
Financial Analysis Summary

15 June 2018

Issuer

United Finance p.l.c.
(C 26598)



WEALTH MANAGEMENT • CORPORATE BROKING

United Finance p.l.c.

GB Buildings 2nd Floor,
28, Watar Street,
Ta'Xbiex XBX 1310
Malta

15 June 2018

Dear Sirs

United Finance p.l.c. Financial Analysis Summary

In accordance with your instructions, and in line with the requirements of the Listing Authority Policies, we have compiled the Financial Analysis Summary (“**Analysis**”) set out on the following pages and which is being forwarded to you together with this letter.

The purpose of the financial analysis is that of summarising key financial data appertaining to United Finance p.l.c. (the “**Company**”) and United Group Limited (the “**Group**”). The data is derived from various sources or is based on our own computations as follows:

- (a) Historical financial data for the three years ended 31 December 2015 to 31 December 2017 has been extracted from audited financial statements of the Company and Group for the three years in question.
- (b) The forecast data of the Group for the year ending 31 December 2018 has been provided by management of the Company.
- (c) Our commentary on the results of the Group and on its financial position is based on the explanations provided by the Company.
- (d) The ratios quoted in the Financial Analysis Summary have been computed by us applying the definitions set out in Part 4 of the Analysis.
- (e) Relevant financial data in respect of the companies included in Part 3 has been extracted from public sources such as websites of the companies concerned, financial statements filed with the Registrar of Companies or websites providing financial data.



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The Analysis is meant to assist investors in the Company's securities and potential investors by summarising the more important financial data of the Company and the Group. The Analysis does not contain all data that is relevant to investors or potential investors. The Analysis does not constitute an endorsement by our firm of any securities of the Company and should not be interpreted as a recommendation to invest in any of the Company's securities. We shall not accept any liability for any loss or damage arising out of the use of the Analysis. As with all investments, potential investors are encouraged to seek professional advice before investing in the Company's securities.

Yours faithfully,

A handwritten signature in black ink, appearing to read "Evan Mohnani".

Evan Mohnani

Head – Corporate Finance

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PART 1 – INFORMATION ABOUT THE ISSUER AND GROUP

1. KEY ACTIVITIES OF THE COMPANY

The principal activity of the Company is to carry on the business of a finance company within the United Group.

The Company does not itself carry on any trading activities apart from: (i) leasing to third parties and a Group company commercial space in a property located in Ta’Xbiex; and (ii) the raising of capital and advancing thereof to members of the United Group. Accordingly, the Company is economically dependent on the operations and performance of the United Group.

2. KEY ACTIVITIES OF THE GROUP

The origins of the Group go back to some 90 years ago when in 1926, Carmelo Gatt Baldacchino set up a small transportation company in Malta. During the last financial year (2017), the Group operated in three industry sectors - retail, automotive, property. In 2018, the Group commenced operations in the catering sector through the opening of a cafeteria at Pendergardens, St Julians.

Important events in the development of the Group’s business during FY2017 are included hereunder:

- Development works on the new commercial property in Qormi, which was acquired in 2017, were progressing as planned and is scheduled for completion in 2019. The said property will offer *circa* 3,500m² of office space and car park facilities for lease.
- A new subsidiary, United Catering Company Limited, was incorporated on 18 September 2017 to operate a number of catering outlets in Malta. The first outlet, U&Co (an urban social café) was opened in April 2018 at Pendergardens, St Julians.

3. DIRECTORS

United Finance p.l.c. is managed by a Board consisting of five directors entrusted with the overall direction and management of the Company.

Board of Directors

Carmen Gatt Baldacchino	Chairperson
Edmund Gatt Baldacchino	Chief Executive Officer
Simon Gatt Baldacchino	Non-Executive Director
James Bonello	Independent Non-Executive Director
Joseph F.X. Zahra	Independent Non-Executive Director

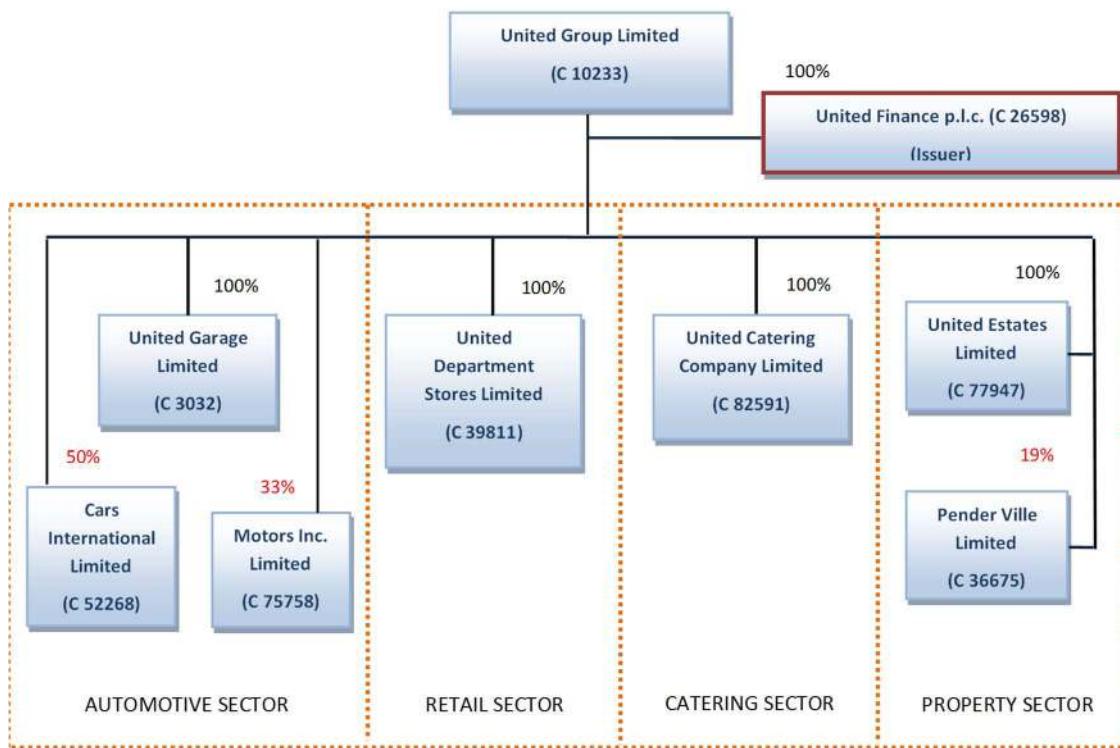
The parent company of the United Group is United Group Limited, and is managed by a Board consisting of seven directors who are responsible for the day-to-day management of the Group.

Board of Directors

Carmen Gatt Baldacchino	Chairperson
Edmund Gatt Baldacchino	Executive Director
Simon Gatt Baldacchino	Executive Director
Josianne Tonna	Non-Executive Director
Dolores Gatt Baldacchino	Non-Executive Director
Helga Ellul	Independent Non-Executive Director
Joseph F.X. Zahra	Independent Non-Executive Director

4. GROUP ORGANISATIONAL STRUCTURE

The current organisational structure of the Group is illustrated in the diagram below:



United Group Limited is the parent company of the United Group and is primarily focused on establishing and monitoring strategic direction and development of the Group. In 2017, United Catering Company Limited (C 82591) was set up to operate catering establishments in Malta.

5. GROUP OPERATIONAL DEVELOPMENT

The consolidated operations of the United Group comprise fashion retail, rental & leasing of vehicles, and income from third party rentals of office space at G.B. Buildings, Watar Street, Ta' Xbiex. An analysis of revenue, extracted from the consolidated audited financial statements of United Group Limited, is provided below.

