Financial Analysis Summary

24 May 2018

Issuer

Hal Mann Vella Group p.l.c.

CHARTS
WEALTH MANAGEMENT • CORPORATE BROKING

The Directors
Hal Mann Vella Group p.l.c.
The Factory
Mosta Road
Lija LJA 9016

24 May 2018

Dear Sirs

Hal Mann Vella Group 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 Hal Mann Vella Group p.l.c. (the "**Group**" or the "**Company**"). 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 the audited consolidated financial statements of the Company.

(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 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,

Evan Mohnani
Head – Corporate Finance

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PART 1 – INFORMATION ABOUT THE GROUP

1. KEY ACTIVITIES

Hal Mann Vella Group p.l.c. (the "**Company**", "**Issuer**" or the "**Group**") is the parent company of the Hal Mann Vella Group. The Group is principally engaged in the running of a diverse portfolio of business entities involved in: the supply of natural stone, manufacture of terrazzo tiles and pre-cast elements, general contracting services, property development and letting. Up to the initial half of FY2016, the Group was also involved in hotel operations and fashion retailing, which activities ceased thereafter as described in further detail below.

The Hal Mann Vella Group was established *circa* 60 years ago and at the time was solely involved in the manufacture of terrazzo tiles for the local market. During the six decades the business progressed with the launch of new products to the market, which included the manufacture of other forms of tile, such as resin tiles, and also the supply of marble, granite and natural stone.

The Group is committed to maintain a strong presence in its target markets, especially in Malta, and is therefore constantly improving its manufacturing processes through investment in the latest machinery and techniques. Moreover, the management team continues to enhance the product range on offer, including the availability of tailor-made solutions, to ensure that the Group meets its customers' demands.

The Hal Mann Vella Group owns two hotels located in Bugibba, the 66-room Mavina Hotel and the 26-room Huli Hotel, and up to Q2 FY2016 was involved in the operation thereof. With effect from 1 May 2016, the two hotels were leased to a third party for a period of 10 years. Furthermore, the Lovage restaurant, which is situated at ground floor level of the Huli Hotel, was also leased to a third party for a 10-year period as from 1 April 2016.

With effect from 1 May 2016, the Group disposed of its fashion retail business, including inventories, to a third party. The said transaction also comprised the transfer of all franchise/license agreements.

2. DIRECTORS

The Company is managed by a Board consisting of six directors entrusted with its overall direction and management. The list of Board members is detailed hereunder:

Board of Directors

Martin Vella	Chairman
Joseph Vella	Executive Director
Mark Vella	Executive Director
Miriam Schembri	Non-Executive Director
Arthur Galea Salomone	Independent Non-Executive Director
William Van Buren	Independent Non-Executive Director

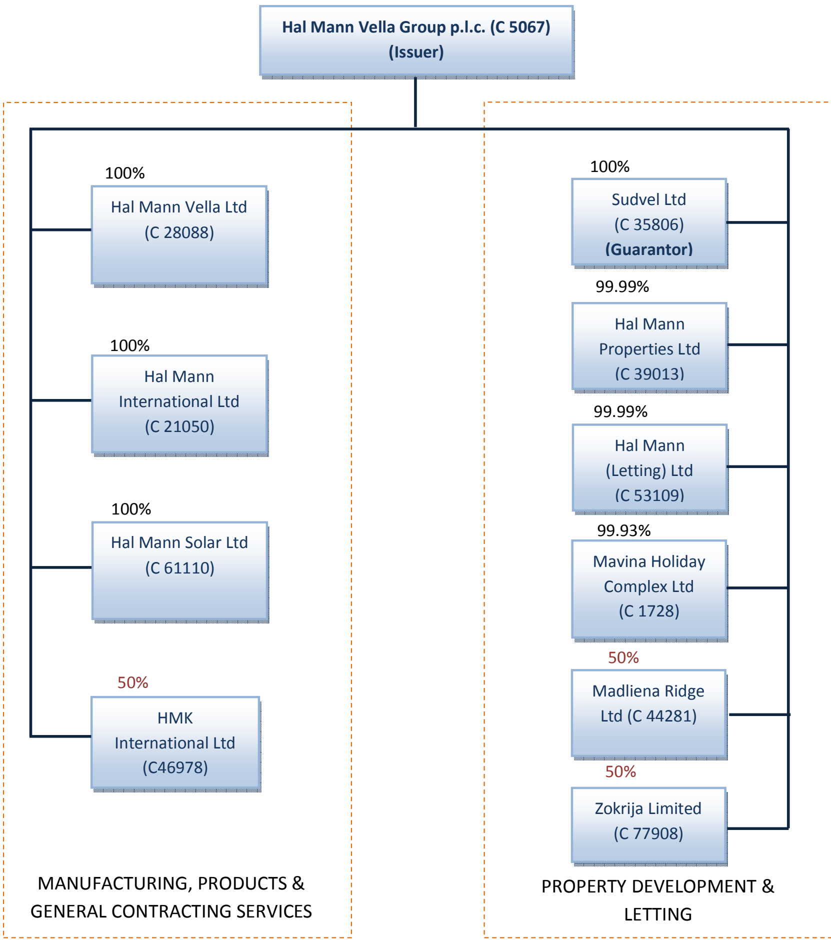
The Executive Directors of the Issuer are entrusted with the company's day-to-day management and are also directors or officers of other companies within the Hal Mann Vella Group. They are also responsible for the identification and execution of new investment opportunities and the funding of the Group's investments. The Executive Directors are supported in this role by Joseph Tabone, the Chief Executive Officer, and several consultants and benefit from the know-how gained by members and officers of the Group.

