

UNITED FINANCE P.L.C.

Annual Report and Financial Statements  
31 December 2015

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## **Directors' report**

The directors present the audited financial statements for the year ended 31 December 2015.

### **Principal activities**

The principal activity of the Company is to act as a finance company for the United Group of Companies (United Group), of which the Company is a member, principally by advancing amounts on loan to other group companies for investments and working capital requirements. The Company also holds investment property which it leases out to related and non-related parties.

### **Review of the business**

During the year under review, the Company registered a profit before taxation amounting to €215,272 (2014: €110,814 loss), after allowing for taxation, the profit for the year amounted to €291,931 (2014: €110,814 loss).

The directors expect that the Company will sustain positive results in the foreseeable future.

### **Results**

The financial results are set out in the income statement on page 12.

### **Directors**

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

Carmen Gatt Baldacchino (Chairperson)  
Edmund Gatt Baldacchino (Chief Executive Officer)  
Simon Gatt Baldacchino  
James Bonello  
Joseph F. X. Zahra

The Company's Articles of Association do not require any director to retire.

### **Statement of directors' responsibilities for the financial statements**

The directors are required by the Companies Act, 1995 to prepare financial statements which give a true and fair view of the state of affairs of the Company as at the end of each reporting period and of the profit or loss for that period.

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

- ensuring that the financial statements have been drawn up in accordance with International Financial Reporting Standards as adopted by the EU;

## **Directors' report** - continued

### **Statement of directors' responsibilities for the financial statements** – continued

- selecting and applying appropriate accounting policies;
- making accounting estimates that are reasonable in the circumstances;
- ensuring that the financial statements are prepared on the going concern basis unless it is inappropriate to presume that the Company will continue in business as a going concern.

The directors are also responsible for designing, implementing and maintaining internal control relevant to the preparation and the fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error, and that comply with the Companies Act, 1995. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The financial statements of United Finance p.l.c. for the year ended 31 December 2015 are included in the Annual Report 2015, which is published in hard-copy printed form and may be made available on the Company's website. The directors are responsible for the maintenance and integrity of the Annual Report on the website in view of their responsibility for the controls over, and the security of, the website. Access to information published on the Company's website is available in other countries and jurisdictions, where legislation governing the preparation and dissemination of financial statements may differ from requirements or practice in Malta.

### **Auditors**

PricewaterhouseCoopers have indicated their willingness to continue in office and a resolution for their re-appointment will be proposed at the Annual General Meeting.

### **Disclosure in terms of the Listing Rules**

#### **Going concern statement pursuant to Listing Rule 5.62**

After making enquiries and having taken into consideration the future plans of the Group (note 1.1), the directors have reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in the preparation of the financial statements.

#### **Principal risks and uncertainties faced by the Company**

The Company's main objective, as a finance company for the United Group, is to effectively and efficiently manage the financing requirements of the Group's working capital. In this context, the Company's trading prospects are dependent on the performance of the companies within the Group to which amounts have been advanced by the Company by way of loan.

The Group's business activities are all concentrated in and aimed at the Maltese market. Accordingly, the Group is highly susceptible to the negative economic trends that may from time to time be felt in Malta.

Within this context, the directors have evaluated the risks faced by the various companies to which funds have been advanced, and continue to monitor closely the impact of events as they take place in the local and global economy and how these impact the ability of the various companies within the Group so as to honour their financial commitments. On the basis of this analysis, the directors are of the view that all amounts receivable by the company are recoverable.

In case of default, the Company would exercise its rights vis-à-vis the various pledges it holds over group company assets.

## **Directors' report** - continued

### **Disclosure in terms of the Listing Rules** - continued

#### **Pursuant to Listing Rule 5.64**

##### **Share capital structure**

The Company's issued share capital is €2,329,373 divided into 2,329,373 Ordinary shares of €1 each. The share capital consists of one class of ordinary shares with equal voting rights attached. No restrictions apply to the transfer of shares.

##### **Holding in Excess of 5% of the Share Capital**

On the basis of the information available to the Company as at 31 December 2015, United Group Limited held 2,329,372 shares equivalent to 100% of the Company's issued share capital.

Shareholders holding at least 20% of the issued share capital having voting rights or a number of shareholders who between them hold not less than 20% of the issued share capital of the Company having voting rights, shall be entitled to appoint one director for every 20% holding. Other limitations of the voting rights of holders are contained in the Company's Articles of Association, Clause 55.

##### **Appointment and Replacement of Directors**

Board members are appointed for one year and are eligible for re-appointment at the Annual General Meeting.

##### **Board Member Powers**

The powers of the Board members are contained in Article 66 of the Company's Articles of Association.

The Articles of Association grant the Company the power to buy back its own shares in terms of the Companies Act, 1995 (Chapter 386, Laws of Malta).

##### **Contracts with Board Members and Employees**

The Company has no contract with any of its Board members that include a severance payment clause. The Company had no employees during the year ended 31 December 2015 (2014: Nil).

No disclosures are being made pursuant to listing Rules 5.64.4, 5.64.5, 5.64.6, 5.64.7 and 5.64.10 as these are not applicable to the Company.

##### **Pursuant to Listing Rule 5.70.1**

The company has an agreement with United Group Limited for the lease of office space.

In prior years, the Company had entered into an agreement with United Automobiles Limited '(UAL)' for the factoring of bills of exchange. During 2011, UAL ceased issuing bills of exchange as a result of the transfer of business to a related company and accordingly, United Finance plc was not required to factor further bills of exchange as from 2012.

In the normal course of the Company's business, the Company advances by way of loan, amounts to companies forming part of the United Group. Details of such contracts are set out in note 6 to the financial statements.

**Directors' report** - continued

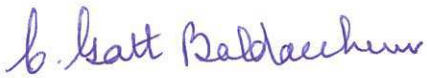
**Disclosure in terms of the Listing Rules** - continued

**Pursuant to Listing Rule 5.68**

**Statement by the Directors on the Financial Statements and Other Information included in the Annual Report**

The directors declare that to the best of their knowledge, the financial statements included in the Annual Report are prepared in accordance with the requirements of International Financial Reporting Standards as adopted by the EU and give a true and fair view of the assets, liabilities, financial position and profit of the Company and that this report includes a fair review of the development and performance of the business and position of the Company, together with a description of the principal risks and uncertainties that it faces.

On behalf of the board



Carmen Gatt Baldacchino  
Director



Edmund Gatt Baldacchino  
Director

Registered office  
GB Buildings  
2<sup>nd</sup> Floor  
28, Water Street  
Ta' Xbiex XBX 1310  
Malta

18 April 2016

## **Corporate Governance – Statement of Compliance**

The Listing Rules issued by the Listing Authority of the Malta Financial Services Authority, require listed companies to observe The Code of Principles of Good Corporate Governance (the “Code”). Although the adoption of the Code is not obligatory, Listed Companies are required to include, in their Annual Report, a Directors’ Statement of Compliance which deals with the extent to which the Company has adopted the Code of Principles of Good Corporate Governance and the effective measures that the Company has taken to ensure compliance with the Code, accompanied by a report of the auditors thereon.