United Group Revenue Analysis	FY2015 €'000	FY2016 €'000	FY2017 €'000
Retail	7,256	7,431	6,687
Automotive	2,472	2,127	2,312
Property	360	370	382
Total revenue	10,088	9,928	9,381

Source: Consolidated audited financial statements of the United Group for the years ended 31 December 2015 to 2017.

Turnover generated by each of Motors Inc. Limited and Pender Ville Limited, of which the Group has a shareholding of 33.33% and 19.23% respectively, is not consolidated on a line by line basis and therefore has not been included in the above analysis. Results of companies that are not subsidiaries of the Group are accounted for in the income statement below the operating profit line as 'share of results of associates and jointly controlled entities'.

5.1 RETAIL

5.1.1 History and Business

The United Group of Companies entered the retail industry in 2005 and through a number of outlets retails a number of international brands, including Debenhams, Oasis, MAC Cosmetics and Estee' Lauder.

The Company operates two Debenhams stores under franchise in two locations, one at The Point Shopping Centre in Sliema, covering over 2,500m² of shop floor and another 930m² store at the Main Street Shopping Complex, in Paola. Debenhams' key product categories include womenswear, menswear, kidswear, homeware and beauty.

In 2017, the Group extended its Jack & Jones offering and launched a number of new Bestsellers fashion brands including Only, Selected and Play. In addition, Dune footwear, one of the most influential global players in fashion footwear and accessories, was introduced in Malta and is available at the Debenhams stores. Another new offering at Debenhams Sliema is the Beauty Club, which offers a diverse range of beauty, cosmetic and fragrances from various market leading brands.

The key objective of the Group for its retail operations continues to be strengthening recognition of each of its brands within their respective target markets, enhance revenue growth and maintain efficiency at the operational level. At the same time, the Directors will continue to explore

opportunities to invest in other retail concepts that offer features that are attractive to the Group in terms of benefits from possible synergies and revenue expansion.

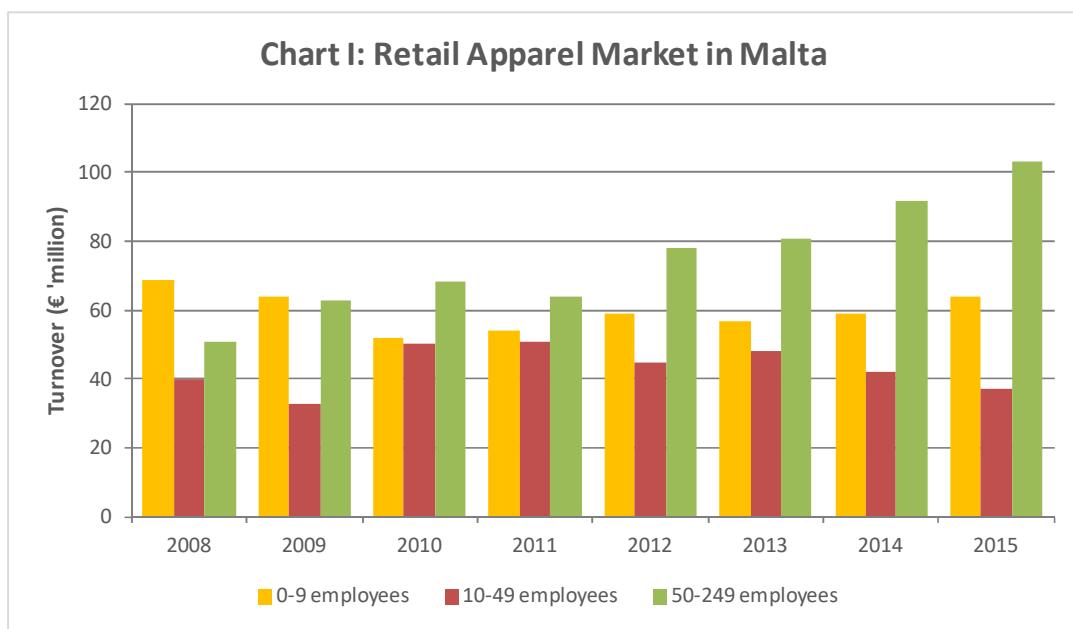
5.1.2 Market Overview

Data in relation to the size of the apparel market in Malta is not published. Notwithstanding, an estimate of the retail store market has been derived from data obtained from the National Statistics Office of Malta (the latest available information relates to calendar year 2015). Data with respect to online sales generated in Malta is not available and therefore is excluded from the analysis below.

The table below sets out statistics in relation to sales of apparel (excluding textiles, footwear and leather goods) by retail outlets in Malta. The information has been analysed by size of outlet on the basis of the number of staff employed by a retail store.

Turnover of Apparel Retail Stores in Malta									
	2008	2009	2010	2011	2012	2013	2014	2015	2008-15
0-9 employees									
Total turnover (€' million)	69	64	52	54	59	57	59	64	-1.1%
No. of outlets (units)	703	704	667	675	681	662	675	530	
Average turnover (€' million)	0.10	0.09	0.08	0.08	0.09	0.09	0.09	0.12	
Year-on-year growth		-7%	-14%	3%	8%	-1%	2%	38%	
10-49 employees									
Total turnover (€' million)	40	33	50	51	45	48	42	37	-1.1%
No. of outlets (units)	19	17	28	29	29	28	26	25	
Average turnover (€' million)	2.11	1.94	1.79	1.76	1.55	1.71	1.62	1.48	
Year-on-year growth		-8%	-8%	-2%	-12%	10%	-6%	-8%	
50-249 employees									
Total turnover (€' million)	51	63	68	64	78	81	92	103	10.6%
No. of outlets (units)	8	11	12	13	14	14	14	15	
Average turnover (€' million)	6.38	5.73	5.67	4.92	5.57	5.79	6.57	6.87	
Year-on-year growth		-10%	-1%	-13%	13%	4%	14%	4%	
Total Turnover (€' million)	160	160	170	169	182	186	193	204	3.5%
Year-on-year growth		0%	6%	-1%	8%	2%	4%	6%	

Source: National Statistics Office Malta (NACE 47.71 data)



From 2008 to 2014, the total number of outlets remained relatively unchanged at *circa* 720 units, but decreased to 570 units in 2015. This decline was recorded in the small stores category (0-9 employees). In contrast, the number of outlets in the large store category (50-249 employees) increased from 51 units in 2008 to 103 units in 2015.

Furthermore, consumer spending has also changed and shows a preference towards the larger stores. In fact, in the period 2008 to 2015, smaller outlets registered a compounded annual decrease in turnover of 1.1%, while the larger outlets recorded a compounded annual growth rate in turnover of 10.6%. It is estimated that the retail arm of the United Group had a market share of 3.6% in 2015 (2014: 3.6%), which is based on the annual sales figure of €7.3 million (2014: €7.0 million).

