
Financial Analysis Summary

15 June 2017

Issuer

United Finance p.l.c.

(C 26598)

United Finance p.l.c.
GB Buildings 2nd Floor,
28, Watar Street,
Ta'Xbiex XBX 1310
Malta

15 June 2017

Dear Sirs

United Finance p.l.c. Financial Analysis Summary

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

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

- (a) Historical financial data for the three years ended 31 December 2014 to 31 December 2016 has been extracted from audited financial statements of the Company and Group for the three years in question.
- (b) The forecast data of the Group for the year ending 31 December 2017 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.

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

Yours faithfully,



Wilfred Mallia
Director

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PART 1 – INFORMATION ABOUT THE ISSUER AND GROUP

1. KEY ACTIVITIES OF THE COMPANY

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

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

2. KEY ACTIVITIES OF THE GROUP

The origins of the Group go back to some 90 years ago when in 1926, Carmelo Gatt Baldacchino set up a small transportation company in Malta. Today, the Group operates in a number of sectors, including retail, automotive and property.

During the last financial year (2016), the Group was involved in the following three major strategic developments within the motor dealership and property areas:

- The business operation of Cars International Limited was merged with that of the Pater Group, through a newly incorporated entity - Motors Inc. Ltd ("MIL"), representing the following automotive brands: Kia, Opel, FIAT, Alfa Romeo, Hyundai, Iveco and Jeep. MIL is equally owned by the United Group, Tum Invest and the Pater Group. This merger will afford significant synergies, which should lead to positive financial results and a higher return on investment. It will also enable MIL to command a sizable share of the automotive market in Malta and position itself as one of the leading car importers on the island.
- The Group acquired a property situated in Qormi, which is earmarked for the development of a commercial building. The completion date is set for 2019 and will offer *circa* 3,500m² of office space and car park space for lease. A new company, United Estates Limited, has been set up specifically for this purpose.
- Another property was acquired jointly with other investors in Valley Road, Msida, suitable for development into a business centre and showroom complex. A promise of sale has been signed and the property will be sold to a third party in 2018.

3. DIRECTORS

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

Board of Directors

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

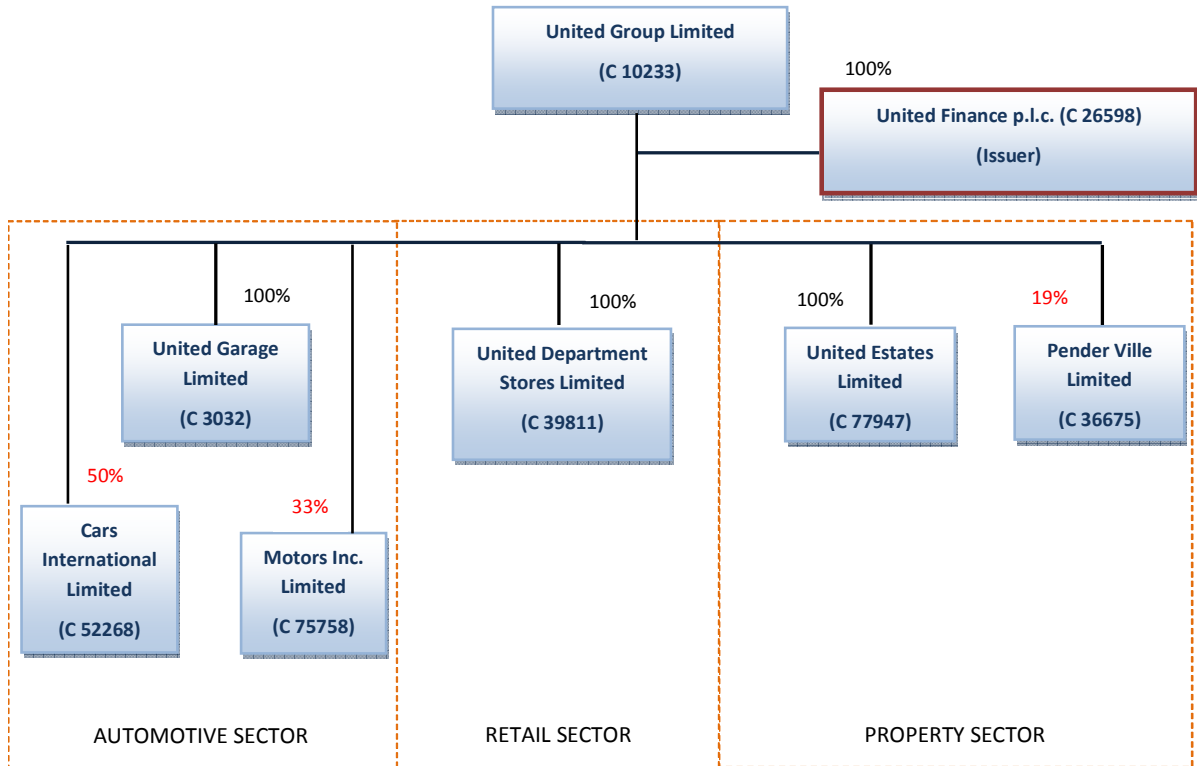
The parent company of the United Group is United Group Limited, and is managed by a Board consisting of seven directors who are responsible for the day-to-day management of the Group.

Board of Directors

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

4. GROUP ORGANISATIONAL STRUCTURE

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



United Group Limited is the parent company of the United Group and is primarily focused on establishing and monitoring strategic direction and development of the Group. In 2016, United Estates Limited (C 77947) was set up to acquire a property situated in Qormi. As described in section 2 above, the site is earmarked for the development of a commercial property which will include office space for rent purposes.

5. GROUP OPERATIONAL DEVELOPMENT

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

United Group Revenue Analysis	FY2014 €'000	FY2015 €'000	FY2016 €'000
Retail	6,965	7,256	7,431
Automotive	2,518	2,472	2,127
Property	331	360	370
Total revenue	9,814	10,088	9,928

Source: Consolidated audited financial statements of the United Group for the years ended 31 December 2014 to 2016.