### **Compliance**

The Board of Directors (the “Board”) of United Finance p.l.c (the “Company”) believe in the adoption of the Code and has endorsed them except where the size and/or particular circumstances of the Company are deemed by the Board not to warrant the implementation of specific recommendations. In this context it is relevant to note that the Company has issued bonds to the public and has no employees. Accordingly some of the provisions of the Code are not applicable whilst others are applicable to a limited extent.

### **The Board**

The Board of Directors is responsible for devising a strategy, setting policies and the management of the Company. It is also responsible for reviewing internal control procedures, financial performance and business risks facing the Company. The Board is also responsible for decisions relating to the redemption of the Bond and sinking fund, and for monitoring that its operations are in conformity with the Prospectus and all relevant rules and regulations.

Throughout the period under review, the Board regularly reviewed management performance. The Company has in place systems whereby the directors obtain timely information from the Chief Executive Officer, not only at meetings of the Board but at regular intervals or when the need arises.

### **Chairman and Chief Executive Officer**

The functions of the Chairperson and Chief Executive Officer are vested in separate individuals as recommended by the Code. The Chairperson’s main function is to lead the board, set the agenda and ensure that all board members partake in discussions of complex and contentious issues.

The Chief Executive Officer has specific authorities from the Board to manage the Company’s operational activities within the strategy and parameters set by it.

### **Complement of the Board**

The Board is composed of one executive and four non-executive directors, as listed below. The directors, except for James Bonello, who was appointed director on the 16 June 2008, and Joseph FX Zahra, who was appointed on the 1 June 2014, are the same as those at the date of incorporation of the Company, all directors having been reappointed to their post on a yearly basis.

### **Executive Director**

Edmund Gatt Baldacchino (Chief Executive Officer)

## **Corporate Governance – Statement of Compliance - continued**

### **Non-Executive Directors**

Carmen Gatt Baldacchino (Chairperson)  
Simon Gatt Baldacchino  
James Bonello  
Joseph F.X. Zahra

Carmen Gatt Baldacchino holds similar non-executive positions with other companies of the United Group of which the Company is a member. Simon Gatt Baldacchino is a non-executive director of other companies related to United Finance p.l.c. and an executive director with a related company, whilst Joseph FX Zahra is a director of United Group Limited, the parent company of United Finance p.l.c. For the purpose of the provisions of the Code, the Board considers James Bonello and Joseph FX Zahra as independent.

Directors are appointed during the Company's Annual General Meeting for periods of one year, at the end of which term they may stand again for re-election. The Articles of Association of the Company clearly set out the procedures to be followed in the appointment of directors.

### **Internal Control**

The Board is responsible for the Company's system of internal controls and for reviewing its effectiveness. Such a system is designed to achieve business objectives and to manage rather than to eliminate the risk of failure to achieve business objectives and can only provide reasonable assurance against material error, losses or fraud.

Authority to manage the Company is delegated to the Chief Executive Officer within the limits set by the Board of Directors. Systems and procedures are in place for the Company to control, report, monitor and assess risks and their financial implications, and to take timely corrective actions where necessary. Regular financial budgets and strategic plans are prepared, and performance against these plans is actively monitored and reported to the directors on a regular basis.

The Board approves, after review and recommendation by the Audit Committee, the transfer of funds and other amounts payable to companies within the same group, and ensures that these are subject to terms and conditions which are on an arm's length basis.

### **Directors' Attendance at Board Meetings**

The Board believes that it has systems in place to fully comply with the principles of the Code. Directors meet regularly, mainly to review the financial performance of the Company and to review internal control processes. Board members are notified of forthcoming meetings by the Company Secretary with the issue of an agenda and supporting Board papers, which are circulated well in advance of the meeting. All the directors have access to independent professional advice at the Company's expense should they so require.



## Corporate Governance – Statement of Compliance - continued

### Directors' Attendance at Board Meetings - continued

The Board met formally five times during the year under review. The number of board meetings attended by directors for the year ended 31 December 2015 is as follows:

Members	Attended
Carmen Gatt Baldacchino	4
Edmund Gatt Baldacchino	4
Simon Gatt Baldacchino	4
James Bonello	4
Joseph F.X. Zahra	4

### Committees

The directors believe that, due to the Company's size and operation, the remuneration, evaluation and nominations committees that are suggested in the Code are not required, and that the function of these can efficiently be undertaken by the board itself. However, the Board on an annual basis undertakes a review of the remuneration paid to the directors, and carries out an evaluation of their performance and of the audit committee. The shareholders approve the remuneration paid to the directors at the annual general meeting.

### Audit Committee

The Board established an Audit Committee (the "Committee") in 2002 and has formally set out Terms of Reference as outlined in the Principles laid out in the Listing Rules. The purpose of the Committee is to protect the interest of the Company's share and bond holders and assist the directors in conducting their role effectively. The Audit Committee also monitors the financial reporting process, the effectiveness of internal control and the audit of the annual financial statements. Additionally, it is responsible for monitoring the performance of the entities borrowing funds from the Company, to ensure that budgets are achieved and if not that corrective action is taken as necessary. It also scrutinises and supervises related party transactions for materiality and ensures that these are carried out at arm's length basis. By a letter dated 23 June 2008, the Listing Authority considered the Terms of Reference as having sufficient safeguards to ensure the independence of the Audit Committee.

#### The Members of the Audit Committee are:

James Bonello (Chairman of the Audit Committee)  
Edmund Gatt Baldacchino  
Joseph F.X. Zahra

James Bonello and Joseph F.X. Zahra are directors who the Board considers as persons competent in accounting. James Bonello held senior management positions at HSBC Bank Malta p.l.c. including that of Head of Commercial Banking and executive director.

Joseph F.X. Zahra was Chairman of Bank of Valletta between 1998 and 2004, and Middlesea Insurance p.l.c between 2010 and 2014. Mr. J. F.X. Zahra is also a member of the Corinthia Palace Hotel Limited audit committee.

The Committee met five times during the year to 31 December 2015.

## Corporate Governance – Statement of Compliance - continued

### Remuneration Statement

In terms of the Company's Memorandum and Articles of Association, it is the shareholders of the Company in the General Meeting who determine the maximum annual aggregate remuneration of the directors. The aggregate amount approved for this purpose during the last Annual General Meeting was €24,500.

None of the directors is employed or has a service contract with the Company.

No part of the remuneration paid to the directors is performance based, and the Chief Executive Officer receives no additional remuneration. None of the directors, in their capacity as a Director of the Company, is entitled to profit sharing, share options or pension benefits.

The directors received €24,337 in aggregate for services rendered during 2015 (2014: €24,337).

### Relations with bondholders and the market

The Company publishes interim and annual financial statements and when required company announcements. The Board feels these provide the market with adequate information about its activities.

### Conflicts of Interest

On joining the Board and regularly thereafter, directors and officers of the Company are informed and reminded of their obligations on dealing in securities of the Company within the parameters of law and Listing Rules. The Company has also set reporting procedures in line with the Listing Rules, Code of Principles, and internal code of dealing.

Signed on behalf of the Board of Directors on 18 April 2016 by:



James Bonello  
Director and Chairman of the Audit Committee



Joseph F.X. Zahra  
Director



## Independent auditor's report

To the Shareholders of United Finance p.l.c.

