Hal Mann Vella Group p.l.c.

Financial Analysis Summary

27 July 2015

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

27 July 2015

Dear Sirs

Hal Mann Vella Group p.l.c. Financial Analysis Summary

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

The purpose of the financial analysis is that of summarising key financial data appertaining to Hal Mann Vella Group p.l.c. (the "**Group**" or the "**Company**"). The data is derived from various sources or is based on our own computations as follows:

(a) Historical financial data for the four years ended 31 December 2011 to 31 December 2014 has been extracted from the audited consolidated financial statements of the Company.

(b) The forecast data of the Group for the years ending 31 December 2015 and 31 December 2016 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.

CHARTS
WEALTH MANAGEMENT ▪ CORPORATE BROKING

(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 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

TABLE OF CONTENTS

PART 1

1. KEY ACTIVITIES OF THE GROUP

Hal Mann Vella Group p.l.c. (the "**Company**", "**Issuer**" or the "**Group**") is the parent company of the Hal Mann Vella Group. The Group is principally engaged in the running of a diverse portfolio of business entities involved in: the supply of natural stone, manufacture of terrazzo tiles and pre-cast elements, general contracting services, hotel operations, property development and letting, and fashion retailing.

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

Under the management of brothers Martin Vella, Joseph Vella and Mark Vella, with the assistance of the other brothers and sisters, the Group has over the years supplied its products and provided general contracting services to a number of major projects in Malta (including Mater Dei Hospital, Sky Parks at the Malta International Airports, Valletta Waterfront, Hilton Malta and Radisson SAS Golden Sands, amongst others) and abroad (including London City Hall, Manchester Piccadilly Railway Station, Victoria Shopping Centre UK and Corinthia Tripoli, amongst others).

The Group is committed to maintain a strong presence in its target markets, especially in Malta, and is therefore constantly improving its manufacturing processes through investment in the latest machinery and techniques. Moreover, the management team continues to enhance the product range on offer, including the availability of tailor-made solutions, to ensure that the Group meets its customers' demands. The principal contracts currently being concluded by the Hal Mann Vella Group include Smart City, Life Sciences Park and the monumental project by Renzo Piano at City Gate Valletta.

The Hal Mann Vella Group is also involved in hospitality, through the ownership and operation of two hotels, the 66-room Mavina Hotel and the 26-room Huli Hotel, both located in Bugibba, Malta. Due to the close proximity of the two hotels, the facilities of both hotels are available to all residents, and include two restaurants, a pizzeria and two swimming pools. In December 2014, the Mavina Hotel ceased operations temporarily for refurbishment and is due for re-opening in FY2016. As such, income generated from hospitality in FY2015 and the initial part of FY2016 comprises the operations of the Huli Hotel and the Lovage Restaurant.

In 2006, the Group was awarded the franchise for the apparel brand 'Guess' and currently operates three outlets in Malta which are located at: Bay Street Complex, St George's Bay, St Julians; The Point Shopping Mall, Tigne, Sliema; and Bisazza Street, Sliema. The Guess brand was founded in 1981 in the United States and today is represented in *circa* 1,200 outlets worldwide. It offers lifestyle collections of contemporary apparel and accessories for men, women and children.

In the third quarter of 2014, the Group commenced operations of a fourth outlet located in Valletta, Malta under the franchise 'Brooks Brothers'. The brand was founded in 1818 and principally addresses the higher end segment of men's fashion. Through this outlet, the Group additionally offers be-spoke tailoring of men's suits. As of January 2015, the Group acquired two stores operating under the brand '7 Camicie', and in February of the current year another outlet was opened as a warehouse clearance store.

The Group is actively engaged in the acquisition and development of properties in Malta. As at the date of this report, the Group has 3 apartments and a number of garages available for sale situated at Northport Apartments, Xemxija Hill, Xemxija, Malta. Also included in the property portfolio are 12 apartments situated at Spinola Residence, Spinola Road, St Julians, Malta, which are leased to third parties. Furthermore, the Group has a 50% shareholding in a new development of 20 villas known as Madliena Ridge situated in Madliena Malta, which is nearing completion. Madliena Ridge Limited has, to date, sold 15 villas and a further 1 villa is subject to a promise of sale agreement.

2. DIRECTORS OF THE ISSUER

The Company is managed by a Board consisting of six directors entrusted with its overall direction and management. The Board currently consists of a Non-Executive Director as Chairman, three Executive Directors and two independent Non-Executive Directors.