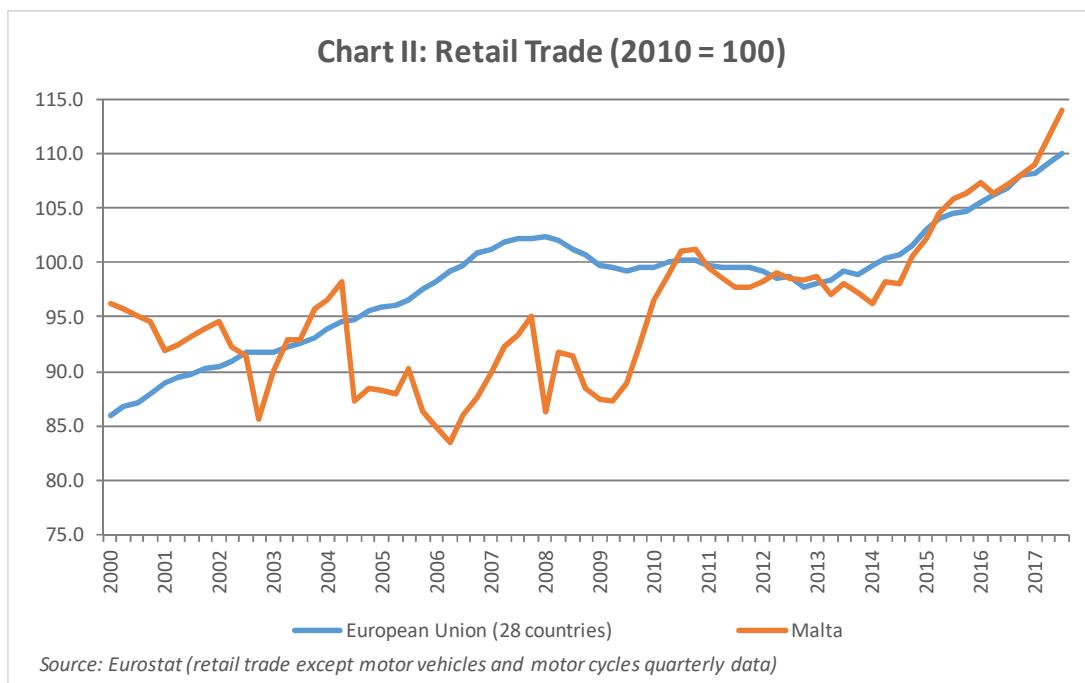


Chart II above provides an indication of the trend in performance of the overall retail sector in Malta as compared to the European Union (2010 being the base year = 100). According to the EU trend line above, retail trade increased at a steady pace till early 2008, which was followed by a decline that lasted until mid-2013. Thereafter, the EU retail sector experienced a constant rate of growth and has now reached a level of almost 8 percentage points above the pre-financial crisis high (Q1 2008).

During the 17 years under review, retail activity in Malta increased by almost 18 percentage points and since Q4 2016 has performed better than the EU average. Further analysis shows that between the years 2004 and 2009, the Maltese retail sector lagged behind the EU average. Post 2009, retail sales generated in Malta recovered to some extent while the EU average reflected lower activity levels. From 2010 to 2016, the Maltese retail sector maintained a similar trajectory when compared to the EU average.

5.1.3 Trend Analysis

Stiff competition continues to be prevalent in the local market, both from local retailers as well as from online sales (through the internet). Given that the Group's brands, particularly Debenhams, are top international brands in the fashion retail sector, the Directors are confident that the Group's outlets can compete well for market share in Malta.

5.2 AUTOMOTIVE

5.2.1 History and Business

The companies forming part of this segment are primarily engaged in: (i) the importation and servicing of motor vehicles and the sale of parts and accessories and (ii) car rental and leasing service.

The Group has been active in the car dealership business since 1982 representing Opel and Saab brands locally, and in 2011 the Group, through Cars International Limited ("CIL"), merged its car dealership with the operations of Easysell Kia (Malta) Limited. In September 2016, CIL merged its operations with that of Pater Group via the creation of a new entity, Motors Inc. Ltd ("MIL"). As a result of this merger, United Group today owns 33.33% of MIL, which operates a multi-brand dealership for KIA, Opel, DFM, Alfa, Jeep, Fiat, Iveco and Hyundai. Through the aforesaid merging of business interests, MIL is set to benefit from a cost-effective and efficient operational structure, through economies of scale, which will enhance customer service.

The United Group also operates the car rental business through United Garage Limited. This company has been the franchisee of Hertz since 1961, making it the oldest European franchisee of this international car-hire brand since its inception. The United Group of Companies offers a variety of services and products relating to rental and leasing of vehicles and owns one of the largest modern fleets in Malta. The company has also over the years expanded its offering is now the multi-brand franchise operator of the whole Hertz brand portfolio consisting of Hertz, Firefly, Thrifty and Dollar.

5.2.2 Market Overview – Vehicle Rental

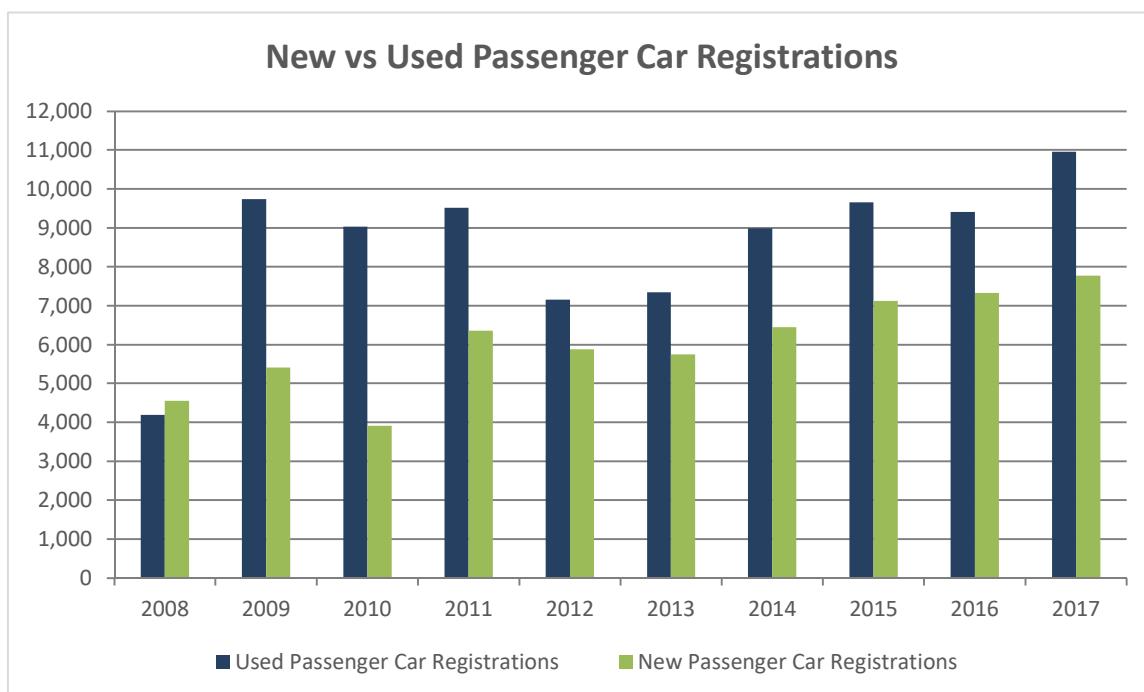
Competition among car rental industry participants is intense and continues to be primarily based on price, vehicle availability and quality, service, reliability, rental locations and product innovation. Price has also continued to be more important in recent years since tourists visiting Malta are increasingly more independent in decision-making and are price sensitive.

The Directors believe that the reputation of the Hertz brand and the recent introduction to the local market of the Firefly and Dollar/Thrifty brands will enable the Group to better compete across multiple market segments and thereby improve its market share.

5.2.3 Market Overview – Importation of Vehicles

Local market

Over the years the automotive sector in Malta has become highly competitive with a wider range of new motor vehicle franchises and models imported at competitive prices. In addition, the used car import market has grown substantially as evidenced by statistics published by the National Statistics Office Malta and which are included in the table below. During the past decade, registered passenger cars in Malta increased by 68,889 vehicles, from 222,775 in 2008 to 291,664 in 2017, which is equivalent to a compound annual growth rate of 3.04%.