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

5.1 RETAIL

5.1.1 History and Business

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

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

The Group launched MAC Cosmetics in July 2015, operating two stores, one through a concession in Debenhams and another situated in a prominent location in Sliema. MAC Cosmetics are recognised as one of the most influential companies in the global cosmetics industry. MAC's ability to create innovative products and cultivate new markets has led to its unparalleled global growth.

In 2016, the United Group was appointed reseller in Malta of the Jack & Jones brand, which is retailed within the Debenhams store located at The Point.

The key objective of the Group for its retail operations is to continue strengthening recognition of each of its brands within their respective target markets, enhance revenue growth and maintain efficiency at the operational level. At the same time, the Directors will continue to explore opportunities to invest in other retail concepts that offer features that are attractive to the Group in terms of benefits from possible synergies and revenue expansion.

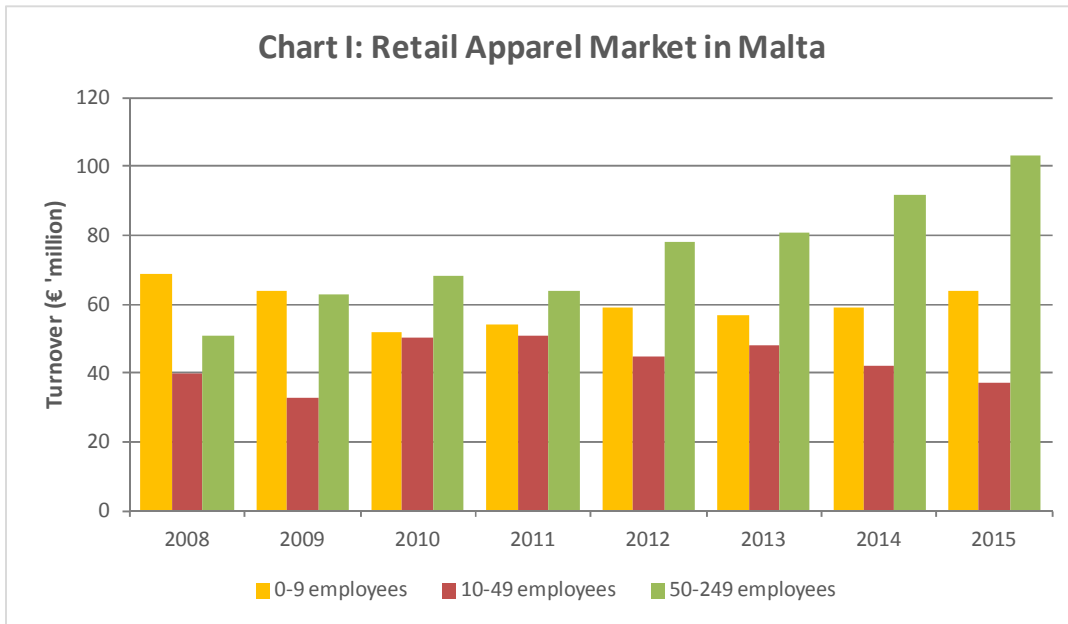
5.1.2 Market Overview

Data in relation to the size of the apparel market in Malta is not published. Notwithstanding, an estimate of the market has been derived from data obtained from the National Statistics Office of Malta. The latest available information relates to calendar year 2015. Data relating to online sales is excluded from the analysis below, since such information is not available from the National Statistics Office of Malta.

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

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

Source: National Statistics Office Malta (NACE 47.71 data)



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

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

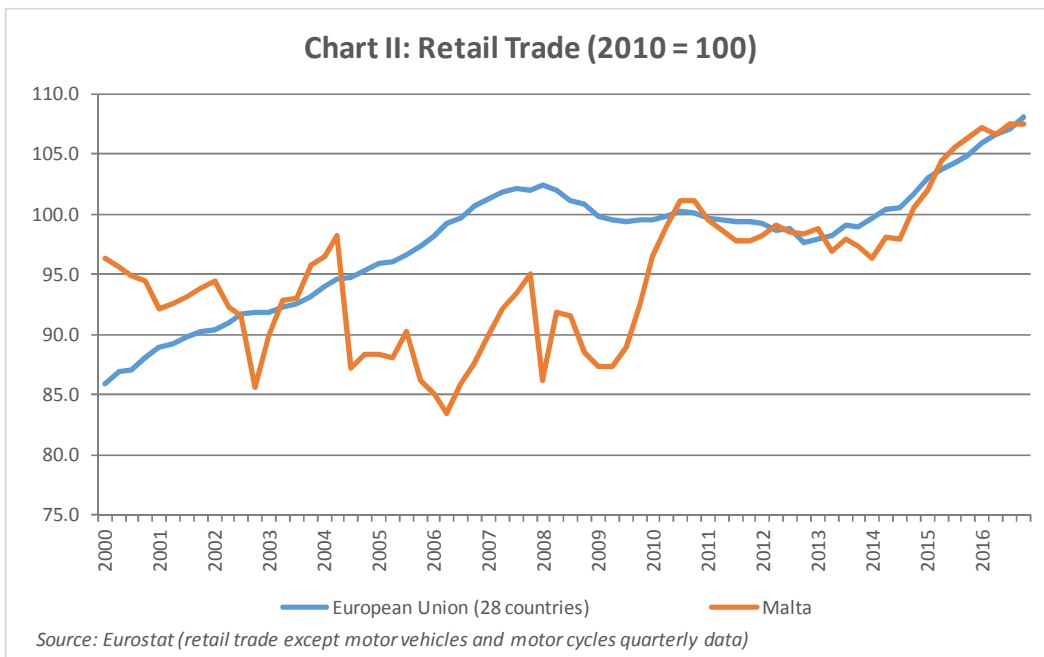


Chart II above provides an indication of the trend in performance of the overall retail sector generally in Malta as compared to same activity in the EU (2010 being the base year = 100). It is observed that in the years 2004 to 2009, retail activity in Malta lagged behind the EU average. Post 2009 to 2016, revenue generated from retail sales in Malta and the EU (average) has been broadly stable. It would appear that the narrowing of the difference between Malta and the EU average after 2009 reflects the lower activity levels registered within the EU as opposed to a recovery in retail sales generated in Malta.