### Report on the Financial Statements for the year ended 31 December 2015

We have audited the financial statements of United Finance p.l.c. on pages 11 to 42 which comprise the statement of financial position as at 31 December 2015 and the statements of income, comprehensive income, changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

#### *Directors' Responsibility for the Financial Statements*

As explained more comprehensively in the Statement of directors' responsibilities for the financial statements on pages 1 and 2, the directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and the requirements of the Maltese Companies Act 1995 and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Opinion*

In our opinion, the financial statements

- give a true and fair view of the financial position of the Company as at 31 December 2015, and of its financial performance and its cash flows for the year then ended in accordance with IFRSs as adopted by the EU; and
- have been properly prepared in accordance with the requirements of the Maltese Companies Act, 1995.

### Report on Corporate Governance

The Listing Rules issued by the Malta Listing Authority require the directors to prepare and include in their Annual Report a Statement of Compliance providing an explanation of the extent to which they have adopted the Code of Principles of Good corporate Governance and the effective measures that they have taken to ensure compliance throughout the accounting period with those Principles.

The Listing Rules also require the auditor to include a report on the Statement of Compliance prepared by the Directors.



## Independent auditor's report - continued

### Report on Corporate Governance - continued

We read the Statement of Compliance and considered the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements included in the Annual Report. Our responsibilities do not extend to considering whether this statement is consistent with any other information included in the annual return.

We are not required to, and we do not, consider whether the board's statements on internal control included in the Statement of Compliance cover all risks and controls, or form an opinion on the effectiveness of the Company's corporate governance procedures or its risk and control procedures.

In our opinion, the Statement of Compliance set out on pages 5 to 8 has been properly prepared in accordance with the requirements of the Listing Rules issued by the Malta Listing Authority.

We also read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. Our responsibilities do not extend to any other information.

### Matters on which we are required to report by exception

- Under the Maltese Companies Act, 1995 to report to you if, in our opinion:
  - The information given in the directors' report is not consistent with the financial statements.
  - Adequate accounting records have not been kept, or that returns adequate for our audit have not been received from branches not visited by us.
  - The financial statements are not in agreement with the accounting records and returns.
  - We have not received all the information and explanations we require for our audit.
  - Certain disclosures of directors' remuneration specified by law are not made in the financial statements, giving the required particulars in our report.
- Under the listing rules to review the statement made by the directors that the business is a going concern together with supporting assumptions or qualifications as necessary.

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

### PricewaterhouseCoopers

78,  
Mill Street  
Qormi, QRM3101,  
Malta



David Valenzia  
Partner

18 April 2016

## Statement of financial position

		Year ended 31 December	
		2015	2014
		€	€
<b>ASSETS</b>			
<b>Non-current assets</b>			
Investment property	4	4,685,435	4,679,345
Available-for-sale financial assets	5	644,747	617,000
Loans and receivables	6	5,801,355	5,632,505
Trade and other receivables	7	3,012	46,880
Total non-current assets		<b>11,134,549</b>	10,975,730
<b>Current assets</b>			
Trade and other receivables	7	1,950,419	1,677,968
Current tax assets		15,822	21,422
Cash and cash equivalents	8	466,857	550,535
Total current assets		<b>2,433,098</b>	2,249,925
<b>Total assets</b>		<b>13,567,647</b>	13,225,655
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and reserves</b>			
Share capital	9	2,329,373	2,329,373
Other reserves	10	1,686,051	1,658,304
Retained earnings		448,886	156,955
Total equity		<b>4,464,310</b>	4,144,632
<b>Non-current liabilities</b>			
Deferred tax liabilities	12	469,338	545,997
Borrowings	11	8,331,448	8,314,704
Total non-current liabilities		<b>8,800,786</b>	8,860,701
<b>Current liabilities</b>			
Trade and other payables	13	302,551	220,322
Total liabilities		<b>9,103,337</b>	9,081,023
<b>Total equity and liabilities</b>		<b>13,567,647</b>	13,225,655

The notes on pages 16 to 41 are an integral part of these financial statements.

The financial statements on pages 11 to 41 were authorised for issue by the board on 18 April 2016 and were signed on its behalf by:



Carmen Gatt Baldacchino  
Director



Edmund Gatt Baldacchino  
Director

## Income statement

	Notes	Year ended 31 December	
		2015 €	2014 €
<b>Revenue – investment and other related income</b>	14	<b>817,253</b>	891,873
Interest payable and similar charges	15	<b>(467,245)</b>	(846,152)
<b>Gross profit</b>		<b>350,008</b>	45,721
Administrative expenses	16	<b>(134,736)</b>	(120,834)
Impairment of available-for-sale investments		-	(35,701)
<b>Profit/(loss) before tax</b>		<b>215,272</b>	(110,814)
Tax credit	18	<b>76,659</b>	-
<b>Profit/(loss)/ for the year</b>		<b>291,931</b>	(110,814)
Earnings/(loss) per share	19	<b>0.13</b>	(0.05)

The notes on pages 16 to 41 are an integral part of these financial statements.

## Statement of comprehensive income

		Year ended 31 December	
		2015	2014
		€	€
Notes			
	<b>Profit/(loss) for the year</b>	<b>291,931</b>	<b>(110,814)</b>
	<b>Other comprehensive income</b>		
	Available for sale investments:		
	- Net fair value gains/(losses)	5 <b>27,747</b>	<b>(12,638)</b>
	<b>Other comprehensive income for the year</b>	<b>27,747</b>	<b>(12,638)</b>
	<b>Total comprehensive income/(loss) for the year</b>	<b>319,678</b>	<b>(123,452)</b>

The notes on pages 16 to 41 are an integral part of these financial statements.

## Statement of changes in equity

Note	Share capital €	Other reserves €	Retained earnings €	Total €
Balance at 1 January 2014	2,329,373	1,670,942	342,769	4,343,084
<b>Comprehensive income</b>				
Loss for the year	-	-	(110,814)	(110,814)
Other comprehensive income: Losses from changes in fair value of available-for-sale financial assets	-	(12,638)	-	(12,638)
<b>Total comprehensive income</b>	-	(12,638)	(110,814)	(123,452)
<b>Transactions with owners</b>				
Dividends paid during the year	-	-	(75,000)	(75,000)
<b>Total transactions with owners</b>	<b>2,329,373</b>	<b>1,658,304</b>	<b>156,955</b>	<b>4,144,632</b>
<b>Balance at 31 December 2014</b>				
Balance at 1 January 2015	<b>2,329,373</b>	<b>1,658,304</b>	<b>156,955</b>	<b>4,144,632</b>
<b>Comprehensive income</b>				
Profit for the year	-	-	291,931	291,931
Other comprehensive income: Profit from changes in fair value of available-for-sale financial assets	10	27,747	-	27,747
<b>Total comprehensive income</b>	-	27,747	291,931	319,678
<b>Balance at 31 December 2015</b>	<b>2,329,373</b>	<b>1,686,051</b>	<b>448,886</b>	<b>4,464,310</b>

The notes on pages 16 to 41 are an integral part of these financial statements.