As shown in the above chart, the market has been inundated with substantial imports, particularly in terms of used cars from the United Kingdom, at the expense of imports of new cars. In 2017, the registration of used cars amounted to 10,953, an increase of 16.4% when compared to 2016 (9,407 used passenger car registrations). In comparison, 7,776 new vehicles were registered in 2017, an increase of 6.0% from a year earlier (2016: 7,333 new passenger car registrations).

Market share of MIL

The market share of 'new car registrations in Malta' of MIL in 2017 is estimated at 16.6% (FY2016: 15.3% which is based on the hypothetical assumption that MIL was incorporated as of 1 January 2016). The Group expects the market share of any particular brand to vary from year to year, due to factors such as the quality of the current models, pricing competitiveness and exchange rates. However, on a combined basis, the varied mix retailed by MIL should enable it to maintain a consistent overall market share on an annual basis.

5.2.4 Trend Analysis

In the car hire and leasing market, the United Group will continue to leverage its experience as franchisee of Hertz for more than 50 years in order to exploit further opportunities arising from the tourism market, evolving requirements from holiday makers and corporate client requirements. The local tourism sector is currently performing at record levels and as such, the Group is focused to reflect same in its car rental business.

Trends in vehicle sales in Malta have been fairly consistent over the past few years, and are expected to remain as such in the near term. However, within this market, the merger between Cars International Limited and Pater Group in FY2016 presents a stronger competitor as one of two main car importers on the island.

New vehicle model launches by the brand companies augur well for the future trading prospects. Such prospects, together with increased marketing and new services being offered, including the option for clients to purchase vehicles on hire purchase terms, should significantly improve the company's competitive edge in the local market.

5.3 PROPERTY

5.3.1 History and Business

The United Group owns a six storey commercial building known as GB Buildings and located in Ta' Xbiex, Malta. The property has a net floor area of 2,510m² and comprises a showroom at ground floor and basement levels, and offices in the overlying four floors.

GB Buildings is fully leased to third parties, except for one floor which is occupied by the Group. Other than the lease contract for the ground floor showroom which expires in 2035, the lease agreements are automatically renewed annually unless otherwise advised by the respective lessees. The carrying value of the property as at 31 December 2017 is €4.69 million (FY2016: €4.69 million).

In late 2016, United Group acquired a property in Qormi, having a floor area of *circa* 1,000m², and which will be developed into a commercial property offering office space over 4 floors with ample parking facilities. The Group expects the aforesaid property to be completed and available for lease by 2019.

In 2016, United Group also acquired a property in Valley Road, Msida, jointly with other investors. This property was sold to third parties in 2018.

The United Group has an interest in Pendergardens located in St Julians, Malta through the ownership of 19.23% of the equity capital of Pender Ville Limited. With reference to the annual audited financial statements of Pendergardens Developments p.l.c. for the financial year ended 31 December 2017, development works relating to the final phase of the project (being Towers I & II, Block 17 and the underlying car park) are progressing well and the tempo of sales are in line with management's expectations.

5.3.2 Market Overview

Residential property prices continued to rise during the fourth quarter of 2017 (see Chart I below) and said prices are being supported by a number of factors. The scheme for first-time buyers and a low interest rate environment make property more attractive to purchase. Demand for property is also being supported by growth in disposable income, which continues to benefit from favourable labour market conditions. These factors in turn are contributing to robust growth in lending for house purchases. The rise in foreign workers in Malta and the Individual Investor Programme, have also been supporting residential property prices.

The Central Bank of Malta's advertised property price index shows that house prices rose at an annual rate of 8.8% in the last quarter of 2017. Prices of apartments – the major component – continued to grow strongly in Q4 2017 at 7.6% over the previous quarter (such data mainly provides trend information as advertised property prices may not accurately reflect the prices at which sales actually take place).

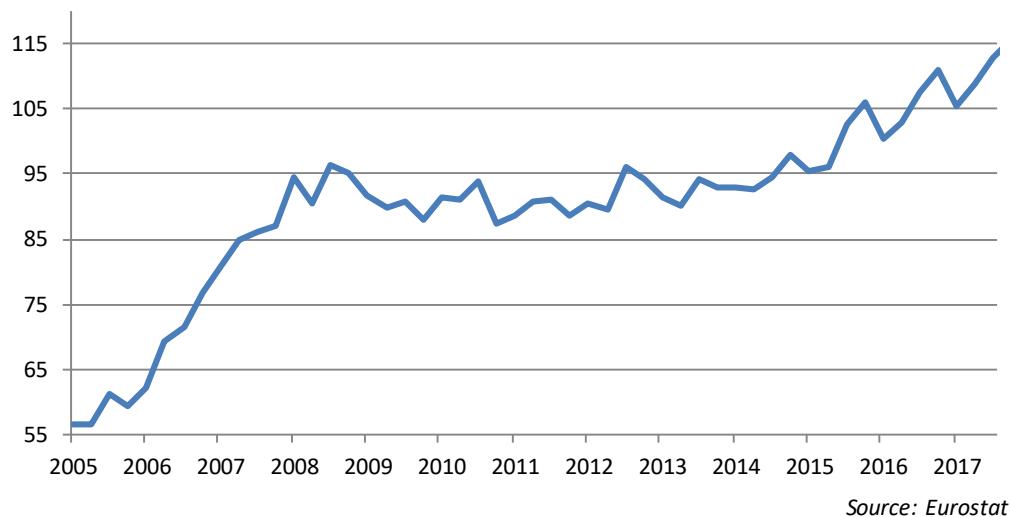
CHART I: Change in Property Prices



Source: Central Bank of Malta

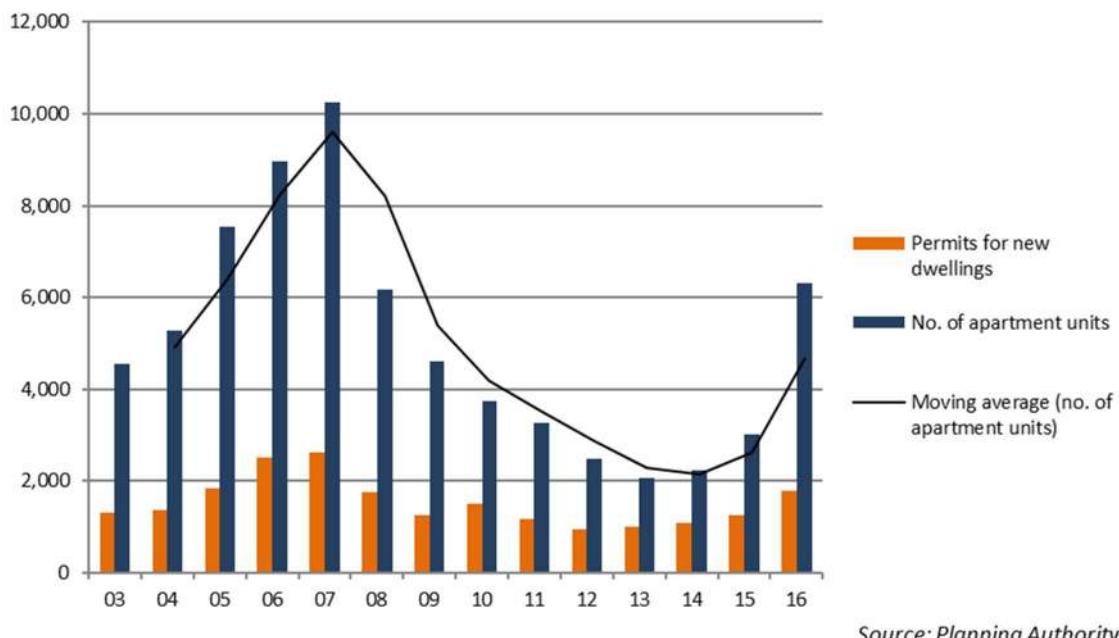
Eurostat's House Price Index for Malta – which is based on transactions covering terraced houses, apartments and maisonettes – also indicates that residential property prices increased. The latest data available refers to Q4 2017 and shows that said prices increased by 4.1% compared with the same quarter of 2016 (vide Charts II below).