5.1.3 Trend Analysis

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

5.2 AUTOMOTIVE

5.2.1 History and Business

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

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

The United Group also operates the car rental business through United Garage Limited. This company has been the franchisee of Hertz since 1961, making it the oldest European franchisee of this international car-hire brand since its inception. In FY2015, the Hertz Head offices were relocated to a new centre in Luqa so as to better client overall experience through more modern facilities and improved access. The United Group of Companies offers a variety of services and products relating to rental and leasing of vehicles and owns one of the largest modern fleets in Malta. The company has also over the years expanded its offering and is now the multi-brand franchise operator of the Hertz brand portfolio consisting of Hertz, Firefly and Thrifty.

5.2.2 Market Overview – Vehicle Rental

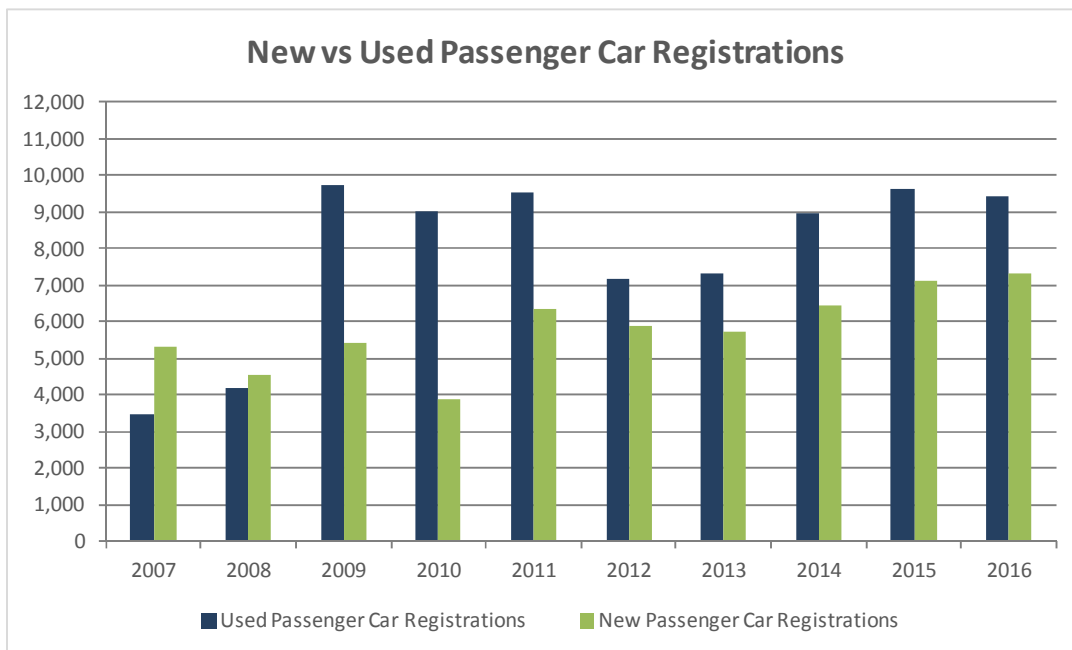
Competition among car rental industry participants is intense and is primarily based on price, vehicle availability and quality, service, reliability, rental locations and product innovation. Price has become more important in recent years since tourists visiting Malta are increasingly more independent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

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

5.2.3 Market Overview – Importation of Vehicles

Local market

Over the years the automotive sector in Malta has become highly competitive with a wider range of new motor vehicle franchises and models imported at competitive prices. In addition, the used car import market has grown substantially as evidenced by statistics published by the National Statistics Office Malta and which are included in the table below. During the past decade, registered passenger cars in Malta increased by 54,817 vehicles, from 218,429 in 2007 to 273,246 in 2016, which is equivalent to a compound annual growth rate of 2.5%.



As shown in the above chart, the market has been inundated with substantial imports, particularly in terms of used cars from the United Kingdom, at the expense of imports of new cars. In 2016, the registration of used cars amounted to 9,407, a marginal decrease of 2.6% when compared to 2015 (9,656 used passenger car registrations). In comparison, 7,333 new vehicles were registered in 2016, an increase of 3.0% from a year earlier (2015: 7,121 new passenger car registrations).

Market share of MIL

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

5.2.4 Trend Analysis

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

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

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

5.3 PROPERTY

5.3.1 History and Business

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

GB Buildings is fully leased to third parties, except for one floor which is occupied by the Group. Other than the lease contract for the ground floor showroom which expires in 2035, the lease agreements are automatically renewed annually unless otherwise advised by the respective lessees. The carrying value of the property as at 31 December 2016 is €4.69 million (FY2015: €4.69 million).

In late 2016, United Group acquired a property in Qormi, having a floor area of *circa* 1,000m², and which will be developed into a commercial property offering office space over 4 floors with ample parking facilities. The Group expects the aforesaid property to be completed by end 2018 for lease as of 2019.

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

The United Group has an interest in Pendergardens located in St Julians, Malta through the ownership of 19.23% of the equity capital of Pender Ville Limited. Pender Ville Limited was set up in July 2005 to acquire and develop the Pender Place site which covers an area of 18,500m² (known as 'Pendergardens') and the Mercury House site having a footprint of 8,500m² (known as 'The Exchange').

Pendergardens, which has a Special Designated Area status, is being developed in two phases. The first phase has been completed and includes 150 residential apartments spread over 6 blocks (Blocks 10 to 15) together with 406 car park spaces ("Phase I"). All apartments were sold over a 6-year period.

Construction of Phase II commenced in 2012 and includes the development of (i) Block 16 consisting of 46 residential apartments, double height commercial space and four levels of underlying car park; (ii) Block 17 consisting of 47 residential apartments, commercial space and underlying car park; and (iii) Towers I & II which will offer 30 residential apartments and office and retail space. It is projected that Phase II will be completed in the second semester of 2018 and all units should be sold by the end of 2022.