## Statement of cash flows

	Notes	Year ended 31 December	
		2015 €	2014 €
<b>Cash flows from operating activities</b>			
Cash used in operations	20	20,429	71,995
Income tax paid		(5,839)	(7,036)
Income tax refunded		12,304	11,486
<b>Net cash generated from operating activities</b>		<b>26,894</b>	<b>76,445</b>
<b>Cash flows from investing activities</b>			
Income on available-for-sale investments	14	28,286	52,593
Proceeds from sale of available-for-sale investments	5	-	661,765
Disposal of other investment		-	670,377
Additions to investment property	4	(6,090)	(129,345)
<b>Net cash generated from investing activities</b>		<b>22,196</b>	<b>1,255,390</b>
<b>Cash flows from financing activities</b>			
Loans and advances to group companies	6	(1,245,723)	(1,428,367)
Repayment of loans and advances from group companies	6	812,091	2,767,780
Receipts from debtors in settlement of bills of exchange		300,864	189,089
Redemption of 6.75% Bond 2015-2016		-	(11,614,400)
Proceeds from 5.3% Bond 2023		-	8,312,201
Dividend paid		-	(75,000)
<b>Net cash (used in) financing activities</b>		<b>(132,768)</b>	<b>(1,848,697)</b>
<b>Net movement in cash and cash equivalents</b>		<b>(83,678)</b>	<b>(516,862)</b>
Cash and cash equivalents at beginning of year		550,535	1,067,397
<b>Cash and cash equivalents at end of year</b>	8	<b>466,857</b>	<b>550,535</b>

The notes on pages 16 to 41 are an integral part of these financial statements.

## Notes to the financial statements

### 1. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

#### 1.1 Basis of preparation

These financial statements have been prepared in accordance with the requirements of International Financial Reporting Standards (IFRSs) as adopted by the EU and with the requirements of the Maltese Companies Act, 1995. The financial statements have been prepared under the historical cost convention, except as modified by the fair valuation of investment property and available-for-sale financial assets.

The preparation of financial statements in conformity with IFRSs as adopted by the EU requires the use of certain accounting estimates. It also requires directors to exercise their judgment in the process of applying the Company's accounting policies (see Note 3 – Critical accounting estimates and judgments).

#### *Standards, interpretations and amendments to published standards effective in 2015*

In 2015, the Company adopted new standards, amendments and interpretations to existing standards that are mandatory for the Company's accounting period beginning on 1 January 2015. The adoption of these revisions to the requirements of IFRSs as adopted by the EU did not result in substantial changes to the Company's accounting policies.

#### *Standards, interpretations and amendments to published standards that are not yet effective*

Certain new standards, amendments and interpretations to existing standards have been published by the date of authorisation for issue of these financial statements, that are mandatory for the Company's accounting periods beginning after 1 January 2015. The Company has not early adopted these revisions to the requirements of IFRSs as adopted by the EU and the Company's directors are of the opinion that, with the exception of the below pronouncements, there are no requirements that will have a possible significant impact on the Company's financial statements in the period of initial application.

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The Group is yet to assess the full impact of IFRS 9 and intends to adopt IFRS 9, subject to endorsement by the EU, no later than the accounting period beginning on or after 1 January 2018.

**1. Summary of significant accounting policies - continued**

**1.1 Basis of preparation - continued**

*Going concern*

The Company's principal activity is to act as a finance company for the United Group and to effectively and efficiently manage the financing requirements of the Group's working capital. In this context, the Company's trading prospects are dependent on the performance of the companies within the Group to which amounts have been advanced by the Company by way of loan. The business activities of the companies forming part of the United Group, of which the Company forms part, are all concentrated in and aimed at the Maltese market. While the business activities of such companies are diversified, the companies are exposed to risks of negative economic trends that may from time to time impact Malta.

In preparing these financial statements the directors of the Company have made reference to the cash flow forecast of the Group covering the years 2016 to 2017. The cash flow forecast assumes that the Group will continue to generate the required cash flows from its trading activities in the automotive, retail and property rental sectors.

Based on the foregoing, the directors believe that it remains appropriate to prepare the financial statements on a going concern basis. The financial statements however, do not include any adjustments in the event that the forecast and assumptions as set out above do not materialise as planned.

**1.2 Segment reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments has been identified as the board of directors that makes strategic decisions. The board of directors considers the Company to be made up of one segment, that is raising financial resources from capital markets to finance the operations and capital projects of the Company and the United Group. All the Company's revenue and expenses are generated in Malta and revenue is mainly earned from other companies forming part of the United Group.

**1. Summary of significant accounting policies - continued**

**1.3 Foreign currency translation**

Functional and presentation currency

Items included in these financial statements are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The euro is the Company's functional and presentation currency.

**1.4 Investment property**

Investment property, comprising commercial premises including offices, shops and showrooms, is held for long term rental yields or for capital appreciation or both and which is not occupied by the Company is classified as investment property. Investment property comprises land and building and is measured initially at its cost, including related transaction costs. After initial recognition, investment property is carried at fair value. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, the Company uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. These valuations are reviewed annually by the directors. Investment property being redeveloped for continuing use as investment property or for which the market has become less active continues to be measured at fair value. The fair value of investment property reflects, among other things, rental income from current leases and assumptions about rental income from future leases in the light of current market conditions.

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the income statement during the financial period in which they are incurred.

Changes in fair values are recorded in the profit or loss for the year and then transferred to "fair value gains reserve" through the statement of changes in equity.

**1.5 Financial assets**

**1.5.1 Classification**

The Company classifies its financial assets in the following categories: loans and receivables and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Company provides money, goods or services directly to a debtor with no intention of trading the asset. They are included in current assets, except for maturities greater than twelve months after the end of the reporting period. These are classified as non-current assets. The Company's loans and receivables comprise trade and other receivables and cash and cash equivalents in the statement of financial position (note 1.6 and 1.9).

**1. Summary of significant accounting policies - continued**

**1.5 Financial assets - continued**

**1.5.1 Classification - continued**

(b) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices are classified as available-for-sale assets. They are included in non-current assets unless the asset matures or management intends to dispose of it within twelve months from the end of the reporting period.

**1.5.2 Recognition and measurement**

The Company recognises a financial asset in its statement of financial position when it becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on settlement date, which is the date on which an asset is delivered to or by the Company. Any change in fair value for the asset to be received is recognised between the trade date and settlement date in respect of assets which are carried at fair value in accordance with the measurement rules applicable to the respective financial assets.

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

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership or has not retained control of the asset.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences on monetary securities are recognised in profit or loss; translation differences on non-monetary securities are recognised in other comprehensive income. The other changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised in other comprehensive income directly in equity.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in profit or loss within 'investment and other related income'.

Interest on available-for-sale securities calculated using the effective interest method is recognised in profit or loss within 'investment and other related income'. Dividends on available-for-sale equity instruments are recognised in profit or loss when the Company's right to receive payments is established.

**1. Summary of significant accounting policies - continued**

**1.5 Financial assets - continued**

**1.5.2 Recognition and measurement - continued**

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Company establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analyses, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

**1.5.3 Impairment**

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. The Company first assesses whether objective evidence of impairment exists. The criteria that the Company uses to determine that there is objective evidence of an impairment loss include:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becomes probable that the borrower will enter bankruptcy or other financial reorganisation.