The main functions of the Non-Executive Directors are to monitor the operations of the Executive Directors and their performance, as well as to review any proposals tabled by the Executive Directors. In addition, the Non-Executive Directors have the role of acting as an important check on the possible conflicts of interest for the Executive Directors in view of their dual role as Executive Directors of the Company and their role as officers of the Hal Mann Vella Group.

3. GROUP OPERATIONAL DEVELOPMENT

3.1 Organisational Structure

As the holding company of the Group, the Company is ultimately dependent upon the operations and performance of the Group's operating companies. The organisational structure of the Group as at 31 December 2017 is illustrated in the diagram below:



Hal Mann Vella Group p.l.c. (formerly Hal Mann Velsud Group Ltd) is the parent company of the Hal Mann Vella Group and is primarily focused on establishing and monitoring strategic direction, and development of the Group.

On 14 April 2015, Hal Mann Industries Ltd (C 8028) and Hal Mann Services Ltd (C 51196) were merged with Hal Mann International Ltd (C 21050) and Hal Mann Vella Ltd (C 28088) respectively, and as such their names were struck off from the register of companies. During 2015, an apartment at Tas-Sellum was transferred from Vinmar Ltd (C 51195) to Sudvel Ltd (C 35806), and subsequently on 30 March 2015 the former company was merged with the Issuer. In the same period, the Issuer increased its shareholding in Hal Mann Solar Ltd (C 61110) from 50% to 100%. This company operates a PV solar plant that generates *circa* 440KW per annum. Late in 2016 another installation of *circa* 400 KW per annum was installed over the Hal Far factory and a 3rd installation was done during the second half of 2017 over the E-pantar development. Furthermore, a reorganisation of the Group was undertaken in order for the Issuer to become the direct holder of shares in each of the Group companies.

Zokrija Limited is a newly incorporated company between the Group and a third party, each owning 50% of the issued share capital. The company owns a site in the Zokrija area, Mosta, which is earmarked for the development of 39 units and underlying garages. Planning authority permit for this project has been issued and excavation is scheduled to commence during the current financial year. The company will be financing the development works through a bank loan.

During FY2017, the Group liquidated MAC Investments Ltd and SMG Mode Ltd was struck off following a merger with Hal Mann Vella Ltd. It is also the intention of the Group to liquidate Madliena Ridge Ltd during FY2018.

In addition to the companies highlighted in the above organisational structure, the Issuer has a 50% equity shareholding in Hal Mann Holdings Ltd and a 20% shareholding in Hal Mann Projects Limited. The said companies have ceased operations and will be liquidated in due course. As a result, Hal Mann Holdings Ltd and Hal Mann Projects Limited have not been included in the organisational structure.

3.2 Overview of the Principal Business Segments

The Hal Mann Vella Group is organised into two distinct business units – manufacturing, products & general contracting services and property development & letting - as detailed hereunder. Prior to 1 May 2016, the Group was also involved in hospitality and apparel retail.

3.2.1 Manufacturing, products & general contracting services

The Group companies forming part of this segment are primarily responsible for: (i) the manufacture of tiles and pre-cast elements; (ii) importation of marble, granite and natural stone; and (iii) tendering for contracts primarily in Malta.

Raw materials are the basic material from which products are manufactured or made. The Hal Mann Vella factory stocks more than 100 natural stones sourced from around the world and include: marble, granite, travertine & onyx, hard stone, composite stone and terrazzo & terrazzo pre-cast elements.

Marble – Just like limestone and sandstone, marble has many uses. It is particularly suitable for kitchens and bathrooms, but is also used for flooring, cladding and vanity tops.

Granite – Its hardness makes it virtually maintenance free and unlike other solid surfaces granite does not scratch or stain. It is applicable for cladding, flooring, paving and work surfaces.

Travertine & Onyx – Travertine is a stone which has an uneven surface, since in its natural state it is typically full of gas bubbles. As a result, when it is manufactured as tiles or slabs, travertine is generally filled with cement and polished or honed. Onyx, like travertine, is a type of stone. It is a very soft stone and is characterised by its translucence.

Hard stone – The Hal Mann Vella Group are quarry operators for Maltese hard stone, which can be applied for cladding, masonry, flooring, paving and work surfaces. This type of stone was used by Architect Renzo Piano for the City Gate Project in Valletta, Malta.

Composite stone – Quartz composite is a manmade stone which is produced by mixing natural quartz crystals and resin, thereby forming very hard, low porosity slabs. This stone is very durable and is typically used for any indoor surfacing application such as in kitchens and bathrooms, and for flooring purposes.

Terrazzo – This is the name given to the process of producing tiles, or pre-cast elements (staircases, risers, pool copings, vanity tops, covings, amongst others), from a cement based marble/granite aggregate mix. The Group uses high performance cements with special additives, combined with graded marble and granite aggregates. The main applications for terrazzo include public areas (such as airports, hospitals, schools, supermarkets and hotels) and private residences.

Complementing the manufacturing operations detailed above, the Group provides general contracting services to both corporate and private clients, and include carpentry, building services, tiling and metalwork.

3.2.2 Property development & letting

Hal Mann Properties Ltd is a company set up to acquire property and engage in property development. Between 2008 and 2011, the company developed the Northport Apartments situated in Xemxija, Malta comprising 2 penthouses, 8 apartments and 13 garages. To date, all units have been sold. In 2017, a villa in Santa Marija Estate was sold to third parties and presently, the company's portfolio of immovable property includes a number of garages and a villa situated in Madliena. Furthermore, the company owns 2 plots of land situated in Mgarr and Zebbiegh, which are currently being developed. On completion, Phase I of the Mgarr site will comprise 4 units and underlying garages, whilst the Zebbiegh site will include 11 units and underlying garages.