In 2009, Pender Ville Limited sold an area measuring 950m² to FIMBank plc. The Pendergardens Group was entrusted with the construction of the FimBank plc property which was completed in 2012. In December 2016, Pender Ville Limited and a third party acquirer entered into a contract of sale for a portion of the site known as The Exchange and a concomitant Preliminary Agreement with the same third party to acquire the remaining portion with 2017.

Pendergardens launched on the market apartments in Block 17 in the beginning of May 2016 with resounding success. Up to the date of this report 44 out of 47 apartments are subject to preliminary sale agreements. Furthermore, a promise of sale agreement has been entered for the sale of an area at ground floor level earmarked to be opened as a Valyou supermarket.

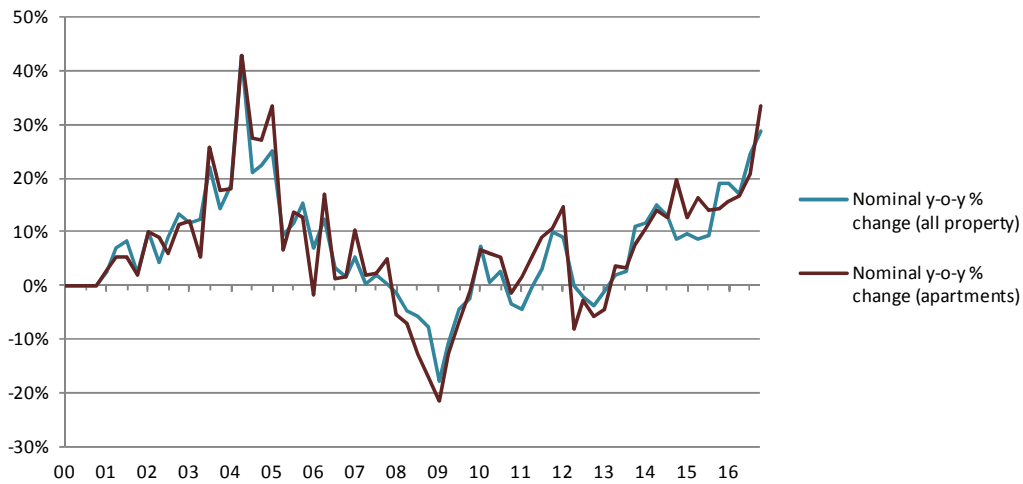
In the coming weeks, Pendergardens will be launching for sale on the market the residential units of Towers I & II, which include 28 3-bedroom units and 2 3-bedroom duplex penthouses. Also, in 2017, Pendergardens will be launching the Tower office space for lease. Furthermore, the public car park should be operational in a few months time.

5.3.2 Market Overview

Residential property prices continued to rise during the fourth quarter of 2016 (see Chart I below) and said prices are being supported by a number of factors. The scheme for first-time buyers and a low interest rate environment make property more attractive to purchase. Demand for property is also being supported by growth in disposable income, which continues to benefit from favourable labour market conditions. These factors in turn are contributing to robust growth in lending for house purchases. The rise in foreign workers in Malta and the Individual Investor Programme, have also been supporting residential property prices.

The Central Bank of Malta’s advertised property price index shows that house prices rose at an annual rate of 13.8% in the last quarter of 2016. Prices of apartments – the major component – continued to grow strongly in Q4 2016 at 8.9% over the previous quarter (such data mainly provides trend information as advertised property prices may not accurately reflect the prices at which sales actually take place).

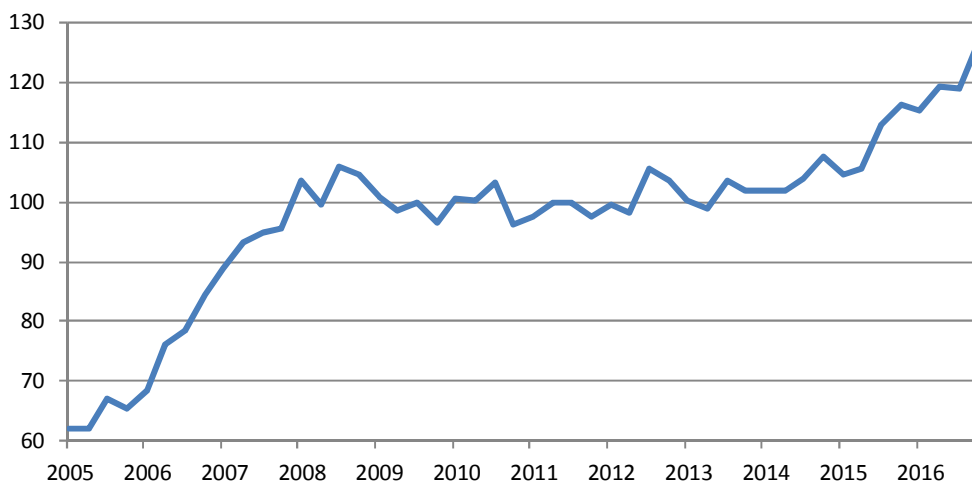
CHART I: Change in Property Prices



Source: Central Bank of Malta

Eurostat’s House Price Index for Malta – which is based on transactions covering terraced houses, apartments and maisonettes – also indicates that residential property prices increased. The latest data available refers to Q4 2016 and shows that said prices increased by 8.4% compared with the same quarter of 2015 (vide Charts II below).