CHART II: Malta House Price Index



With regard to the number of permits, the Malta Environment and Planning Authority issued 7,508 permits during 2016, just over 90% more than in 2015 (statistics for 2017 have yet to be published). This followed growth of 34.4% in 2014, marking three consecutive years of growth following a period of decline. The increase in permits issued in 2016 was mostly driven by the largest residential category, namely apartments, which accounted for 84.1% of total permits granted.

CHART III: Development Permits for Dwellings



Source: Planning Authority

The gross value added from the construction industry rose by 8.3% in 2017 (in nominal terms), from €328.9 million in 2016 to €356.4 million), following a marginal decrease of 0.4% in 2016. During 2015, a y-o-y increase of 8.8% or €26.7 million increase was registered.

Commercial Property

National statistics relating to commercial property in Malta are currently not captured and therefore it is more difficult to gauge the health of this sector. Notwithstanding the lack of such data, general business sentiment and the continued drive to promote Malta as a regional hub for the provision of business related services, notably in the financial, i-gaming, back-office services, information technology, aircraft registration and maritime has continued to generate a positive trend in the commercial property sector, in particular office space. In addition, Malta's highly skilled and competitive labour costs have also been vital in sustaining this success. This view is substantiated when assessing the lack of availability of large office and commercial space, as well as, the number of projects earmarked for development and set to commence in the near future.

5.3.3 Trend Analysis

GB Buildings is at present fully occupied. As a result, management is primarily involved in its upkeep in order to retain current tenants and attract prospective clients at better rates in the eventuality of expiring lease agreements. Due to its ideal location and good demand for commercial space in the Sliema – Ta’ Xbiex area, management is optimistic that full occupancy can be retained in the foreseeable future.

With respect to operations at Pendergardens, there is active demand for the various units on offer. To date, sales tempo for the available apartments in the final phase of the project is in line with budgeted figures and expectations, and management is confident that sales will progress in accordance with projected targets.

5.4 CATERING

5.4.1 Business

A new subsidiary of the United Group, United Catering Company Limited, was set up in September 2017 to operate a cafeteria establishment at Pendergardens. The outlet – U&Co - commenced operations in April 2018 and is an urban social inspired concept, offering clientele the opportunity to meet and relax in a fresh and trendy environment. The new outlet can cater for up to 120 customers and is expected to appeal to a broad spectrum of customers. The cafeteria is open from early morning till midnight. Depending on the level of success of U&Co, the Directors plan to further expand the Group's catering operations in the near to medium term by opening a number of cafeterias with same concept in other key areas in Malta.

6. BUSINESS DEVELOPMENT STRATEGY

The United Group continues to believe in diversification not only by way of a business strategy but also as a risk management policy for the benefit of all its stakeholders. The Group has evolved at a relatively rapid pace over the last years and has diversified its operations from its core automotive business to investments in fashion retail, property and lately, in catering. Such investments were executed through the development of new operations as well as through strategic joint ventures with well-established business partners that share and complement the Group's core business values. The Group's strategy is to consolidate and grow market share of its current business portfolio, and shall maintain its on-going pursuit for new, prudent and sustainable investment and business opportunities.

To sustain business growth and competitiveness, the Group is continuously streamlining its organisational structure to improve efficiency and enhance through the recruitment of professional management and strict cooperate governance, its strategic focus at operational level.

7. MAJOR ASSETS OWNED BY THE GROUP

The United Group is the owner of a number of properties and financial assets which are included in the consolidated balance sheet under the headings: 'investment property' and 'available-for-sale financial assets' as follows:

United Group Major Assets	FY2015 €'000	FY2016 €'000	FY2017 €'000
GB Buildings (<i>note 1</i>)	4,685	4,685	4,685
Other immovable properties (<i>note 2</i>)	582	1,329	1,637
Available-for-sale financial assets	645	417	447
	<u>5,912</u>	<u>6,431</u>	<u>6,769</u>

Note 1: Property is held directly by United Finance p.l.c.

Note 2: A property for development into a business centre by the Group was acquired in 2017. Book value is of €1.6 million. Property target completion is mid 2019.

Source: Consolidated audited financial statements of the United Group for the years ended 31 December 2015 to 2017.

PART 2 – GROUP PERFORMANCE REVIEW

The projected financial statements detailed below relate to events in the future and are based on assumptions which the United Group believes to be reasonable. Consequently, the actual outcome may be adversely affected by unforeseen situations and the variation between forecast and actual results may be material.

8. FINANCIAL INFORMATION – THE ISSUER

The following financial information is extracted from the audited financial statements of the Issuer for each of the years ended 31 December 2015 to 31 December 2017. The forecasted financial information for the year ending 31 December 2018 has been provided by management of the Issuer.

United Finance p.l.c. Income Statement €'000	FY2015	FY2016	FY2017	FY2018
	Actual	Actual	Actual	Forecast
Rental income from GB Buildings	360	370	382	392
Income receivable from financial assets	28	32	14	16
Interest receivable from Group companies	395	407	399	395
Bank and bills of exchange interest receivable	34	3	2	-
Total revenue	817	812	797	803
Interest payable and similar charges	(467)	(469)	(469)	(470)
Gross profit	350	343	328	333
Administrative expenses	(135)	(135)	(149)	(167)
Movement in fair value of financial assets	-	-	-	-
Profit before tax	215	208	179	166
Taxation	77	(59)	(15)	(59)
Profit for the year	292	149	164	107
Other comprehensive income:				
Revaluation gain on GB Buildings	-	-	-	177
Movement in fair value of financial assets	28	22	(29)	-
Total comprehensive income for the year	320	171	135	284

United Finance p.l.c. Cash Flow Statement €'000	FY2015 Actual	FY2016 Actual	FY2017 Actual	FY2018 Forecast
Net cash from operating activities	27	(11)	(106)	39
Net cash from investing activities	22	282	(46)	16
Net cash from financing activities	(133)	332	(87)	(277)
Net movement in cash and cash equivalents	(84)	603	(239)	(222)
Cash and cash equivalents at beginning of year	551	467	1,070	831
Cash and cash equivalents at end of year	467	1,070	831	609
United Finance p.l.c. Statement of Financial Position €'000	31 Dec'15 Actual	31 Dec'16 Actual	31 Dec'17 Actual	31 Dec'18 Forecast
Assets				
Non-current	11,135	10,867	10,612	11,188
Current	2,433	2,779	3,090	2,547
Total assets	13,568	13,646	13,702	13,735
Equity and liabilities				
Equity	4,464	4,485	4,500	4,664
Liabilities				
Non-current	8,801	8,819	8,837	8,854
Current	303	342	365	217
Total liabilities	9,103	9,161	9,202	9,071
Total equity and liabilities	13,568	13,646	13,702	13,735

Revenue principally comprises income from rental of commercial space in GB Buildings, which is currently fully occupied, and interest receivable from Group companies on amounts due to the Issuer. In FY2017, total revenue amounted to €797,000 (FY2016: €812,000). After deducting interest payable of €469,000 (FY2016: €469,000), the Issuer generated a gross profit of €328,000 (FY2016: €343,000). Overall, total comprehensive income in FY2017 amounted to €135,000 (FY2016: €171,000).