*(a) Assets carried at amortised cost*

For financial assets carried at amortised cost, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The asset's carrying amount is reduced and the amount of the loss is recognised in profit or loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in profit or loss.

*(b) Assets classified as available-for-sale*

In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the securities are impaired. If objective evidence of impairment exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss - is reclassified from equity to profit or loss as a reclassification adjustment. Impairment losses recognised in profit or loss on equity instruments are not reversed through profit or loss.

**1. Summary of significant accounting policies - continued**

**1.6 Trade and other receivables**

Trade receivables comprise amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment (note 1.5). The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in profit or loss. When a receivable is uncollectible, it is written off against the allowance account for trade and other receivables. Subsequent recoveries of amounts previously written off are credited against profit or loss.

**1.7 Bills of exchange**

Bills of exchange were acquired at an amount based on the discounted face value.

**1.8 Current and deferred tax**

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

Deferred tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

**1.9 Cash and cash equivalents**

Cash and cash equivalents are carried in the statement of financial position at face value. In the statement of cash flows, cash and cash equivalents includes cash in hand and deposits held at call with banks.

**1.10 Share capital**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares are shown in equity as a deduction, net of tax, from the proceeds.

## 1. Summary of significant accounting policies - continued

### 1.11 Financial liabilities

The Company recognises a financial liability in its statement of financial position when it becomes a party to the contractual provisions of the instrument. The Company's financial liabilities are classified as financial liabilities which are not at fair value through profit or loss (classified as 'Other liabilities') under IAS 39. Financial liabilities not at fair value through profit or loss are recognised initially at fair value, being the fair value of the consideration received, net of transaction costs that are directly attributable to the acquisition or the issue of the financial liability. These liabilities are subsequently measured at amortised cost. The Company derecognises a financial liability from its statement of financial position when the obligation specified in the contract or arrangement is discharged, is cancelled or expires.

### 1.12 Borrowings

Borrowings are recognised initially at the fair value of proceeds received, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least twelve months after the end of the reporting period.

### 1.13 Trade and other payables

Trade payables comprise obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

### 1.14 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

### 1.15 Provisions

Provisions for legal claims are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.



## 1. Summary of significant accounting policies - continued

### 1.16 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Company's activities. The Company recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Company's activities as described below.

#### *(a) Interest income*

Interest income is recognised for all interest-bearing instruments using the effective interest method.

#### *(b) Dividend income*

Dividend income is recognised when the right to receive payment is established.

#### *(c) Rental income from investment property*

Rental income from investment property is recognised in profit or loss on a straight-line basis over the term of the lease.

### 1.17 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

## 2. Financial risk management

### 2.1 Financial risk factors

The Company's activities potentially expose it to a variety of financial risks: market risk (including cash flow interest rate risk), credit risk and liquidity risk. The company's overall risk management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance. The Company did not make use of derivative financial instruments to hedge risk exposures during the current and preceding financial years. The board provides principles for overall risk management, as well as policies covering risks referred to above and specific areas such as investment of excess liquidity.

#### *(a) Market risk*

##### *(i) Foreign exchange risk*

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities which are denominated in a currency that is not the entity's functional currency. The Company has no significant currency risk since substantially all assets and liabilities are denominated in Euro.

**2. Financial risk management - continued**

**2.1 Financial risk factors - continued**

(ii) Cash flow and fair value interest rate risk

The Company is exposed to risks associated with the effects of fluctuations in the prevailing levels of the market interest rates on its financing position and cash flows.

As at the reporting date, the Company has fixed rate interest-bearing assets comprising bills of exchange and amounts owed by group companies. Accordingly, its revenue and operating cash flows are substantially independent of changes in market interest rates.

As at the statement of financial position date, the Company's exposure to changes in interest rates on bank accounts held with financial institutions and on interest bearing liabilities was limited as the Company is subject to fixed interest rates.

Based on the above, the board considers the potential impact on profit or loss of a defined interest rate shift that is reasonably possible at the reporting date to be immaterial.

(b) Credit risk

Credit risk arises from credit exposures to customers and amounts receivable from group companies (Notes 6 and 7).

The maximum credit exposure to credit risk at the reporting date in respect of the financial assets was as follows:

	Note	2015 €	2014 €
Loans receivable	6	6,450,055	6,016,423
Other receivables:			
Bills of exchange	7	117,834	418,698
Amount due by group companies	7	1,081,883	798,654
Other debtors	7	89,315	91,759
Cash at bank	8	466,857	550,535
		<b>8,205,944</b>	<b>7,876,069</b>

The Company's significant debts are owed to the Company by group companies. Credit risk on funds advanced to group companies and amounts deposited with local financial institutions is considered as limited, since amounts receivable from group entities are partly secured as detailed further in note 6 and such debts are considered to be recoverable. In addition, the audit committee of the Company reviews these loans and advances on an ongoing basis to assess whether there is any objective evidence of impairment. This includes observable data that comes to the attention of the committee about repayments falling into arrears and deterioration in the financial stability of the principal debtor or guarantor. Cash at bank is placed with local financial institutions having a high quality standing.

**2. Financial risk management - continued**

**2.1 Financial risk factors - continued**

**(b) Credit risk - continued**

The Company also had, until 2011, a factoring agreement with United Automobile Limited, through which receivables arising from the sale of motor vehicles concluded by the company were transferred to United Finance p.l.c. These receivables were transferred at their face value with rights of full recourse "without protest".

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. About four percent (2014: two percent) of the Company's income is derived from bills of exchange relating to debtors factored. As explained in Note 7, since bills of exchange are factored with full recourse to the issuing company, the extent of credit risk arising on such receivables is considered limited to essentially the credit worthiness of United Group Limited, as unpaid bills of exchange are returned to United Group Limited, for reimbursement of the outstanding balance plus accrued interest. The directors consider that the risk that UGL does not honour its commitment is also limited. As of 31 December 2015, bills of exchange receivable amounting to €78,510 (2014 €274,703) were past due but not impaired.

The Company had been factoring bills of exchange payable to United Automobile Limited (merged with United Group Limited during 2014), with full recourse, since the year 2000. Since then the rate of default per annum was less than 0.5% of the outstanding bills. As from July 2011, United Automobile Limited's operations were transferred to a related company and as a result, United Finance p.l.c. ceased factoring debtors of the company.

With respect to amounts receivable arising from rental income, the Company assesses on an ongoing basis the credit quality of the third party tenants, taking into account financial position, past experience and other factors. The Company manages credit limits and exposures actively in a practicable manner such that there are no material past due amounts receivable from third party tenants as at the reporting date. The Company has no significant concentration of credit risk arising from third parties.

As of 31 December 2015, no trade receivables were impaired.

**(c) Liquidity risk**

The Company is exposed to liquidity risk in relation to meeting future obligations associated with its financial liabilities, which comprise principally interest-bearing borrowings and trade and other payables (refer to Notes 11 and 13). Prudent liquidity risk management includes maintaining sufficient cash to ensure the availability of an adequate amount of funding to meet the Company's obligations and ensuring that alternative funding is available when the bonds are due for repayment.