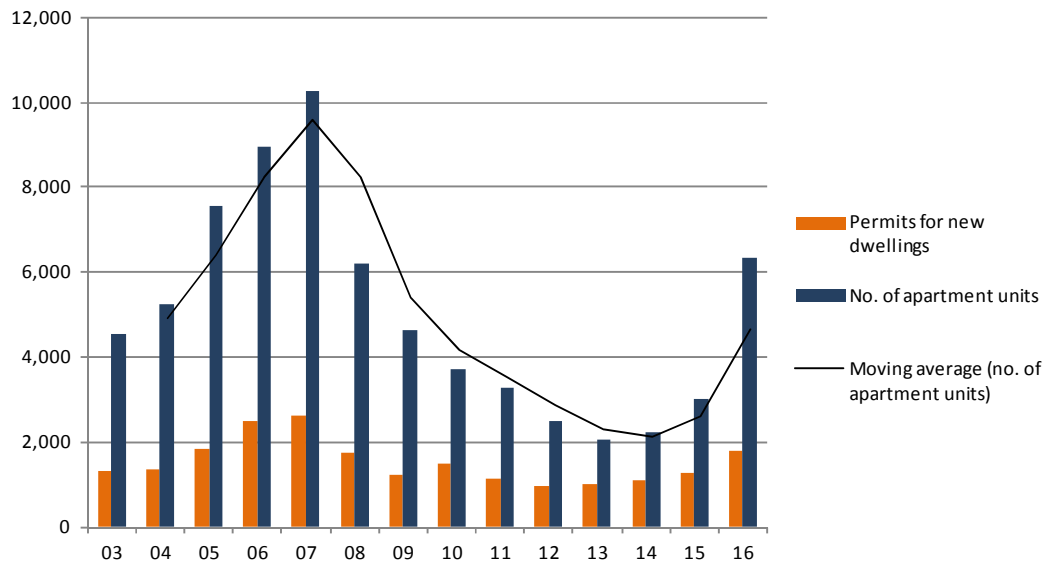
CHART II: Malta House Price Index



Source: Eurostat

With regard to the number of permits, in 2016, the Planning Authority issued 3,385 permits (2015: 2,425, +40% y-o-y) for the development of 7,508 units (2015: 3,947, +90% y-o-y). The increase in permits issued in 2016 was mostly driven by the largest residential category, namely apartments, which accounted for 84% of total number of permits.

CHART III: Development Permits for Dwellings



Source: Planning Authority

Gross value added (being the net result of output valued at basic prices less intermediate consumption valued at purchasers' prices) from the construction industry rose significantly by 16.6% in 2015 (in nominal terms), from €301.7 million in 2014 to €351.7 million, following an increase of just 2.4% in 2014. Although a y-o-y decline of €21.0 million or 6.0% was registered in 2016 to €330.7 million, it was still 8% higher than the average gross value added (€306.0 million) of the last six years (2011 – 2016).

Commercial Property

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

5.3.3 Trend Analysis

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

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

6. BUSINESS DEVELOPMENT STRATEGY

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

To sustain business growth and competitiveness, the Group is continuously streamlining its organisational structure to improve efficiency and enhance through the recruitment of professional management and strict cooperate governance, its strategic focus at operational level. Furthermore, the Group has restructured its borrowings to better match the funding requirements of its operations and manage debt repayment programmes.

7. MAJOR ASSETS OWNED BY THE GROUP

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

United Group Major Assets	FY2014 €'000	FY2015 €'000	FY2016 €'000
GB Buildings (<i>note 1</i>)	4,679	4,685	4,685
Other immovable properties (<i>note 2</i>)	1,237	582	1,329
Available-for-sale financial assets	617	645	417
	<u>6,533</u>	<u>5,912</u>	<u>6,431</u>

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

Note 2: A property was sold in FY2016 for a cash consideration of €0.45 million and another property for development into a business centre by the Group was acquired in FY2017 for a total value of €1.3 million.

Source: Consolidated audited financial statements of the United Group for the years ended 31 December 2014 to 2016.

PART 2 – GROUP PERFORMANCE REVIEW

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

8. FINANCIAL INFORMATION – THE ISSUER

The following financial information is extracted from the audited financial statements of the Issuer for each of the years ended 31 December 2014 to 31 December 2016. The forecasted financial information for the year ending 31 December 2017 has been provided by management of the Issuer.

United Finance p.l.c. Income Statement €'000	FY2014 Actual	FY2015 Actual	FY2016 Actual	FY2017 Forecast
Rental income from GB Buildings	331	360	370	385
Income receivable from financial assets	53	28	32	14
Interest receivable from Group companies	479	395	407	408
Bank and bills of exchange interest receivable	29	34	3	-
Total revenue	892	817	812	807
Interest payable and similar charges	(846)	(467)	(469)	(469)
Gross profit	46	350	343	338
Administrative expenses	(121)	(135)	(135)	(158)
Movement in fair value of financial assets	(36)	-	-	-
Profit/(loss) before tax	(111)	215	208	180
Taxation	-	77	(59)	(55)
Profit/(loss) for the year	(111)	292	149	125
Other comprehensive income:				
Movement in fair value of financial assets	(12)	28	22	-
Total comprehensive income/(loss) for the year	(123)	320	171	125

United Finance p.l.c. Cash Flow Statement €'000	FY2014 Actual	FY2015 Actual	FY2016 Actual	FY2017 Forecast
Net cash from operating activities	78	27	(11)	62
Net cash from investing activities	1,255	22	282	14
Net cash from financing activities	(1,849)	(133)	332	(439)
Net movement in cash and cash equivalents	(516)	(84)	603	(363)
Cash and cash equivalents at beginning of year	1,067	551	467	1,070
Cash and cash equivalents at end of year	551	467	1,070	707

United Finance p.l.c. Balance Sheet €'000	31 Dec'14 Actual	31 Dec'15 Actual	31 Dec'16 Actual	31 Dec'17 Forecast
Assets				
Non-current	10,976	11,135	10,867	10,611
Current	2,250	2,433	2,779	3,018
Total assets	13,226	13,568	13,646	13,629
Equity and liabilities				
Equity	4,145	4,464	4,485	4,490
Liabilities				
Non-current	8,861	8,801	8,819	8,826
Current	220	303	342	313
Total liabilities	9,081	9,104	9,161	9,139
Total equity and liabilities	13,226	13,568	13,646	13,629

Revenue principally comprises income from rental of commercial space in GB Buildings, which is currently fully occupied, and interest receivable from Group companies on amounts due to the Issuer. In FY2016, total revenue amounted to *circa* €812,000 (FY2015: €817,000). After deducting interest payable of *circa* €469,000 (FY2015: €467,000), the Issuer generated a gross profit of *circa* €343,000 (FY2015: €350,000) and net profit of *circa* €149,000 (FY2015: profit of €292,000). The main reason for this variance is due to a change in FY2015 in final withholding tax on property, which led to a positive deferred tax credit. Furthermore, in view of the tax losses transferred between Group entities last year, no current tax charge was incurred - this year (FY2016) no tax losses were available within the Group. It is expected that performance in FY2017 will be broadly similar to FY2016, and accordingly, the Issuer is forecasting a profit of *circa* €125,000.