Hal Mann (Letting) Limited owns a block of 12 apartments and 12 car park spaces, known as Spinola Residence. The property is situated in Spinola Road, St Julians Malta. All apartments are currently leased to third parties. It was decided to change the rental model from long term leases to short term leases, so as to exploit the intrinsic potential of the property's location on Spinola Road. In the latter part of 2017 the Company leased a boutique hotel in Valletta ('Merchant Suites'), which has been sub-leased as from the beginning of 2018.

Sudvel Limited owns a property (known as 'E-Pantar') having a footprint of *circa* 5,200m^2 and is located within the premises of Hal Mann Vella Group. Development of an office block on the said site commenced in Q4 2015 and was completed (in a finished state) in Q3 2017 at a cost of €13 million. The property includes *circa* 14,000m^2 of office space and a further 5,000m^2 of common areas and external space, and as at 31 December 2017, its carrying value in the statement of financial position amounted to €23.2 million. The E-Pantar building has been leased to Transport Malta for a period of 10 years as from Q3 2017.

The company also owns 50% of a warehouse complex (known as 'NAVI Building') having a footprint of *circa* 1,200m^2 and situated in Pantar Road, Lija. The said property is leased to third parties. Furthermore, Sudvel Limited owns 50% of a quarry located in the Limits of Naxxar measuring *circa* 12,000m^2 (which is currently subject to a promise of sale agreement) and a parcel of land measuring *circa* 17,000m^2 situated in Lija. The value of said sites as at 31 December 2017 amounted to €3.05 million and €0.38 million respectively. The company also owns an apartment and a lock-up garage situated at Tas-Sellum, Mellieha, Malta.

In 2015, the Group developed a property known as 'Central Buildings Block A', situated behind the Hal Mann Vella Group showroom. The property comprises a rentable area of *circa* 1,400m^2 spread on three floors. The Central Buildings Block A has been leased to third parties as office space.

The Group holds a 50% shareholding in Madliena Ridge Ltd, a company incorporated to develop 20 villas on the site known as Madliena Ridge in Madliena, Malta. Development of the villas was undertaken between 2011 and 2015, and all properties were sold by end FY2016. As a consequence, it is intended to liquidate the entity in due course. The last villa was taken over by the Group in settlement of shareholders' advancement throughout the years.

Mavina Holiday Complex Ltd is the owner of two hotels, the Mavina Hotel and the Huli Hotel, situated in Bugibba, Malta. Both properties were acquired by the Group in 1999. The former hotel consists of 66 rooms ranging from studio to two-bedroom units. The Mavina Hotel has a swimming pool and a sun terrace. Other facilities include a bar, restaurant and a pizzeria. The Huli Hotel comprises of 26 self-catering one-bedroom and studio apartments, and facilities include a rooftop pool and a restaurant at ground level (known as 'Lovage'). The two hotels are located a few minutes away from the Bugibba seafront promenade.

With effect from 1 May 2016, the Group ceased operating the above-mentioned two hotels and leased the properties to a third party for a period of 10 years. As part of the agreement, the lessee undertook the refurbishment of the said properties. The Lovage restaurant was leased for 10 years to a third party as from 1 April 2016.

3.2.3 Apparel

With effect from 1 May 2016, the Group disposed of its fashion retail business, including inventories, to a third party. The said transaction also comprised the transfer of all franchise/license agreements.

3.3 Business Development Strategy

In order to maintain its competitive edge in the market, the Group's management reviews operation methodologies and performance on an on-going basis, monitors developments in the industry and ensures that it maintains excellent relations with its clients.

The Hal Mann Vella Group's strategy for the foreseeable future is to continue to develop its assets with a view to realising and maximising its financial potential. The key elements of the Group's strategy are detailed below.

3.3.1 Factory modernisation and showroom expansion

Since 2014, the Group has implemented various measures to improve operational efficiencies relating to manufacturing and increase capacity, mitigate rising costs and reduce lead time.

As such, the Group has executed a complete modernisation of the Lija factory, comprising the acquisition of modern machinery and equipment for the production of stone, marble and other similar products. Works commenced shortly after the Bond Issue in 2014 and were completed in FY2017.

The Lija factory has been designed to enable a re-organisation of processes, to introduce the latest technology in flexible mechanical and electrical systems and to meet international standards. The purpose built open plan factory floor should result in a more efficient utilisation of space which will release, for alternative use, part of the area occupied by the current factory.

Furthermore, in 2015, the Group leased a factory in Hal Far from the Malta Enterprise measuring 14,000 square metres for a period of 65 years. The scope for acquiring this factory was to venture in new related business, ease the operational flow at the Lija factory and to have sufficient capacity to consider new projects as and when they arise. As a consequence, additional costs were incurred to develop and deploy this factory.

In coordination with the modernisation of the manufacturing operations, the Group undertook to expand its showroom space by *circa* 20% so as to accommodate the increase in product lines. In addition, complimentary third party products are being introduced to enable the Group to provide customers complete flooring and cladding solutions (including ceramics and parquet).