**2. Financial risk management - continued**

**2.1 Financial risk factors - continued**

*(c) Liquidity risk - continued*

The following table analyses the Company's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the tables below are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	Carrying amount €	Contractual cash flows €	On demand €	Due within one year €	Between 1 and 2 Years €	Between 2 and 7 years €
<b>31 December 2015</b>						
Bond	8,331,448	12,104,000	-	450,500	450,500	11,203,000
Trade and other payables	302,551	302,551	302,551	-	-	-
<b>Total</b>	<b>8,633,999</b>	<b>12,406,551</b>	<b>302,551</b>	<b>450,500</b>	<b>450,500</b>	<b>11,203,000</b>
<b>31 December 2014</b>						
Bond	8,314,704	12,554,500	-	450,500	450,500	11,653,500
Trade and other payables	220,322	220,322	220,322	-	-	-
<b>Total</b>	<b>8,535,026</b>	<b>12,774,822</b>	<b>220,322</b>	<b>450,500</b>	<b>450,500</b>	<b>11,653,500</b>

The group continues to assess its funding requirements to ensure that adequate funds are in place to meet its financial liabilities when they fall due.

**2.2 Fair value estimation**

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Company's assets and liabilities that are measured at fair value at 31 December 2015 and 2014.

	Level 1	
	2015 €	2014 €
<b>Assets</b>		
Available-for-sale financial assets		
- Equity securities	394,747	367,000
- Debt securities	250,000	250,000
<b>Total assets</b>	<b>644,747</b>	<b>617,000</b>

## **2. Financial risk management - continued**

### **2.2 Fair value estimation - continued**

The fair value of financial instruments traded in active markets is based on quoted market prices at the end of the reporting period. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Company is the current bid price. These instruments are included in level 1. Instruments included in level 1 comprise investments classified as available-for-sale.

The fair value of non-current borrowings is based on amortised cost representing proceeds received net of transaction costs incurred. The amortisation of transaction costs is calculated using the effective yield method.

At 31 December 2015 and 2014 the carrying amounts of other financial instruments, comprising cash at bank, receivables, payables and accrued expenses reflected in the financial statements are reasonable estimates of fair value in view of the nature of these instruments or the relatively short period of time between the origination of the instruments and their expected realisation.

### **2.3 Capital risk management**

The Company's objectives when managing capital are:

- to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders;
- to maintain an optimal capital structure to reduce the cost of capital; and
- to comply with requirements of the Prospectus issued in relation to the 5.3% bonds.

The board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence to sustain future development of business. The board of directors monitor the return on capital, which the Company defines as the profit for the year divided by total equity. The board of directors also monitors the level of dividends to ordinary shareholders.

## **3. Critical accounting estimates and judgments**

Estimates and judgments are continually evaluated and based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances. In the opinion of the directors, the accounting estimates and judgments made in the course of preparing these financial statements are not difficult, subjective or complex to a degree which would warrant their description as critical in terms of the requirements of IAS 1.

**4. Investment property**

	<b>Land and buildings</b>	
	2015	2014
	€	€
<b>Year ended 31 December</b>		
At beginning and end of year	4,679,345	4,550,000
Improvements made during year	6,090	129,345
	4,685,435	4,679,345
<b>At 31 December</b>		
Cost	2,537,860	2,531,770
Accumulated fair value gains	2,147,575	2,147,575
	4,685,435	4,679,345
Net book amount		

*Fair valuation of investment property*

During the financial year ended 31 December 2013, the directors commissioned an independent firm of architects to carry out a market valuation of the Company's investment property as at that date, by considering the aggregate of the estimated cash flows expected to be received from renting out the property over a defined period, the residual value of the building following lapse of the rental period and value of the land. The directors have approved the valuation and used it as a basis in determining the fair value of the Company's immovable property at 31 December 2015.

Valuations reflect, when appropriate: the type of tenants actually in occupation or responsible for meeting lease commitments or likely to be in occupation after letting vacant accommodation, the allocation of maintenance and insurance responsibilities between the Company and the lessee, and the remaining economic life of the property.

The Company is required to analyse non-financial assets carried at fair value by level of the fair value hierarchy within which the recurring fair value measurements are categorised in their entirety (Level 1, 2 or 3). The different levels of the fair value hierarchy have been defined as fair value measurements using:

- Quoted prices (unadjusted) in active markets for identical assets (Level 1);
- Inputs other than quoted prices included within Level 1 that are observable for the asset, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2);
- Inputs for the asset that are not based on observable market data (that is, unobservable inputs) (Level 3).

The Company's investment property comprises an office block and retail space leased out to third parties and also includes the Company's head office. All the recurring property fair value measurements at 31 December 2015 use significant unobservable inputs and are accordingly categorised within Level 3 of the fair valuation hierarchy.

The Company's policy is to recognise transfers into and out of fair value hierarchy levels as of the beginning of the reporting period. There were no transfers between different levels of the fair value hierarchy during the year ended 31 December 2015 and 2014.

#### 4. Investment property - continued

A reconciliation from the opening balance to the closing balance of investment property for recurring fair value measurements categorised within Level 3 of the value hierarchy is presented in the table above. Gains from changes in fair value have been recognised in the income statement.

##### *Valuation processes*

Valuation of the property is assessed regularly by management and at least every five years a valuation report is prepared by independent and qualified valuers. These reports are based on both:

- information provided by the Company which is derived from the Company's financial systems and is subject to the company's overall control environment; and
- assumptions and valuation models used by the valuers – the assumptions are typically market related. These are based on professional judgement and market observation.

The information provided to the valuers, together with the assumptions and the valuation models used by the valuers, are reviewed by the Chief Executive Officer (CEO). This includes a review of fair value movements over the period. When the CEO considers that the valuation report is appropriate, the valuation report is recommended to the Audit Committee. The Audit Committee considers the valuation report as part of its overall responsibilities.

At the end of every reporting period, the CEO assesses whether any significant changes or developments have been experienced since the last external valuation and reports to the Audit Committee on the outcome of this assessment.

##### *Valuation techniques*

The external valuations of the Level 3 property have been performed using projected rental streams, residual value of the building following lapse of the rental period, and an estimated sales approach for the value of the land on the basis of market values of other areas close to the site. In view of a limited number of similar sales in the local market, the valuations have been performed using unobservable inputs. The significant input to this approach is generally a price per square metre related to transactions in comparable properties located in proximity to the Company's property, with adjustments for differences in the size, age, exact location and condition of the property.

##### *Information about fair value measurements using significant unobservable inputs (Level 3)*

Description by class based on highest and best use	Fair value at 31 December 2015 €	Valuation technique	Significant unobservable input	Range of Unobservable inputs €
Current use as office premises	2,000,000	Capitalised rentals approach	Rental streams	Rental value p.a. of €400K and applying discount rates of 7% to 9%
	1,250,000	Replacement cost approach	Development cost per square metre	€500
	1,300,000	Sales comparison approach	Sales price per sq. mtr	€2,500

#### 4. Investment property -continued

The current use of the investment property of the Company is deemed to constitute the highest and best use taking cognisance of the size and location of such property.

