportion to risk. The company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the company may adjust the amounts of dividends paid to the shareholders, return capital to the shareholders, issue new shares, or sell assets to reduce debt. The directors seek to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position.

There were no changes in the company's approach to capital management during the year. The company is not subject to externally imposed capital requirements.

20. Events after the end of the reporting period

On 15 March 2019, the company's subsidiary, Horizon Finance plc, issued € 2,000,000 5% secured callable bonds 2026 - 2029 and these were fully subscribed. Subsequently, on 21 March 2019, these bonds were admitted to the Prospects MTF list.

Shoreline Holdings Limited has, on 17 April 2019, by means of a deed of sale entered in the acts of Notary Joseph Smith La Rosa, acquired a parcel of land of 14,137 sq. m. at Smart City Malta as covered by Planning Authority permit number PA/01029/18.

21. First-time adoption of IFRS

These are the company's first financial statements prepared in accordance with International Financial Reporting Standards (IFRS). The date of transition to IFRS is 1 January 2017. Financial statements for the year ended 31 December 2017 were prepared in accordance with the Accountancy Profession (General Accounting Principles for Small and Medium-sized Entities) Regulations, 2015 and the Schedule accompanying and forming an integral part of those Regulations (GAPSME).

The company's IFRS accounting policies presented in note 4 have been applied in preparing the financial statements for the year ended 31 December 2018, the comparative information and the opening statement of financial position at the date of transition.

The company has applied IFRS 1 'First-time Adoption of International Financial Reporting Standards' in preparing these first IFRS financial statements.

The adoption of IFRS had no impact on the company's reported profit, total comprehensive income, equity and cash flows.

The only presentation difference between GAPSME and IFRS is for the company's investment in unquoted securities which under IFRS have been classified as 'available-for-sale investments', whereas previously these were reported as 'financial assets' in the statement of financial position. This had no impact on the carrying amount of these investments as they were carried at amortised cost under both GAPSME and IFRS.

22. Statutory information

Middletown Investments Limited is a limited liability company and is incorporated in Malta.

Independent Auditor's Report

To the Shareholders of Middletown Investments Limited on the Audit of the Financial Statements

Report on the Audit of the Financial Statements

Qualified Opinion

We have audited the accompanying financial statements of Middletown Investments Limited set out on pages 4 to 26 which comprise the statement of financial position as at 31 December 2018, the statement of comprehensive income, 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, except for the effects of the matter described in the Basis for Qualified Opinion section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2018, and its financial performance for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for Qualified Opinion

The company did not prepare consolidated financial statements for the group of which it is parent because the audited consolidated financial statements of the associates were not yet available. As explained in note 2 to these financial statements, IFRS 10 requires parent companies to present consolidated financial statements.

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 that are relevant to our audit of the financial statements in accordance with the Accountancy Profession (Code of Ethics for Warrant Holders) Directive issued in terms of the Accountancy Profession Act (Cap. 281) in Malta, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Other Information

The directors are responsible for the other information. The other information comprises the directors' report. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. 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.

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 directors' report and other information. We have nothing to report in this regard.

Responsibilities of the Directors

The directors are responsible for the preparation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional 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 the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the 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 audit report. However, future events or conditions may cause the Company to cease to continue operating 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 the directors 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.

Clive Caruana
for and on behalf of
CCPS Audit Limited

15, Level 1, Suite 4
Naxxar Road
Birkirkara BKR 9049
Malta

30 May 2019