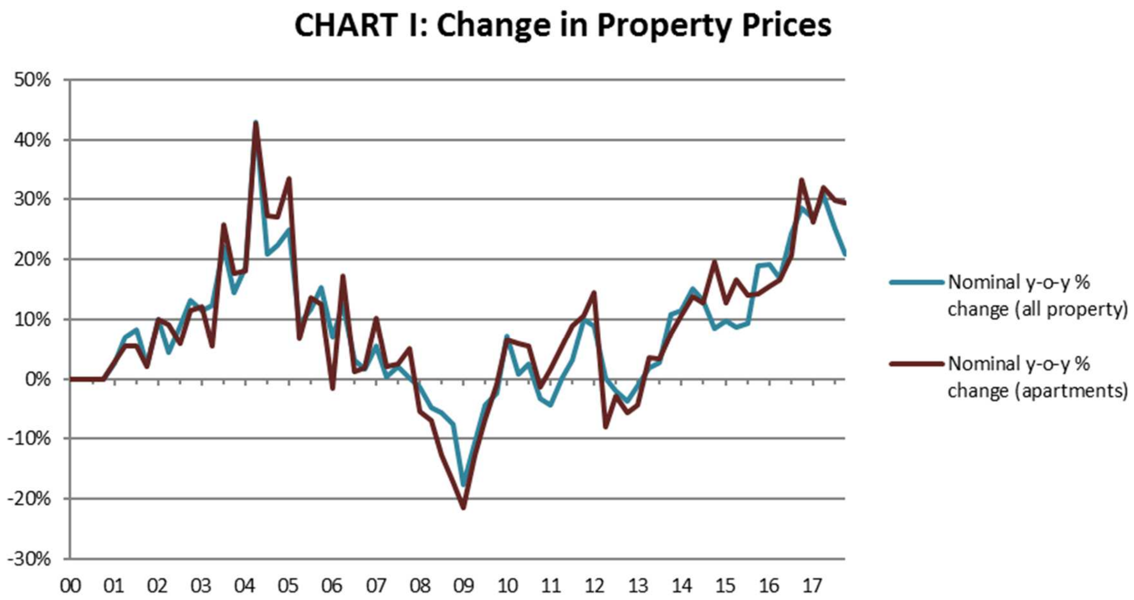
The Directors believe that with the modernisation of the Lija factory and the leasing of the Hal Far factory, the Group is in a better position to increase production throughout, improve the quality of products, enhance its line-up of available products and reduce overall cost of production.

3.4 Market Overview

The manufacturing, products & general contracting services and property development & letting segments of the Group are directly correlated to the property market in Malta.

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. Residential property prices are being supported by a number of factors, including the Government's scheme for first-time buyers and a low interest rate environment which makes property a more attractive asset. Buoyant labour market conditions and strong growth in disposable income, together with the rise in foreign workers and, to a lesser extent, the Individual Investor Programme, also continue to lift property prices. At the same time, the strong growth in residential permits recorded in recent quarters should take off some of the upward pressure on house prices, as new construction activity counters excess demand for property.

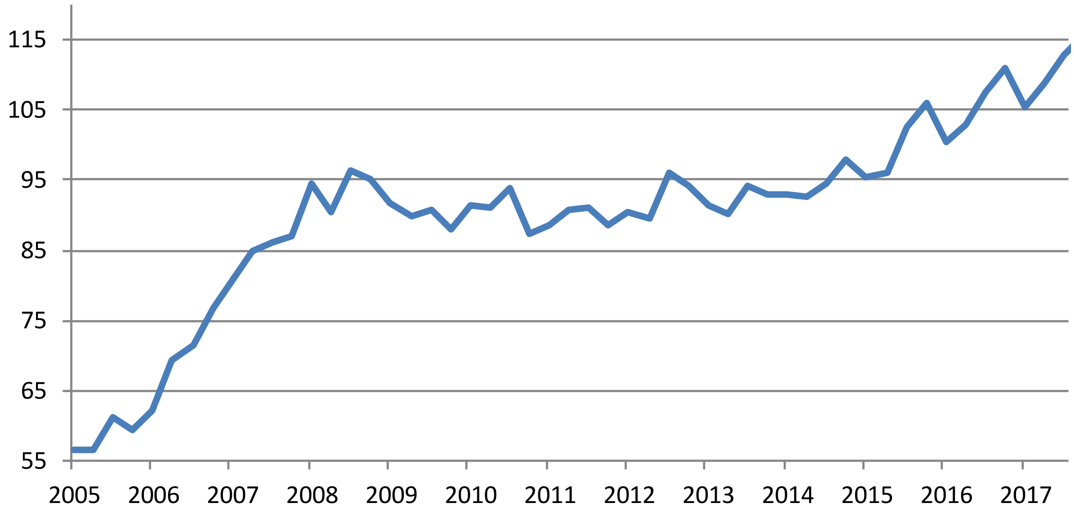
The Central Bank of Malta's advertised property price index shows that house prices rose at an annual rate of 8.8% in the last quarter of 2017. Prices of apartments – the major component – continued to grow strongly in Q4 2017 at 7.6% over the previous quarter (such data mainly provides trend information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



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).