##### *Rental agreements*

On 6 September 2000, the Company leased out part of its investment property to a group company for an initial period of 16 years.

During 2013, a new lease agreement was concluded with a third party for a period of three year commencing on 1 April 2014. The term is automatically renewed for a further period of five years from 10 October 2013. During 2014, a tenant previously occupying two floors and the penthouse vacated the building and new agreements with different tenants were finalised for the penthouse for the period from 1 December 2014 to 30 November 2015, renewable for further one year periods and from 1 June 2014 to 31 May 2017 for one of the main floors and from 01 April 2014 to 31 March 2017 for another floor.

Non-cancellable operating lease rentals arising from investment property leased out to a group company and to third parties are receivable as follows:

	2015 €	2014 €
Less than one year	370,127	360,103
Between one and five years	518,097	888,224
	888,224	1,248,327

During the year ended 31 December 2015, €359,597 (2014: €331,204) was recognised as rent income in profit or loss in respect of operating leases.

#### 5. Available-for-sale financial assets

	Debt €	Securities Equity €	Total €
At 1 January 2014	911,765	415,337	1,327,102
Loss from changes in fair value (Note 10)	-	(12,636)	(12,636)
Disposals	(661,765)	-	(661,765)
Impairment charge	-	(35,701)	(35,701)
At 31 December 2014	250,000	367,000	617,000
At 1 January 2015	250,000	367,000	617,000
Gain from changes in fair value (Note 10)	-	27,747	27,747
At 31 December 2015	250,000	394,747	644,747



**5. Available-for-sale financial assets - continued**

The Company holds investments in equities (HSBC Bank Malta plc and Bank of Valletta plc) and investments in debt securities (Cars International Ltd). During the year ended 31 December 2015, the investments in equities registered an increase (2014: a decrease) which was recognised in other comprehensive income.

**6. Loans and receivables**

	2015 €	2014 €
At beginning of the year	6,016,423	7,355,836
Advances	1,245,723	1,428,367
Repayments	(812,091)	(2,767,780)
At end of year	6,450,055	6,016,423
Non-current	5,801,355	5,632,505
Current (Note 7)	648,700	383,918
Total	6,450,055	6,016,423

Loans and receivables relate to balances due by group companies, earn interest at either 5.85% or 6.25% (2014: 7.5%) and are secured by:

- (i) 85% of the balances are covered by pledges on equity securities of subsidiary companies and associated undertakings, one of which having underlying property investments;
- (ii) 15% of the balances are covered by pledges on trade and other receivables, inventories and cash and cash equivalents held by the borrowers.

**7. Trade and other receivables**

	2015 €	2014 €
<b>Current</b>		
Bills of exchange receivable	117,834	418,698
Loans due by group companies (Note 6)	648,700	383,918
Amounts due by group companies	1,081,883	798,654
Other debtors	89,315	91,759
Prepayments and accrued income	15,699	31,819
	1,953,431	1,724,848
Less non-current portion: Bills of exchange	(3,012)	(46,880)
	1,950,419	1,677,968

**7. Trade and other receivables - continued**

	2015 €	2014 €
The non-current bills of exchange mature as follows:		
Later than 1 year and no later than 5 years	<b>3,012</b>	46,880
Non-current portion: Bills of exchange	<b>3,012</b>	46,880

United Finance p.l.c. had entered into an agreement to factor bills of exchange payable to United Automobile Limited ("UAL."), now merged into United Group Limited ("UG") during 2014, with right of recourse to United Finance p.l.c.. These bills of exchange were, in the first instance, signed by the customers of UG. as evidence of the acceptance of their indebtedness towards UG, and are then endorsed by UG to United Finance p.l.c., which in turn is entitled to claim payment of the bills of exchange from the respective customers on their maturity. UG derecognises these debts from its balance sheet since it passes the risks and rewards over these receivables to United Finance p.l.c. which has the ability to obtain the substantive benefits from such receivables, and is exposed to the risk of counterparty failure against UG. On this basis, United Finance p.l.c. recognises such bills of exchange as receivables. Interest at 8.5% (2014: 8.5%) per annum is earned on bills of exchange acquired. Bills of exchange were last issued during 2011 when the car importation business was transferred from United Automobile Limited to a jointly-controlled entity of the Group.

The loans due by group companies amounting to €648,700 (2014: €383,918) represent the short-term portion in respect of loans advanced by the Company to the separate companies within the United Group totalling €6,450,055 (2014: €6,016,423) (Note 6). The loans to group companies are secured (Note 6), bear interest at a rate from 5.85% to 6.25% (2014: 7.5%) per annum and are repayable on demand.

Other amounts due by group companies bear interest at 1.5% per annum and are repayable on demand.

**8. Cash and cash equivalents**

For the purposes of the statement of cash flows, the year-end cash and cash equivalents comprise the following:

	2015 €	2014 €
Cash at bank and in hand	<b>466,857</b>	550,535

**9. Share capital**

	2015 €	2014 €
<b>Authorised</b>		
2,500,000 ordinary shares of €1 each	<b>2,500,000</b>	2,500,000
<hr/>		
<b>Issued and fully paid</b>		
2,329,373 ordinary shares of €1 each	<b>2,329,373</b>	2,329,373
<hr/>		

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets.

**10. Other reserves**

	2015 €	2014 €
<b>Fair value gains reserve in respect of investment property</b>		
At 31 December	<b>1,574,878</b>	1,574,878
<hr/>		
<b>Fair value gains reserve in respect of available-for-sale Investments</b>		
At beginning of year	<b>83,426</b>	96,064
Gains/(loss) from changes in fair value (Note 5)	<b>27,747</b>	(12,638)
<hr/>		
At 31 December	<b>111,173</b>	83,426
<hr/>		
<b>Total fair value gains reserve</b>	<b>1,686,051</b>	1,658,304
<hr/>		

The fair value gains reserve is not available for distribution, consists of unrealised gains representing the difference between the cost and the fair value of investment property and available-for-sale investments, net of related deferred taxation, and unrealised gains and losses arising from the re-measurement to fair value of available-for-sale financial assets.

**11. Borrowings**

	2015 €	2014 €
<b>Non-current</b>		
Bonds	<b>8,500,000</b>	8,500,000
	<b>2015</b>	<b>2014</b>
	<b>€</b>	<b>€</b>
Bonds outstanding	<b>8,500,000</b>	8,500,000
Gross amount of bond issue costs	<b>(187,798)</b>	(187,798)
<b>Amortisation of gross amount of bond issue costs:</b>		
Accumulated amortisation at beginning of year	<b>2,502</b>	-
Amortisation charge for the year	<b>16,744</b>	2,502
Accumulated amortisation at end of year	<b>19,246</b>	2,502
Unamortised bond issue costs	<b>(168,552)</b>	(185,296)
Amortised cost and closing carrying amount	<b>8,331,448</b>	8,314,704

Interest on the 5.3% 2023 Bonds is payable annually in arrears, on 6 November of each year.