As at 31 December 2016, apart from the property (GB Buildings), total assets of the Issuer primarily included loans and receivables due from Group companies of €5.8 million (FY2015: €5.8 million), available-for-sale financial assets of €0.4 million (FY2015: €0.6 million), trade and other receivables totalling €1.7 million (FY2015: €2.0 million) and bank balances. Trade and other receivables include *circa* €61,000 (FY2015: *circa* €118,000) in bills of exchange. Further to the transfer of the automotive business to Cars International Limited in June 2011, the United Group did not factor any bills of exchange, and therefore interest earned on bills of exchange has gradually decreased over the period under review. This income will eventually cease in 2017 when the remaining bills of exchange are fully repaid. Liabilities of the Issuer as at the end of FY2016 and FY2015 principally include €8.5 million in bonds.

9. FINANCIAL INFORMATION – THE GROUP

The following financial information is extracted from the audited consolidated financial statements of United Group Limited (the “Group”) for the three years ended 31 December 2014 to 31 December 2016. The financial information for the year ending 31 December 2017 has been provided by Group management.

United Group Income Statement (€'000)	FY2014 Actual	FY2015 Actual	FY2016 Actual	FY2017 Forecast
Retail	6,965	7,256	7,431	7,410
Automotive	2,518	2,472	2,127	2,465
Property	331	360	370	355
Revenue	9,814	10,088	9,928	10,230
Other income	17	14	(3)	192
Direct costs and administrative expenses	(8,786)	(9,053)	(8,694)	(8,933)
EBITDA¹	1,045	1,049	1,231	1,489
Depreciation and amortisation	(791)	(774)	(785)	(870)
Share of results of associates & jointly controlled entities	(624)	643	539	260
Dividends receivable	-	-	1,244	1,300
Movement in fair value of financial assets	(36)	-	-	-
Profit on disposal of properties	788	269	42	-
Profit on disposal on other assets	-	-	43	50
Earnings before interest and tax	382	1,187	2,314	2,229
Net finance costs	(915)	(601)	(692)	(912)
Profit (loss) before tax	(533)	586	1,622	1,317
Taxation	(50)	64	164	(271)
Profit (loss) for the year	(583)	650	1,786	1,046
Other comprehensive income				
Movement in fair value of financial assets	420	(341)	(29)	-
Total comprehensive income/(loss) for the year	(163)	309	1,757	1,046

¹ EBITDA - Earnings before interest, tax, depreciation and amortisation

United Group Cash Flow Statement (€'000)	FY2014 Actual	FY2015 Actual	FY2016 Actual	FY2017 Forecast
Net cash from operating activities	(2,372)	655	674	1,078
Net cash from investing activities	3,592	(523)	(2,342)	(1,080)
Net cash from financing activities	(3,083)	(47)	2,418	(486)
Net movement in cash and cash equivalents	(1,863)	85	750	(488)
Cash and cash equivalents at beginning of year	559	(1,304)	(1,219)	(469)
Cash and cash equivalents at end of year	(1,304)	(1,219)	(469)	(957)

United Group Balance Sheet (€'000)	31 Dec'14 Actual	31 Dec'15 Actual	31 Dec'16 Actual	31 Dec'17 Forecast
Assets				
<i>Non-current</i>				
Property, plant and equipment	3,632	3,714	3,431	4,000
Investment property	4,910	4,726	6,014	7,864
Investments in associates & joint ventures	2,616	2,861	3,901	4,161
Available-for-sale financial assets	617	645	417	417
Deferred tax assets	-	-	216	216
Trade and other receivables	1,530	1,319	173	173
	<u>13,305</u>	<u>13,265</u>	<u>14,152</u>	<u>16,831</u>
<i>Current</i>				
Inventories	1,939	1,572	1,655	1,561
Trade and other receivables	1,342	1,210	1,279	1,200
Taxation	-	-	289	289
Cash and cash equivalents	865	1,060	1,651	1,152
	<u>4,146</u>	<u>3,842</u>	<u>4,874</u>	<u>4,202</u>
Total assets	<u>17,451</u>	<u>17,107</u>	<u>19,026</u>	<u>21,033</u>
Equity and liabilities				
Equity				
Called up share capital	25	25	25	25
Other reserves	3,369	2,862	2,833	2,833
Retained earnings	(872)	(156)	1,631	1,877
	<u>2,522</u>	<u>2,731</u>	<u>4,489</u>	<u>4,735</u>
Liabilities				
<i>Non-current</i>				
Borrowings and bonds	8,605	8,524	8,937	11,514
Other non-current liabilities	523	399	456	456
	<u>9,128</u>	<u>8,923</u>	<u>9,393</u>	<u>11,970</u>
<i>Current</i>				
Borrowings and bonds	2,263	2,377	2,965	2,383
Other current liabilities	3,538	3,076	2,179	1,945
	<u>5,801</u>	<u>5,453</u>	<u>5,144</u>	<u>4,328</u>
	<u>14,929</u>	<u>14,376</u>	<u>14,537</u>	<u>16,298</u>
Total equity and liabilities	<u>17,451</u>	<u>17,107</u>	<u>19,026</u>	<u>21,033</u>