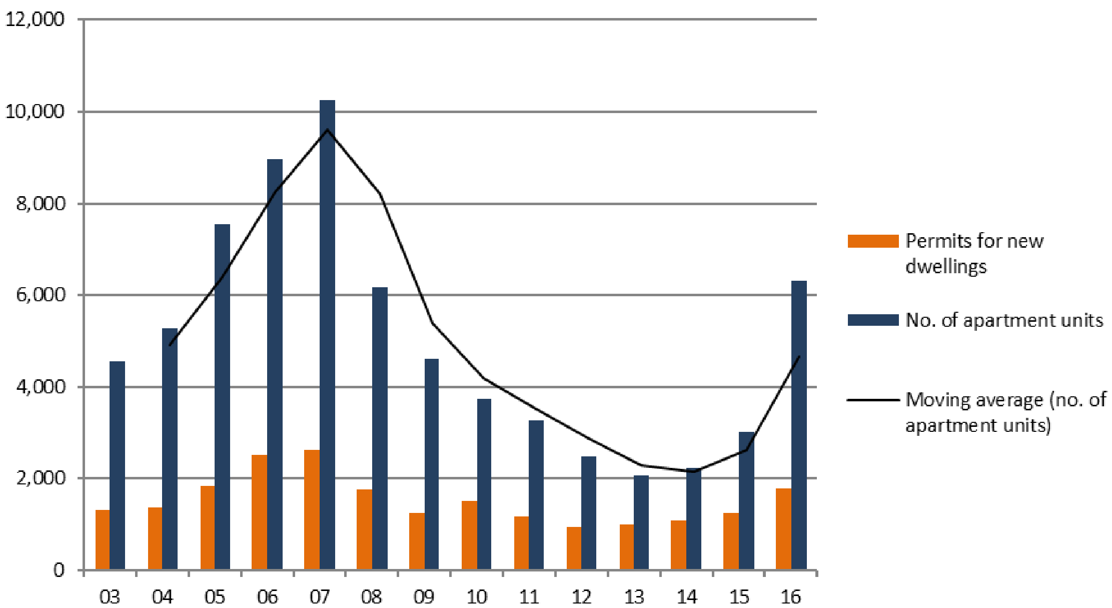
CHART II: Malta House Price Index



Source: Eurostat

With regard to the number of permits, Planning Authority issued 7,508 permits during 2016 (statistics for 2017 have yet to be published), just over 90% more than in 2015. 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.

Tourism Property

The Group’s performance is also affected by the tourism sector, which has been performing at a strong level in the last few years. This upward trend has increased the demands on Malta’s infrastructure and encouraged a number of hotel owners to upgrade and refurbish their properties. Furthermore, the country has experienced an increase in new hotels, including the development of a number of boutique hotels in the capital city. Such projects tend to generate more demand for the Group’s products and services, and undoubtedly have a direct positive impact on the Group’s business performance.

3.5 Major Assets

The Hal Mann Vella Group is the owner of a number of properties which are included in the consolidated balance sheet under the headings: 'property, plant & equipment', 'investment property', and 'property for resale'. The following is a list of major assets owned by the Group:

Major Assets	**FY2015 €'000**	**FY2016 €'000**	**FY2017 €'000**
Hal Mann factory, plant & machinery and adjacent buildings	29,121	30,443	34,092
50% of Warehouse Complex (known as 'NAVI Building')	2,000	1,840	1,840
Commercial building currently under construction (known as 'E-Pantar') (5,200m^2)	5,538	7,500	23,232
50% shareholding in quarry in Naxxar (12,000m^2)	3,057	3,057	3,057
Site in Lija (17,000m^2)	380	387	387
Property in Madliena	-	1,080	2,500
Mavina and Huli hotels	3,817	6,350	6,361
Spinola apartments	2,327	2,900	2,900
Solar panels	470	1,043	1,322
Northport apartments	706	-	-
Apartment and garage at tas-Sellum	462	650	650
Other assets	4,068	5,514	4,989
	51,946	**60,764**	**81,330**

Source: Consolidated audited financial statements of Hal Mann Vella Group p.l.c. 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 Company 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.

The following financial information is extracted from the audited consolidated financial statements of Hal Mann Vella Group p.l.c. (the "**Company**") for the three years ended 31 December 2015 to 2017. The forecast financial information for the year ending 31 December 2018 has been provided by the Company.

Hal Mann Vella Group Income Statement for the year ended 31 December	**2015 Actual €'000**	**2016 Actual €'000**	**2017 Actual €'000**	**2018 Forecast €'000**
Revenue	11,909	11,648	19,708	27,988
Manufacturing, products & contracting services	10,937	9,718	17,033	17,498
Property development & letting	678	1,765	2,675	10,489
Hotel operations & fashion retail	294	165	-	-
Net operating expenses	(11,307)	(11,678)	(15,298)	(22,512)
EBITDA	**602**	**(30)**	**4,410**	**5,476**
Depreciation & amortisation	(638)	(628)	(696)	(703)
Inventory and fixed assets write offs	-	(3,318)	-	-
Change in fair value of investments & property	(112)	4,271	4,407	940
Profit /(loss) on sale of financial assets	600	(1,083)	-	-
Share of results of joint ventures	(10)	(261)	(254)	150
Other	461	-	-	-
Net finance costs	(1,235)	(1,353)	(1,446)	(2,240)
Profit / (loss) before tax	**(332)**	**(2,402)**	**6,422**	**3,623**
Taxation	1,961	1,622	(1,800)	(1,135)
Profit / (loss) after tax (continuing operations)	**1,629**	**(780)**	**4,622**	**2,488**
Loss after tax from discontinued operations	(296)	(266)	-	**-**
Profit / (loss) after tax	**1,333**	**(1,046)**	**4,622**	**2,488**
Other comprehensive income:				
Revaluation surplus on property, plant & equipment	-	1,880	2,872	**-**
Other comprehensive income	(265)	265	10	-
Total comprehensive income	**1,068**	**1,099**	**7,503**	**2,488**