In line with previous year's results, revenue in FY2018 is projected to amount to €803,000 (FY2017: €797,000), while gross profit is expected to amount to €333,000 (FY2017: €328,000). In the forecasted year, a planned valuation exercise of the G.B. Buildings will be performed in accordance with the Group's accounting policy, and it is anticipated that an increase of €177,000 in fair value will be accounted for in other comprehensive income. As such, total comprehensive income for FY2018 is expected to amount to €284,000 as compared to €135,000 in FY2017.

As at 31 December 2017, apart from the property (GB Buildings), total assets of the Issuer primarily included loans and receivables due from Group companies of €5.5 million (FY2016: €5.8 million), available-for-sale financial assets of €0.4 million (FY2016: €0.6 million), trade and other receivables totalling €2.3 million (FY2016: €1.7 million) and bank balances.

Trade and other receivables include *circa* €38,000 (FY2016: *circa* €61,000) in bills of exchange. Further to the transfer of the automotive business to Cars International Limited in June 2011, the United Group did not factor any bills of exchange, and therefore interest earned on bills of exchange has gradually decreased over the period under review. The remaining bills of exchange will be settled by 2018. Liabilities of the Issuer as at the end of FY2017 and FY2016 principally include €8.5 million in bonds.

9. FINANCIAL INFORMATION – THE GROUP

The following financial information is extracted from the audited consolidated financial statements of United Group Limited (the “**Group**”) for the three years ended 31 December 2015 to 31 December 2017. The financial information for the year ending 31 December 2018 has been provided by Group management.

United Group Income Statement ('000)	FY2015 Actual	FY2016 Actual	FY2017 Actual	FY2018 Forecast
Fashion retail	7,256	7,431	6,687	8,106
Automotive	2,472	2,127	2,312	2,714
Catering	-	-	-	550
Property	360	370	382	360
Revenue	10,088	9,928	9,381	11,730
Other income	14	(3)	276	194
Direct costs and administrative expenses	(9,053)	(8,694)	(8,781)	(10,463)
EBITDA	1,049	1,231	876	1,461
Depreciation and amortisation	(774)	(785)	(812)	(996)
Share of results of associate companies	643	539	378	950
Dividends receivable	-	1,244	1,210	60
Profit on disposal of properties	269	42	-	-
Profit on disposal on other assets	-	43	82	150
EBIT	1,187	2,314	1,734	1,625
Net finance costs	(601)	(692)	(734)	(929)
Profit before tax	586	1,622	1,000	696
Taxation	64	164	(5)	(53)
Profit for the year	650	1,786	995	643
Other comprehensive income				
Movement in value of Associate Company	(369)	(51)	(11)	-
Revaluation gain on Investment Property	-	-	-	177
Movement in fair value of financial assets	28	22	(29)	-
Total comprehensive income for the year	309	1,757	955	820

United Group Statement of Financial Position (€'000)	31 Dec'15 Actual	31 Dec'16 Actual	31 Dec'17 Actual	31 Dec'18 Forecast
Assets				
<i>Non-current</i>				
Property, plant and equipment	3,714	3,431	4,707	5,207
Investment property	4,726	6,014	6,321	8,248
Investments in associates & joint ventures	2,861	3,901	4,269	5,219
Available-for-sale financial assets	645	417	447	447
Deferred tax assets	-	216	225	225
Trade and other receivables	1,319	173	173	173
	<u>13,265</u>	<u>14,152</u>	<u>16,142</u>	<u>19,519</u>
<i>Current</i>				
Inventories	1,572	1,655	2,294	1,600
Trade and other receivables	1,210	1,279	1,647	1,176
Taxation	-	289	319	319
Cash and cash equivalents	1,060	1,651	1,222	668
	<u>3,842</u>	<u>4,874</u>	<u>5,482</u>	<u>3,763</u>
Total assets	<u>17,107</u>	<u>19,026</u>	<u>21,624</u>	<u>23,282</u>
Equity and liabilities				
Equity				
Called up share capital	25	25	25	25
Other reserves	2,862	2,833	3,345	3,522
Retained earnings	(156)	1,631	1,474	2,117
	<u>2,731</u>	<u>4,489</u>	<u>4,844</u>	<u>5,664</u>
Liabilities				
<i>Non-current</i>				
Borrowings and bonds	8,524	8,937	8,853	11,680
Other non-current liabilities	399	456	1,640	456
	<u>8,923</u>	<u>9,393</u>	<u>10,493</u>	<u>12,136</u>
<i>Current</i>				
Borrowings and bonds	2,377	2,965	3,172	2,246
Other current liabilities	3,076	2,179	3,115	3,236
	<u>5,453</u>	<u>5,144</u>	<u>6,287</u>	<u>5,482</u>
	<u>14,376</u>	<u>14,537</u>	<u>16,780</u>	<u>17,618</u>
Total equity and liabilities	<u>17,107</u>	<u>19,026</u>	<u>21,624</u>	<u>23,282</u>

United Group Cash Flow Statement (€'000)	FY2015 Actual	FY2016 Actual	FY2017 Actual	FY2018 Forecast
Net cash from operating activities	655	674	1,234	31
Net cash from investing activities	(523)	(2,342)	(2,397)	(514)
Net cash from financing activities	(47)	2,418	513	24
Net movement in cash and cash equivalents	85	750	(650)	(459)
Cash and cash equivalents at beginning of year	(1,304)	(1,219)	(469)	(1,119)
Cash and cash equivalents at end of year	(1,219)	(469)	(1,119)	(1,578)

Key Accounting Ratios	FY2015	FY2016	FY2017	FY2018
Operating profit margin (EBITDA/revenue)	10%	12%	9%	12%
Interest cover (times) (EBITDA/net finance cost)	1.75	1.78	1.19	1.57
Net profit margin (Profit after tax/revenue)	6%	18%	11%	5%
Earnings per share (€) (Profit after tax/number of shares)	26	72	40	26
Return on equity (Profit after tax/shareholders' equity)	24%	40%	21%	11%
Return on capital employed (Operating profit/total assets less current liabilities)	9%	9%	6%	8%
Return on assets (Profit after tax/total assets)	4%	9%	5%	3%

Source: Charts Investment Management Service Limited

During **FY2016**, the Group generated revenue amounting to €9.9 million (FY2015: €10.1 million) and an EBITDA of €1.2 million (FY2015: €1.0 million). Revenue derived from the retail division increased by €0.2 million, from €7.2 million in FY2015 to €7.4 million in FY2016, whilst income from the automotive sector decreased by *circa* €0.3m from €2.4m in FY2015 to €2.1m in FY2016, mainly due to the disposal of the vehicle recovery and towing service which was disposed of in FY2015. Rental income from property amounted to €0.4 million in FY2016 as compared to €0.3 million a year earlier.

Profit before tax in FY2016 of €1.6 million was achieved as compared to a profit before tax of €0.6 million in FY2015, primarily due to a decrease in the Group's cost base and a dividend pay-out from an associate company. Conversely, profit on disposal of properties in FY2015 amounted to €0.3 million, as compared to €0.04 million in FY2016. Overall, profit for FY2016 amounted to €1.8 million (FY2015:

profit of €0.65 million). After accounting for movement in fair value of financial assets, total comprehensive income in FY2016 amounted to €1.8 million (FY2015: expense of €0.3 million).