Key Accounting Ratios	FY2014	FY2015	FY2016	FY2017
Operating profit margin (EBITDA/revenue)	11%	10%	12%	15%
Interest cover (times) (EBITDA/net finance cost)	1.14	1.75	1.78	1.63
Net profit margin (Profit after tax/revenue)	-6%	6%	18%	10%
Earnings per share (€) (Profit after tax/number of shares)	-24	26	72	42
Return on equity (Profit after tax/shareholders' equity)	-23%	24%	40%	22%
Return on capital employed (EBITDA/total assets less current liabilities)	9%	9%	9%	9%
Return on assets (Profit after tax/total assets)	-3%	4%	9%	5%

Source: Charts Investment Management Service Limited

During **FY2015**, the Group generated revenue amounting to €10.1 million (FY2014: €9.8 million) and an EBITDA of €1.0 million (FY2014: €1.0 million). Revenue derived from the retail division increased by €0.3 million, from €7.0 million in FY2014 to €7.3 million in FY2015, whilst income from the automotive sector remained consistent at *circa* €2.5 million. Rental income from property amounted to €0.4 million in FY2015 as compared to €0.3 million a year earlier.

A loss before tax in FY2014 of €0.5 million was converted to a profit before tax in FY2015 of €0.6 million, primarily due to an increase in share of results of associate companies, from a loss of €0.6 million in FY2014 to a profit of €0.6 million in FY2015, and lower y-o-y net finance costs of €0.3 million. Conversely, profit on disposal of properties in FY2014 amounted to €0.8 million, as compared to €0.3 million in FY2015. Overall, profit for FY2015 amounted to €0.7 million (FY2014: loss of €0.6 million). After accounting for movement in fair value of financial assets, total comprehensive income in FY2015 amounted to €0.3 million (FY2014: expense of €0.2 million).

In **FY2016**, the Group's total revenue decreased from €10.1 million in FY2015 to €9.9 million (-2%), but EBITDA improved by €0.2 million from €1.0 million in FY2015 to €1.2 million. Revenue generated from the retail division increased y-o-y by €0.2 million (+2%) to €7.4 million, which however was mitigated by a decrease of €0.3 million from the automotive sector. Income from this division was higher in FY2015 mainly due to the operation of a vehicle recovery and towing service, which was disposed of in the same year. The core car rental & leasing business registered growth in FY2016

when compared to prior financial year. Rental income from property in FY2016 amounted to €0.4 million, a similar amount as in FY2015.

Profit before tax increased by €1.1 million in FY2016, from €1.2 million in FY2015 to €2.3 million, primarily due to dividends receivable from an associate entity of €1.2 million. Net finance costs increased marginally from €0.6 million in FY2015 to €0.7 million, whilst tax credit increased by €0.1 million to €0.2 million. Total comprehensive income for FY2016 amounted to €1.8 million (FY2015: 0.3 million).

It is projected that Group revenue will increase by €0.3 million in **FY2017** to €10.2 million when compared to the previous year, principally in consequence of expected improvements in performance of the Group's retail stores and new openings. Furthermore, the Group has adopted a more aggressive automotive leasing strategy.

EBITDA is projected to increase y-o-y by €0.3 million (+21%) to €1.5 million, mainly on account of better use of the Group's fashion retail space and the opening of a new store. In FY2017, profit before tax is forecasted at €1.3 million (FY2016: €1.6 million), as the Group is anticipating a dividend receivable from an associate entity of €1.3 million (FY2016: €1.2 million). Total comprehensive income is projected to amount to €1.0 million in FY2017 (FY2016: 1.8 million).

Total capital employed of the Group as at 31 December 2016 amounted to €13.9 million (FY2015: €11.7 million) and primarily comprised:

- Property, motor vehicles and other tangible assets amounting to €3.4 million (FY2015: €3.7 million);
- GB Buildings valued at *circa* €4.7 million (FY2015: €4.7 million);
- Other immoveable property (Qormi site) valued at *circa* €1.3 million acquired during the year*;
- Investments in Motors Inc. Limited, Cars International Limited and Pender Ville Limited, totalling €3.9 million (FY2015: €4.2 million);
- Available-for-sale investments of €0.4 million (FY2015: €0.6 million);
- Inventories (including the property in Msida), trade and other receivables amounting to €2.9 million (FY2015: €2.8 million)*; and
- Trade and other payables of €2.2 million (FY2015: €3.0 million).

** During 2016, the Group disposed of a property and acquired two new properties (one of which being the Qormi site for development into business facilities and the other in Valley Road, Msida, in partnership with other investors).*

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

United Group Net Borrowings (€'000)	31 Dec'14 Actual	31 Dec'15 Actual	31 Dec'16 Actual	31 Dec'17 Forecast
Net Borrowings				
Bank overdrafts (net of cash balances)	1,304	1,219	469	957
Bank loans	384	290	1,433	3,423
	1,688	1,509	1,902	4,380
Bonds				
5.3% Unsecured Bonds 2023	8,315	8,332	8,349	8,364
	8,315	8,332	8,349	8,364
Net Borrowings	10,003	9,841	10,251	12,744

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

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

	31 Dec'14	31 Dec'15	31 Dec'16	31 Dec'17
Gearing ratio (Net debt/net debt and shareholders' equity)	80%	78%	70%	73%

Source: Charts Investment Management Service Limited

Gearing (financial leverage) of the United Group has improved marginally during the three financial years FY2014 – FY2016 from 80% to 70%. In FY2017, the Group's gearing position is expected to increase slightly due to the additional bank loan required to develop the Qormi business centre. However, the significant expected dividend distribution from an associate company will neutralise substantially the gearing impact. The Group's gearing level is thereafter projected to decrease gradually through the term of the Bond as operational performance improves and cash reserves are accumulated by the Group, in line with the original bond projections.

Management does not expect any other material changes in the Group's financial position as at the end of FY2017.