Hal Mann Vella Group Balance Sheet as at 31 December	2015 Actual €'000	2016 Actual €'000	2017 Actual €'000	2018 Forecast €'000
ASSETS				
Non-current assets				
Intangible assets	102	63	63	-
Investment properties	13,302	26,139	44,442	47,442
Property, plant and equipment	34,038	28,561	32,490	35,469
Investments in joint ventures	2,577	2,316	1,715	2,226
Financial assets	6,575	1,033	836	221
Trade and other receivables	-	690	-	-
Deferred taxation	2,209	4,112	3,972	3,276
	58,803	62,914	83,519	88,634
Current assets				
Inventories	6,154	3,005	3,517	3,487
Property for resale	4,606	6,064	4,398	3,557
Trade and other receivables	10,853	9,720	15,670	13,327
Other assets	164	136	105	-
Cash and cash equivalents	1,311	256	592	1,074
	23,088	19,181	24,282	21,445
Total assets	**81,891**	**82,095**	**107,801**	**110,079**
EQUITY				
Equity and reserves				
Called up share capital	5,000	5,000	5,000	5,000
Other reserves	19,680	25,975	31,853	32,562
Retained earnings	6,520	1,323	2,961	4,739
	31,200	**32,298**	**39,813**	**42,302**
LIABILITIES				
Non-current liabilities				
Borrowings and bonds	38,924	38,432	43,049	47,395
Other non-current liabilities	3,912	4,088	5,548	5,563
	42,836	42,520	48,597	52,959
Current liabilities				
Borrowings and bonds	1,177	579	4,297	2,851
Other current liabilities	6,678	6,698	15,094	11,968
	7,855	7,277	19,391	14,819
	50,691	**49,797**	**67,987**	**67,777**
Total equity and liabilities	**81,891**	**82,095**	**107,801**	**110,079**

Hal Mann Vella Group Cash Flow Statement for the year ended 31 December	2015 Actual €'000	2016 Actual €'000	2017 Actual €'000	2018 Forecast €'000
Net cash from operating activities	(1,275)	(1,818)	5,092	2,635
Net cash from investing activities	519	3,623	(12,819)	1,533
Net cash from financing activities	865	(2,610)	6,629	(3,806)
Net movement in cash and cash equivalents	**109**	**(805)**	**(1,098)**	**362**
Cash and cash equivalents at beginning of year	577	686	(125)	(1,223)
Cash and cash equivalents at end of year	**686**	**(119)**	**(1,223)**	**(861)**

Key Accounting Ratios	FY2015	FY2016	FY2017	FY2018
Operating profit margin *(EBITDA/revenue)*	5%	0%	22%	20%
Interest cover (times) *(EBITDA/net finance cost)*	0.49	-0.02	3.05	2.44
Net profit margin *(Profit after tax/revenue)*	11%	-9%	23%	9%
Earnings per share (€) *(Profit after tax/number of shares)*	0.27	-0.21	0.92	0.50
Return on equity *(Profit after tax/shareholders' equity)*	4%	-3%	12%	6%
Return on capital employed *(Operating profit/total assets less current liabilities)*	1%	0%	5%	6%
Return on assets *(Profit after tax/total assets)*	2%	-1%	4%	2%

Source: Charts Investment Management Service Limited

Revenue for **FY2015** amounted to €11.9 million as compared to €12.3 million generated in FY2014. The decline of €0.4 million was attributable to a decrease in revenue from property development & letting and hotel operations, as income from manufacturing, products & contracting services remained stable at *circa* €11.0 million.

In FY2015, the Hal Mann Vella Group generated an EBITDA of €0.6 million, which was similar to FY2014's EBITDA. During the reviewed year, the renovation programme at the factory, which commenced in FY2014, proceeded as planned. Although the upgrades were being implemented in phases to minimise the impact on operations, the execution thereof adversely affected work flows and created temporary inefficiencies, which resulted in an increase in operating costs. Moreover, additional costs were incurred in relation to the development and deployment of the Hal Far factory.

The Group incurred a loss before tax from continuing operations of €0.3 million in FY2015, after accounting for dividends receivable and profit on sale of financial assets totalling €1.1 million (FY2014: nil) and net finance costs of €1.2 million (FY2014: €1.1 million). In comparison, the Group registered a profit before tax in FY2014 of €2.1 million, primarily due to an uplift in fair value of investments & property of €2.9 million. Total comprehensive income for FY2015 amounted to €1.1 million as compared to €2.0 million reported in FY2014.

The Group's revenue in **FY2016** decreased by €0.3 million from €11.9 million in FY2015 to €11.6 million. Revenue generated from manufacturing, products & contracting services decreased by €1.2 million (-11%, y-o-y) to €9.7 million, primarily due to a decline in large scale projects and production delays caused as a result of the afore-mentioned transition to factory optimisation levels and revised workflows. In contrast, revenue from property development & letting increased substantially from €0.7 million in FY2015 to €1.9 million in FY2016 (+€1.2 million, y-o-y). During the reviewed year, the Group sold various properties totalling €1.3 million (including a number of apartments and garages in Xemxjia and Attard). Rental income for the year amounted to €0.5 million (FY2015: €0.2 million).

EBITDA in FY2016 amounted to -€0.03 million (FY2015: €0.6 million) as a consequence of a decrease in revenue (as stated above) of €0.3 million and a y-o-y increase in net operating expenses of €0.4 million. Net operating expenses in FY2016 were impacted by one-off items: a provision for works-in-progress and a provision for bad debts amounting to €1.1 million.

Following the renovation explained elsewhere in the document and a revamp of product offerings, management decided to write-off certain inventories amounting to €3.3 million in FY2016. Moreover, a loss on sale of financial assets of €1.1 million was released during the same year. On the other hand, an uplift of €4.3 million in fair value of investments & property was registered in the income statement. After taking into account depreciation of €0.6 million, share of losses from joint ventures of €0.3 million and net finance costs of €1.4 million, the Group incurred a loss before tax from continuing operations of €2.4 million (FY2015: loss of €0.3 million). Total comprehensive income for FY2016 amounted to €1.1 million (FY2015: €1.1 million) and was positively impacted by a tax credit of €1.6 million and a revaluation surplus on property, plant & equipment of €1.9 million. Loss after tax from discontinued operations amounted to €0.3 million (FY2015: €0.3 million).