In **FY2017**, the Group's total revenue decreased from €9.9 million in FY2016 to €9.4 million (-6%), whilst EBITDA decreased by €0.3 million from €1.2 million in FY2016 to €0.9 million. Revenue generated from the retail division decreased y-o-y by €0.7 million (-10%) to €6.7 million (FY2016: €7.4 million), which however was partially mitigated by an increase of €0.2 million from the automotive sector. Income from this division was higher in FY2017 mainly due to improved sales focus and a wider portfolio of brands. The core car rental & leasing business registered growth in FY2017 when compared to prior financial year. Rental income from property in FY2017 amounted to €0.4 million, a similar amount as in FY2016.

Profit before tax decreased by €0.6 million in FY2017, from €1.6 million in FY2016 to €1.0 million, primarily due to lower contribution from the retail sector. Net finance costs remained in line at €0.7 million as per FY2016. Total comprehensive income for FY2017 amounted to €1.0 million (FY2016: €1.8 million).

It is projected that Group revenue will increase by €2.3 million in **FY2018** when compared to the previous year to €11.7 million (FY2017: €9.4 million), principally in consequence of expected improvements in performance of the Group's retail stores and car rental/lease business and the opening of the new cafeteria in Pendergardens.

As a consequence, EBITDA is projected to increase y-o-y by €0.6 million (+64%) to €1.5 million. In FY2018, profit before tax is forecasted at €0.7 million (FY2017: €1.0 million) and total comprehensive income is projected to amount to €0.8 million in FY2018 (FY2017: €1.0 million).

Total capital employed (being total assets less current liabilities) by the Group as at 31 December 2017 amounted to €15.3 million (FY2016: €13.9 million) and primarily comprised:

- Property, motor vehicles and other tangible assets amounting to €4.7 million (FY2016: €3.4 million);
- GB Buildings valued at *circa* €4.7 million (FY2016: €4.7 million);
- Other immovable property (Qormi site) valued at *circa* €1.6 million acquired during the year;
- Investments in Motors Inc. Limited, Cars International Limited and Pender Ville Limited, totalling €4.3 million (FY2016: €3.9 million);
- Available-for-sale investments of €0.4 million (FY2016: €0.4 million);
- Inventories (including the property in Msida) and trade and other receivables amounting to €3.9 million (FY2016: €2.9 million); and
- Trade and other payables of €3.1 million (FY2016: €2.2 million).

Other than equity, the Group is principally financed through bank loans and debt securities, analysed as follows:

United Group Net Borrowings (€'000)	31 Dec'15 Actual	31 Dec'16 Actual	31 Dec'17 Actual	31 Dec'18 Forecast
Net Borrowings				
Bank overdrafts (net of cash balances)	1,219	469	1,119	1,578
Bank loans	290	1,433	1,316	3,296
Other loans	-	-	-	-
	1,509	1,902	2,435	4,874
Bonds				
5.3% Unsecured Bonds 2023	8,332	8,349	8,368	8,384
	8,332	8,349	8,368	8,384
Net Borrowings	9,841	10,251	10,803	13,258

The Group's bank borrowings are secured by a first general and special hypothec on the Group's property and assets, by pledges on the insurance policies of the Group companies and on trade bills. The other loans of the Group are unsecured and interest free.

The Bonds constitute the general, direct, unconditional, unsecured, unsubordinated obligations of the Group, and rank equally without any priority or preference with all other present and future unsecured and unsubordinated obligations of the Group.

Key Accounting Ratios	31 Dec'15	31 Dec'16	31 Dec'17	31 Dec'18
Gearing ratio	78%	70%	69%	70%
(Net debt/net debt and shareholders' equity)				

Source: Charts Investment Management Service Limited

Gearing (financial leverage) of the United Group has improved during the three financial years FY2015 – FY2017 from 78% to 69%. In FY2018, the Group's gearing position is expected to increase slightly due to the additional bank loan required to develop the Qormi business centre. The Group's gearing level is thereafter projected to decrease gradually through the term of the Bond as operational performance improves and cash reserves are accumulated by the Group, in line with the original bond projections.

Management does not expect any other material changes in the Group's financial position as at the end of FY2018.

Variance Analysis

United Group Income Statement	FY2017	FY2017	Variance €'000
	Actual	Forecast	
	€'000	€'000	
Revenue (incl. other income)	9,657	10,422	(765)
Direct costs and administrative expenses	(8,781)	(8,933)	152
EBITDA	876	1,489	(613)
Depreciation and amortisation	(812)	(870)	58
Share of results of associates and jointly controlled entities	378	260	118
Gain on property disposal	-	-	-
Dividends received	1,210	1,300	(90)
Fair value gains on investment properties	-	-	-
Gain on disposal of other assets	82	50	32
EBIT	1,734	2,229	(495)
Net finance costs	(734)	(912)	178
Profit before tax	1,000	1,317	(317)
Taxation	(5)	(271)	266
Profit after tax	995	1,046	(51)

As presented in the above table, the Group's revenue for FY2017 was lower than projected by €0.8 million, principally due to weaker than expected retail sales. For this reason, EBITDA was also lower than forecasted, although partially mitigated by a reduction in the Group's cost base as compared to forecasts.

In FY2017, the share of results from associates and jointly controlled entities was significantly better than forecasted due to a positive performance by the Group's associate company, which resulted in a positive variance of €0.1 million.

Dividends receivable from an associate company were lower than projected by €0.1 million.

Profit after tax for FY2017 amounted to €995,000, broadly in line with the projected amount of €1,046,000.

10. RELATED PARTY DEBT SECURITIES

United Group Limited owns 19.23% of the issued share capital of Pender Ville Limited. Through its wholly owned subsidiary, Pendergardens Developments p.l.c., Pender Ville Limited has the following outstanding debt securities listed on the Malta Stock Exchange:

Security ISIN	Amount Listed	Security Name	Currency
MT0000791203	15,000,000	5.50% Pendergardens Dev. Plc Secured Bonds 2020	EUR
MT0000791211	27,000,000	6.00% Pendergardens Dev. Plc Secured Bonds 2022	EUR