Variance Analysis

United Group Income Statement (€'000)	FY2016 Actual	FY2016 Forecast	Variance
Retail	7,431	8,167	(736)
Automotive	2,127	2,236	(109)
Property and other income	367	384	(17)
Revenue	9,925	10,787	(862)
Direct costs and administrative expenses	(8,694)	(9,648)	954
EBITDA¹	1,231	1,139	92
Depreciation and amortisation	(785)	(862)	77
Share of results of associates & jointly controlled entities	539	72	467
Dividends receivable	1,244	2,268	(1,024)
Profit on disposal of properties	42	-	42
Profit on disposal on other assets	43	38	5
Earnings before interest and tax	2,314	2,655	(341)
Net finance costs	(692)	(594)	(98)
Profit before tax	1,622	2,061	(439)
Taxation	164	(157)	321
Profit for the year	1,786	1,904	(118)

¹ EBITDA - Earnings before interest, tax, depreciation and amortisation

As presented in the above table, the Group's revenue for FY2016 was lower than projected by €0.9 million, principally due to weaker than expected retail sales. However, actual EBITDA was broadly in line with forecast, as the adverse variance in revenues was offset by cost savings in direct costs and administrative expenses.

In FY2016, the share of results from associates and jointly controlled entities was significantly better than forecasted due to a positive performance by the Group's associate company. Gain on property disposal related to a property sold in FY2016 which was obtained as part of the Gzira property disposal consideration in FY2014.

Dividends receivable from an associate company were lower than projected by €1.0 million. This balance of dividend will be distributable by the said associate in FY2017.

A tax refund in respect of prior years' tax charge has offset the increase in net finance costs for the reviewed year. Actual profit for FY2016 amounted to €1.8 million, marginally lower than budgeted by €0.1 million.

10. RELATED PARTY DEBT SECURITIES

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

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

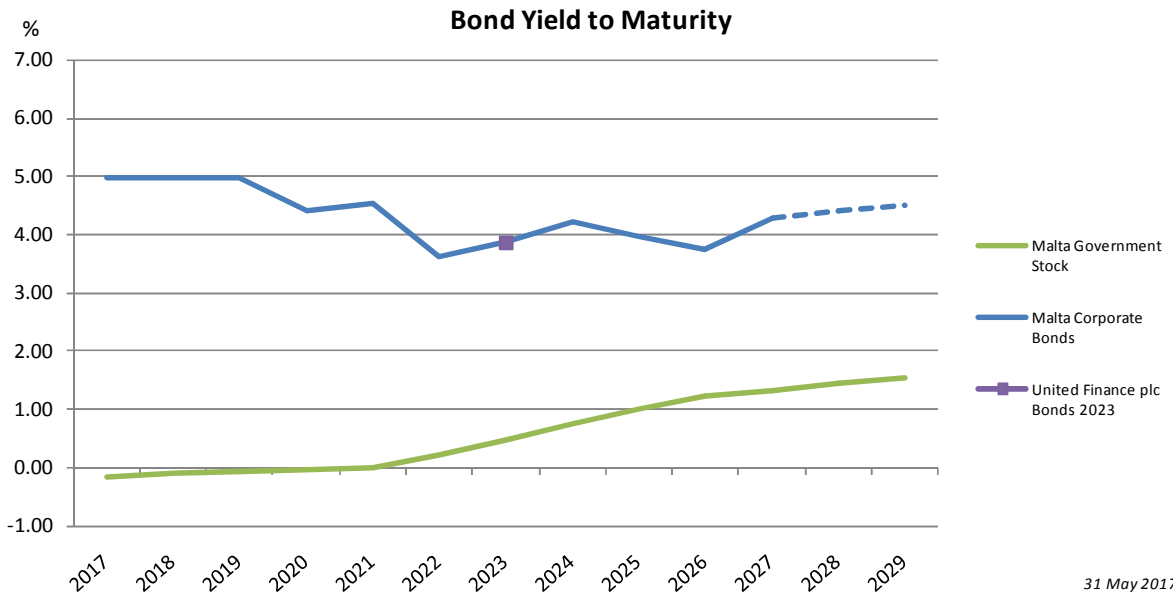
PART 3 - COMPARABLES

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

Comparative Analysis	Nominal Value (€)	Yield to Maturity (%)	Interest Cover (times)	Total Assets (€'000)	Net Asset Value (€'000)	Gearing Ratio (%)
5.5% Pendergardens Dev. plc Secured € 2020 Series I	15,000,000	4.41	1.49	63,273	11,488	63.23
6% Pendergardens Dev. plc Secured € 2022 Series II	27,000,000	3.62	1.49	63,273	11,488	63.23
4.25% Gap Group plc Secured € 2023	40,000,000	3.80	2.48	57,086	6,004	86.39
5.3% United Finance Plc Unsecured € Bonds 2023	8,500,000	3.87	2.05	18,153	3,796	73.85
6% AX Investments Plc € 2024	40,000,000	4.26	3.62	270,425	163,719	27.97
6% Island Hotels Group Holdings plc € 2024	35,000,000	4.71	0.98	144,003	52,994	53.41
5.3% Mariner Finance plc Unsecured € 2024	35,000,000	4.22	4.25	72,117	30,380	52.06
5% Hal Mann Vella Group plc Secured Bonds € 2024	30,000,000	4.46	0.02	82,096	32,298	54.54
5.1% PTL Holdings plc Unsecured € 2024	36,000,000	4.61	1.59	71,711	4,751	89.91
4.5% Hili Properties plc Unsecured € 2025	37,000,000	3.96	1.40	97,042	28,223	72.36
4.0% International Hotel Invest. plc Secured € 2026	55,000,000	3.68	2.46	1,220,254	646,822	36.39
4.0% MIDI plc Secured € 2026	50,000,000	3.58	0.59	203,780	67,359	40.62
3.75% Premier Capital plc € Unsecured Bonds 2026	65,000,000	3.50	6.87	193,351	41,630	58.76
4.35% SD Finance plc € Unsecured Bonds 2027	65,000,000	4.28	4.82	156,433	56,697	53.20
4.0% Eden Finance plc 2027	40,000,000	3.75	3.98	165,496	92,620	34.60

31 May'17

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



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

PART 4 - EXPLANATORY DEFINITIONS

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

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

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