Revenue in **FY2017** increased by €8.1 million from €11.6 million in FY2016 to €19.7 million. Revenue generated from manufacturing, products & contracting services increased substantially by €7.3 million (+75.3%, y-o-y) to €17.0 million, primarily due to an increase in private residential projects and large scale projects. Moreover, the completion of the transition to factory optimisation levels and revised workflows has drastically reduced inefficiencies and delays, and consequently contributed to this year's revenue growth.

Revenue from property development & letting also increased from €1.8 million in FY2016 to €2.7 million in FY2017 (+€0.9 million, y-o-y). During the reviewed year, the Group sold various properties totalling €1.5 million (including a number of apartments and garages in Xemxjia and Attard). Rental income for the year amounted to €1.2 million (FY2016: €0.5 million).

The increase in revenue of €8.1 million (as stated above) resulted in a substantial turnaround at EBITDA level, as the Group registered an EBITDA of €4.4 million (FY2016: -€0.03 million).

An uplift of €4.4 million in fair value of investments & property was registered in FY2017, and after taking into account depreciation of €0.7 million, share of losses from joint ventures of €0.3 million and net finance costs of €1.4 million, the Group registered a profit before tax from continuing operations of €6.4 million (FY2016: loss of €2.4 million). Total comprehensive income for FY2017 amounted to €7.5 million (FY2016: €1.1 million) after registering a tax expense of €1.8 million in FY2017 (FY2016: tax credit of €1.6 million) and a revaluation surplus on property, plant & equipment of €2.9 million.

In **FY2018**, the Group is projecting a material improvement in revenue of €8.3 million, from €19.7 million in FY2017 to €28.0 million. Income from manufacturing, products & contracting services is expected to marginally increase by 2.7% (€0.5 million, y-o-y) to €17.5 million, while revenue from property development & letting is expected to increase substantially by €7.8 million (+292.1%) as a consequence of a projected increase in property sales and growth in rental income, particularly from E-Pantar Building and Merchant Suites. The Group is forecasting an EBITDA of €5.5 million in FY2018 and profit after tax of €2.5 million.

Principal movements in the balance sheet relate to the investment properties and property, plant & equipment, which are expected to increase in aggregate by €6.0 million from €76.9 million as at 31 December 2017 to €82.9 million as at 31 December 2018. On the liabilities side, borrowings and other non-current liabilities are projected to increase from €52.9 million as at 31 December 2017 to €55.8 million as at 31 December 2018.

Borrowings of the Group are analysed hereunder:

Hal Mann Vella Group Borrowings as at 31 December	**2015 Actual €'000**	**2016 Actual €'000**	**2017 Actual €'000**	**2018 Forecast €'000**
Bank borrowings				
Hal Mann Properties Ltd	264	-	569	1,967
Sudvel	-	-	5,968	5,460
SMG Mode Ltd	295	-	-	-
Hal Mann (Letting) Ltd	1,374	1,232	1,120	3,044
Hal Mann Solar	513	1,058	990	1,390
Bank overdrafts	625	375	1,815	1,935
Bank borrowings	**3,071**	**2,665**	**10,461**	**13,797**
Bonds				
5% Secured Bonds 2024	29,434	29,486	29,540	29,598
	29,434	**29,486**	**29,540**	**29,598**
Other borrowings				
Shareholders' Loans	2,167	3,065	3,582	3,582
Amounts due to Joint Ventures	-	-	1,267	1,267
Amounts due to related parties	5,430	3,796	2,495	2,002
(unsecured, interest free and no fixed date repayment)				
	7,597	**6,861**	**7,344**	**6,851**
Total borrowings and bonds	**40,102**	**39,011**	**47,346**	**50,246**

Key Accounting Ratios	**31 Dec'15**	**31 Dec'16**	**31 Dec'17**	**31 Dec'18**
Net assets per share (€) *(Net asset value/number of shares)*	6.24	6.46	7.96	8.46
Liquidity ratio (times) *(Current assets/current liabilities)*	2.94	2.64	1.25	1.45
Gearing ratio *(Net debt/net debt and shareholders' equity)*	55%	55%	54%	54%

Source: Charts Investment Management Service Limited

Variance Analysis

Hal Mann Vella Group Income Statement for the year ended 31 December	**2017 Actual €'000**	**2017 Forecast €'000**	**Variance €'000**
Revenue	19,708	21,326	(1,618)
Manufacturing, products & contracting services	17,033	14,576	2,457
Property development & letting	2,675	6,750	(4,075)
Net operating expenses	(15,298)	(18,210)	2,912
EBITDA	**4,410**	**3,116**	**1,294**
Depreciation & amortisation	(696)	(630)	(66)
Inventory and fixed assets write offs	-	-	-
Change in fair value of investments & property	4,407	(65)	4,472
Profit on sale of financial assets	-	-	-
Share of results of joint ventures	(254)	325	(579)
Other	-	-	-
Net finance costs	(1,446)	(2,118)	672
Profit before tax	**6,422**	**628**	**5,794**
Taxation	(1,800)	(358)	(1,442)
Profit after tax	**4,622**	**270**	**4,352**
Loss after tax from discontinued operations	-	-	-
Revaluation surplus on PP&E	2,872	-	2,872
Other comprehensive income	10	-	10
Total comprehensive income	**7,503**	**270**	**7,233**

As presented in the above table, revenue generated by the Group in FY2017 was lower than expected by €1.6 million, mainly due to an underperformance in property development & letting of €4.1 million, which was partly offset by a better than expected performance in manufacturing, products and contracting services of €2.5 million. EBITDA amounted to €4.4 million as compared to the expected amount of €3.1 million, an increase of €1.3 million. This was due to lower than expected net operating expenses incurred during the year of €2.9 million. Actual movement in fair value of investments & property was accounted for in the income statement as to €4.4 million and in comprehensive income as to €2.9 million (forecast fair value movement amounted to -€0.07 million and was accounted for in the income statement).