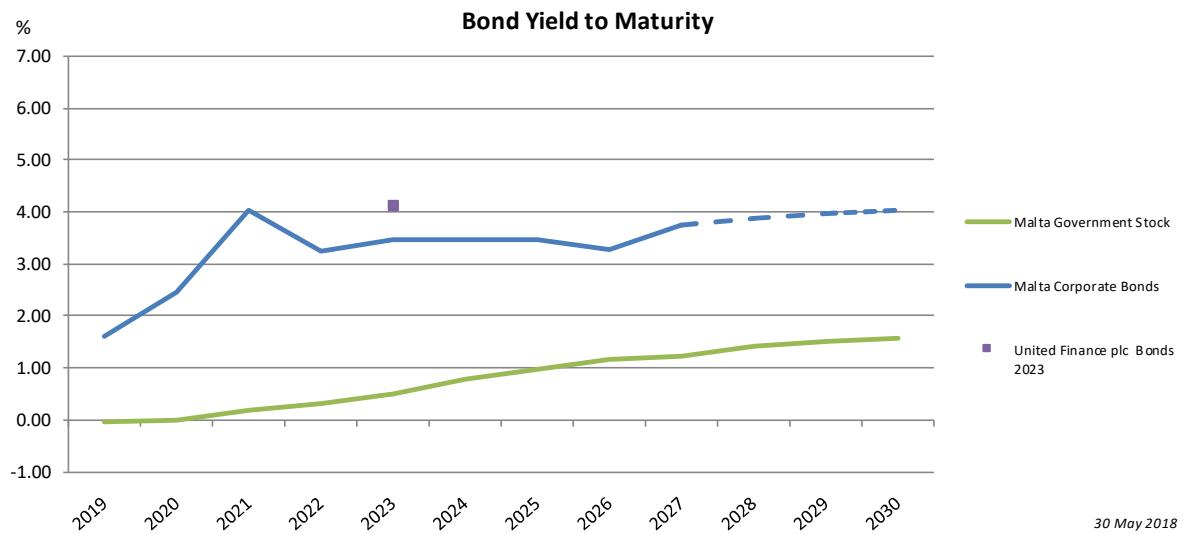
PART 3 - COMPARABLES

The table below compares the United Group and the Issuer's bond issue to other debt issuers listed on the Malta Stock Exchange and their respective debt securities. Although there are significant variances between the activities of the United Group and other issuers (including different industries, principal markets, competition, capital requirements etc.), and material differences between the risks associated with the United Group's business and that of other issuers, the comparative analysis provides an indication of the financial performance and strength of the United Group.

Comparative Analysis	Nominal Value (€)	Yield to Maturity (%)	Interest Cover (times)	Total Assets (€'000)	Net Asset Value (€'000)	Gearing Ratio (%)
5.5% Pendergardens Dev. plc Secured € 2020 Series I	15,000,000	2.44	6.29	68,589	14,418	66.04
6% Pendergardens Dev. plc Secured € 2022 Series II	27,000,000	3.23	6.29	68,589	14,418	66.04
4.25% Gap Group plc Secured € 2023	40,000,000	3.47	2.61	56,906	6,696	85.08
5.3% United Finance Plc Unsecured € Bonds 2023	8,500,000	4.14	1.19	21,625	4,844	69.04
6% AX Investments Plc Unsecured € 2024	40,000,000	3.47	4.44	286,318	173,323	26.09
5.3% Mariner Finance plc Unsecured € 2024	35,000,000	3.45	4.42	77,088	38,701	45.62
5% Hal Mann Vella Group plc Secured Bonds € 2024	30,000,000	3.74	3.05	107,801	39,813	54.01
5.1% 1923 Investments plc Unsecured € 2024	36,000,000	4.38	1.79	118,490	33,711	56.83
4.5% Hili Properties plc Unsecured € 2025	37,000,000	3.47	1.26	135,879	38,358	69.11
4.25% Corinthia Finance plc Unsecured € 2026	40,000,000	3.51	2.59	1,765,072	901,595	40.43
4.0% International Hotel Invest. plc Secured € 2026	55,000,000	3.43	3.03	1,602,317	884,632	36.36
4.0% MIDI plc Secured € 2026	50,000,000	3.28	-	235,302	86,621	39.27
3.75% Premier Capital plc € Unsecured Bonds 2026	65,000,000	3.12	7.90	161,128	47,607	57.32
4.35% Hudson Malta plc Unsecured 2026	12,000,000	3.63	39.11	17,088	5,835	30.63
4.35% SD Finance plc € Unsecured Bonds 2027	65,000,000	3.74	5.46	217,599	65,698	47.74
4.0% Eden Finance plc Unsecured 2027	40,000,000	3.46	4.46	169,936	90,162	36.52
4% Stivala Group Finance plc Secured 2027	45,000,000	3.40	6.21	199,560	121,041	31.54

30 May '18

Source: Malta Stock Exchange, Audited Accounts of Listed Companies, Charts Investment Management Service Limited



To date, there are no corporate bonds which have a redemption date beyond 2027 and therefore a trend line has been plotted (denoted in the above chart by the dashed line). The Malta Government Stock yield curve has also been included since it is the benchmark risk-free rate for Malta.

PART 4 - EXPLANATORY DEFINITIONS

Income Statement	
Revenue	Total revenue generated by the Group from its business activities during the financial year, including apparel retail, cash hire & leasing and rental income.
Direct costs	Direct costs include inventory, labour expenses and all other direct expenses.
EBITDA	EBITDA is an abbreviation for earnings before interest, tax, depreciation and amortisation. EBITDA can be used to analyse and compare profitability between companies and industries because it eliminates the effects of financing and accounting decisions.
EBIT	EBIT is an abbreviation for earnings before interest and tax.
Share of results of associates and jointly controlled entities	The United Group owns minority stakes in a number of companies (less than 50% plus one share of a company's share capital). The results of such companies are not consolidated with the subsidiaries of the Group, but the Group's share of profit is shown in the profit and loss account under the heading 'share of results of associates and jointly controlled entities'.
Profit after tax	Profit after tax is the profit made by the Group during the financial year both from its operating as well as non-operating activities.
Profitability Ratios	
Operating profit margin	Operating profit margin is operating income or EBITDA as a percentage of total revenue.
Net profit margin	Net profit margin is profit after tax achieved during the financial year expressed as a percentage of total revenue.
Efficiency Ratios	
Return on equity	Return on equity (ROE) measures the rate of return on the shareholders' equity of the owners of issued share capital, computed by dividing profit after tax by shareholders' equity.
Return on capital employed	Return on capital employed (ROCE) indicates the efficiency and profitability of a company's capital investments, estimated by dividing operating profit by capital employed.

Return on Assets	Return on assets (ROA) is computed by dividing profit after tax by total assets.
Equity Ratios	
Earnings per share	Earnings per share (EPS) is the amount of earnings per outstanding share of a company's share capital. It is computed by dividing net income available to equity shareholders by total shares outstanding as at balance sheet date.
Cash Flow Statement	
Cash flow from operating activities	Cash generated from the principal revenue-producing activities of the Group.
Cash flow from investing activities	Cash generated from activities dealing with the acquisition and disposal of long-term assets and other investments of the Group.
Cash flow from financing activities	Cash generated from the activities that result in change in share capital and borrowings of the Group.
Balance Sheet	
Non-current assets	Non-current asset are the Group's long-term investments, which full value will not be realised within the accounting year. Non-current assets are capitalised rather than expensed, meaning that the Group allocates the cost of the asset over the number of years for which the asset will be in use, instead of allocating the entire cost to the accounting year in which the asset was purchased. Such assets include investment properties; property, plant & equipment; and investments accounted for using the equity method.
Current assets	Current assets are all assets of the Group, which are realisable within one year from the balance sheet date. Such amounts include accounts receivable, inventory, and cash and bank balances.
Current liabilities	All liabilities payable by the Group within a period of one year from the balance sheet date, and include accounts payable and short-term debt.
Net debt	Borrowings before unamortised issue costs less cash and cash equivalents.
Non-current liabilities	The Group's long-term financial obligations that are not due within the present accounting year. The Group's non-current liabilities include long-term borrowings, bonds and long term lease obligations.

Total equity	Total equity includes share capital, reserves & other equity components, retained earnings and minority interest.
Financial Strength Ratios	
Liquidity ratio	The liquidity ratio (also known as current ratio) is a financial ratio that measures whether or not a company has enough resources to pay its debts over the next 12 months. It compares a company's current assets to its current liabilities.
Interest cover	The interest coverage ratio is calculated by dividing a company's EBITDA of one period by the company's interest expense of the same period.
Gearing ratio	The gearing ratio indicates the relative proportion of shareholders' equity and debt used to finance a company's assets, and is calculated by dividing a company's net debt by net debt plus shareholders' equity.