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

**12. Deferred tax**

	2015 €	2014 €
<b>Year ended 31 December</b>		
At beginning and end of year	545,997	545,997
Credit to income statement (Note 18)	(76,659)	-
At end of year	469,338	545,997

Deferred taxes are calculated on temporary differences under the liability method using a principal tax rate of 35% (2014: 35%), except for temporary differences on immovable property that are calculated under the liability method using a principal tax rate of 10% of the carrying amounts (2014: 12%). The deferred tax liabilities are mainly considered to be of a non-current nature.

The balance at 31 December represents:

	2015 €	2014 €
Temporary differences on investment property	469,338	545,997

As at 31 December the company had tax losses and unutilised group relief amounting to €nil (2014: €329,718) with a tax impact of €nil (2014: €115,402) against which future taxable income can be taken that has not been recognised within these financial statements due to the uncertainty arising on the realisation of the tax benefits.

**13 Trade and other payables**

	2015 €	2014 €
<b>Current</b>		
Other payables and indirect taxation	124,439	98,322
Accruals and deferred income	178,112	122,000
	302,551	220,322

Other payables are unsecured, interest free and repayable on demand.

**14. Revenue**

	2015 €	2014 €
Rental and other income from investment property	359,597	331,204
Bills interest income	33,798	20,512
Dividends and interest income on available-for-sale investments	28,286	52,593
Interest on loans and receivables due from group companies	395,171	479,258
Bank interest income	401	8,306
	817,253	891,873

During the year, 48% (2014: 43%) of total revenue was derived from third parties.

**15. Interest expense and similar charges**

	2015 €	2014 €
Interest expense on bonds	450,501	752,397
Amortisation of bond issue costs (Note 11)	16,744	29,166
Write off of Bond issue costs 6.75% 2014 - 2016	-	64,589
	467,245	846,152

**16. Expenses by nature**

	2015 €	2014 €
Directors' emoluments	24,337	24,337
Management fees	70,000	41,148
Professional fees	13,413	11,178
Other expenses	26,986	50,001
Gain on sale of investments	-	(5,830)
Total administrative expenses	134,736	120,834

**16. Expenses by nature - continued**

**Auditor's fees**

Fees charged by the auditor for services rendered during the financial periods ended 31 December 2015 and 2014 relate to the following:

	2015 €	2014 €
Annual statutory audit	6,602	6,602
Tax and related services	800	800
Other services	3,875	3,875
	11,277	11,277

**17. Directors' emoluments**

	2015 €	2014 €
Fees	24,337	24,337
	24,337	24,337

**18. Tax expense**

	2015 €	2014 €
Deferred tax credit (Note 12)	76,659	-
	76,659	-

**18. Tax expense - continued**

The tax on the Company's profit before tax differs from the theoretical amount that would arise using the basic tax rate as follows:

	2015 €	2014 €
Profit/(loss) before tax	215,272	(110,814)
Tax at 35%	75,345	(38,785)
Tax effect of:		
Expenses not deductible for tax purposes	1,365	7,315
Income subject to 15% withholding tax	(5,146)	(12,508)
Maintenance allowance claimed on related property	(25,172)	(23,184)
Exempt income	-	(2,041)
Unrecognised deferred tax movement in asset	(115,402)	69,203
Under provision of deferred tax in prior year	69,010	-
Differences attributable to tax rules applicable to immovable property	76,659	-
	76,659	-

**19. Earnings per share**

Earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year.

	2015	2014
Profit/(loss) for the year	291,931	(110,814)
Weighted average number of ordinary shares in issue	2,329,373	2,329,373
Earnings/(loss) per share	€0.13	(€0.05)

**20. Cash generated from operations**

	2015 €	2014 €
Profit/(loss) before income tax	215,272	(110,814)
Adjustments for:		
Amortisation of bond issue costs	16,744	93,755
Income on available-for-sale investments	(28,286)	(52,593)
Impairment of available-for-sale investment	-	35,701
Changes in working capital:		
Trade and other receivables	(265,530)	407,697
Trade and other payables	82,229	(301,751)
Cash generated from operations	20,429	71,995



**21. Contingencies**

A guarantee for a maximum amount of €2,800,000 (2014: €1,850,000) was issued by the company, in favour of its bankers for facilities provided to the Group.

**22. Related parties**

The companies forming part of the United Group are considered by the directors to be related parties as these companies are ultimately owned by the Gatt Baldacchino family.

The Company is a subsidiary of United Group Limited who is the ultimate parent company. The registered office of both companies is situated at GB Buildings, Water Street, Ta' Xbiex, Malta.

United Group Limited prepares the consolidated financial statements of the Group, of which United Finance p.l.c. forms part. These financial statements are filed and available for public inspection at the Registrar of Companies in Malta.

**23. Related parties - continued**

The following transactions were carried out with related parties:

	Ultimate parent company		Other related parties		Total		
	Loan account €	Bills of exchange factored €	Loan account €	Current account €	Loan account €	Bills of exchange factored €	Current account €
<b>2015</b>							
At beginning of the year	5,101,763	418,698	914,660	8,001	6,016,423	418,698	798,654
Transfer of balances upon group restructuring	335,604	-	(273,970)	-	61,634	-	-
Amounts advanced	120,000	-	1,064,088	82,226	1,184,089	-	626,821
Interest receivable	-	312,944	-	-	-	-	312,944
Rent receivable	-	32,000	-	-	-	-	32,000
Receipts from debtors in settlement of bills of exchange	-	(300,864)	-	-	-	(300,864)	-
Repayments	(784,708)	-	(27,383)	(71,112)	(812,091)	-	(688,536)
At end of year	4,772,659	117,834	1,677,396	19,055	6,450,055	117,834	1,081,883

**23. Related parties – continued**

	Ultimate parent company		Immediate parent company		Other related parties		Total		
	Loan account €	Bills of exchanged factored €	Loan account €	Bills of exchange factored €	Loan account €	Current account €	Loan account €	Bills of exchange factored €	Current account €
<b>2014</b>									
At beginning of the year	2,341,990	-	1,689,972	607,786	3,323,874	305,631	7,355,836	607,786	1,290,815
Transfer of balances upon									
group restructuring	2,089,953	607,786	(1,689,972)	(607,786)	(399,981)	(140,393)	-	-	-
Amounts advanced	1,322,969	-	-	-	40,000	-	1,362,969	-	-
Interest receivable	-	-	-	-	-	166,330	-	-	479,258
Rent receivable	-	-	-	-	-	-	-	-	35,400
Management fees	-	-	-	-	-	-	-	-	(41,148)
Receipts from debtors in settlement of bills of exchange	-	(189,088)	-	-	-	-	-	(189,088)	-
Repayments	(662,456)	-	-	-	(1,509,155)	(863,645)	(2,171,611)	-	(1,496,442)
Transfers from short term to long term	9,307	-	-	-	(540,078)	540,078	(530,771)	-	530,771
At end of year	5,101,763	418,698	-	-	914,660	8,001	6,016,423	418,698	798,654

Year-end balances owed by and to related parties are disclosed in Notes 6, 7 and 13 to these financial statements.

Key management personnel compensation consisting of directors' emoluments have been disclosed in Note 17.

**24. Dividends**

No dividends were declared by the directors in 2015 (2014: €75,000).

**25. Statutory information**

United Finance p. l.c. is a limited liability company and is incorporated in Malta.