Depreciation was higher than forecasted by €0.07 million and the variance between actual and forecast in relation to share of losses of joint ventures amounted to -€0.6 million. Overall, the Group's actual comprehensive income amounted to €7.5 million, which was higher by €7.2 million when compared to the forecast amount of €0.3 million.

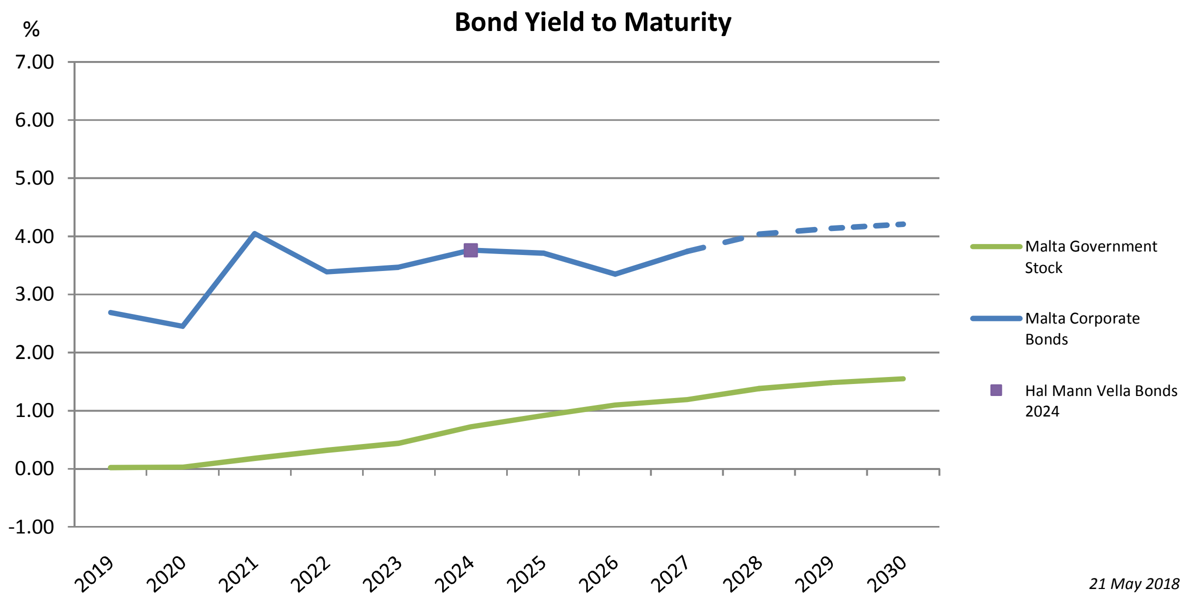
PART 3 - COMPARABLES

The table below compares the Company and its 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 Company and other issuers (including different industries, principal markets, competition, capital requirements etc), and material differences between the risks associated with the Company's business and that of other issuers, the comparative analysis provides an indication of the financial performance and strength of the Company.

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	15,000,000	2.45	6.29	68,589	14,418	66.04
6% Pendergardens Dev. plc Secured € 2022 Series I	27,000,000	3.39	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	4.15	2.05	18,153	3,796	73.85
6% AX Investments Plc Unsecured € 2024	40,000,000	3.75	4.44	286,318	173,323	26.09
5.3% Mariner Finance plc Unsecured € 2024	35,000,000	3.46	4.42	77,088	38,701	45.62
5% Hal Mann Vella Group plc Secured Bonds € 2024	**30,000,000**	**3.76**	**3.05**	**107,801**	**39,813**	**54.01**
5.1% 1923 Investments plc Unsecured € 2024	36,000,000	4.40	1.79	118,490	33,711	56.83
4.5% Hili Properties plc Unsecured € 2025	37,000,000	3.71	1.26	135,879	38,358	69.11
4.25% Corinthia Finance plc Unsecured € 2026	40,000,000	3.70	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	3.35	- 0.98	235,302	86,621	39.27
3.75% Premier Capital plc € Unsecured Bonds 2026	65,000,000	3.20	7.90	161,128	47,607	57.32
4.35% Hudson Malta plc Unsecured 2026	12,000,000	3.84	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	3.50	4.46	169,936	90,162	36.52
4% Stivala Group Finance plc Secured 2027	45,000,000	3.43	6.21	199,560	121,041	31.54

21 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 manufacturing, products & general contracting services and property development & letting.
Net operating expenses	Net operating expenses include the cost of raw materials, labour expenses, inventory 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.
Share of results of joint ventures	The Hal Mann Vella 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 joint ventures'.
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 Company.
Cash flow from investing activities	Cash generated from the activities dealing with the acquisition and disposal of long-term assets and other investments of the Company.
Cash flow from financing activities	Cash generated from the activities that result in change in share capital and borrowings of the Company.
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, and 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 inventory, accounts receivable, 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 bank borrowings and bonds.
Total equity	Total equity includes share capital, reserves & other equity components, and retained earnings.
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.