Board of Directors

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

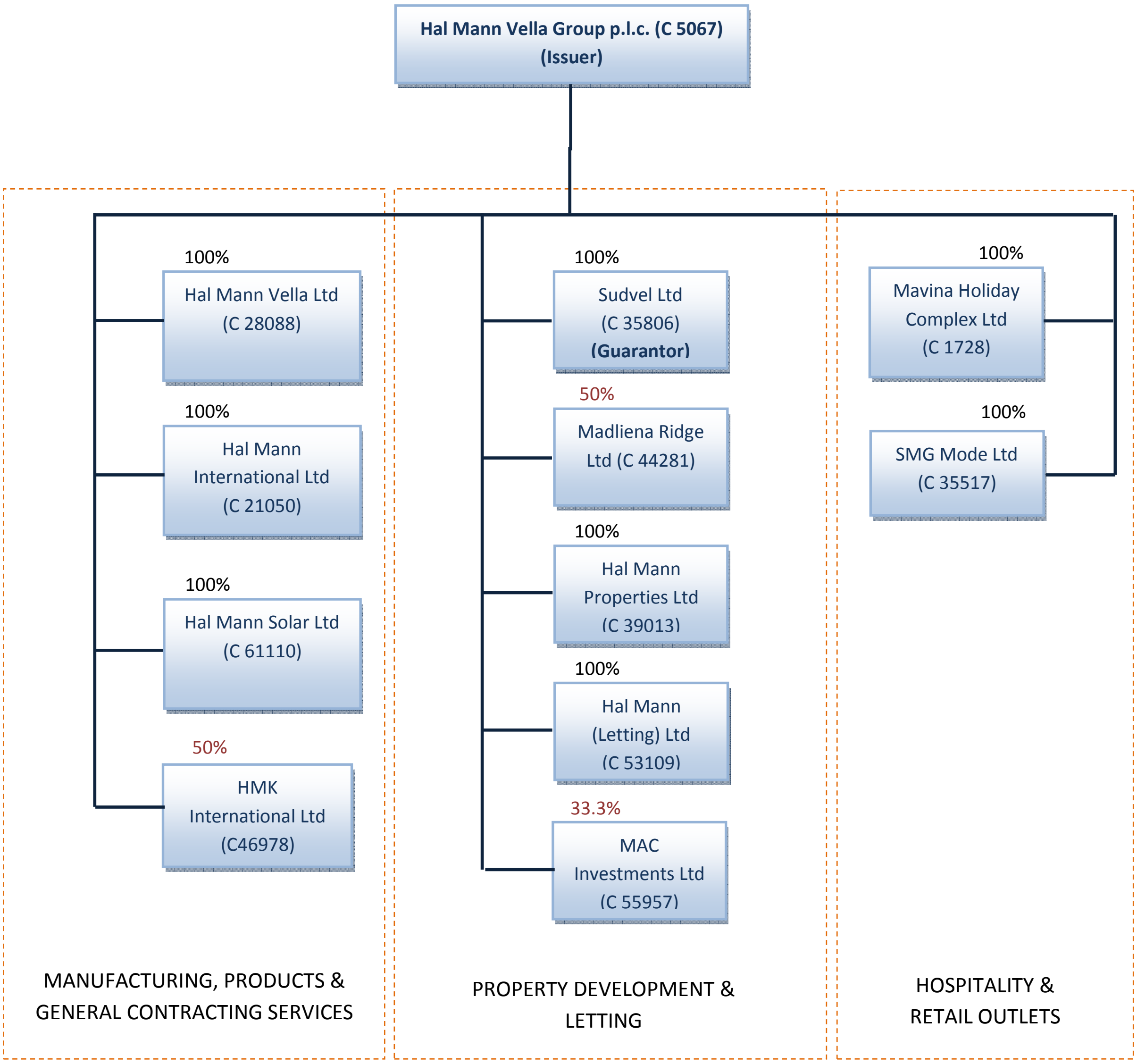
The Executive Directors of the Issuer are entrusted with the company's day-to-day management and are also directors or officers of other companies within the Hal Mann Vella Group. They are also responsible for the identification and execution of new investment opportunities and the funding of the Group's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

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

3. HAL MANN VELLA GROUP

3.1 ORGANISATIONAL STRUCTURE

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



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

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

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

3.2 OVERVIEW OF THE PRINCIPAL BUSINESS SEGMENTS

The Hal Mann Vella Group is organised into four distinct business units as detailed below:

3.2.1 Manufacturing, products & general contracting services

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

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

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

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

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

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

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

Terrazzo – This is the name given to the process of producing tiles, or pre-cast elements (staircases, risers, pool copings, vanity tops, covings, amongst others), from a cement based marble/granite aggregate mix. The Group uses high performance cements with special additives, combined with graded marble and granite aggregates. The main applications for terrazzo include public areas (such as airports, hospitals, schools, supermarkets and hotels) and private residences. The Group has recently managed to develop a new product with reduced permeability. Terraslik, as the product is known, is expected to generate additional demand especially for application in commercial and public areas.

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

The principal contracts undertaken by the Group in 2014 included: Smart City Kalkara, Valletta City Gate, House of Four Winds Valletta, Casa Ellul Valletta, the Life Sciences Park and ICT – University of Malta, and Midi plc – Q1 Project.

3.2.2 Property development & letting

Hal Mann Properties Ltd is a company set up to acquire property and engage in property development. Between 2008 and 2011, the company developed the Northport Apartments situated in Xemxija, Malta and which included 2 penthouses, 8 apartments and 13 garages. Units left for sale include: 1 apartment measuring 187m^2, 2 apartments each measuring 245m^2 (inclusive of a 75m^2 front garden) and 6 garages. The company's portfolio of immovable property also includes a number of garages, a maisonette and a villa sized plot (which is currently subject to a promise of sale agreement).

Hal Mann (Letting) Limited owns a block of 12 apartments and 12 car park spaces, known as Spinola Residence. The property is situated in Spinola Road, St Julians Malta. All apartments are currently leased to third parties.

Sudvel Limited is a holding company and owns a site measuring *circa* 5,200m^2 located within the premises of Hal Mann Vella in Lija. The site is earmarked for the development of a mixed-used commercial property. The company also owns 50% of a warehouse complex (known as 'Il-Binja il-Gdida') having a footprint of *circa* 1,200m^2 and situated in Pantar Road, Lija. The said property is leased to third parties except for the basement which is mainly utilised by the Group. Furthermore, Sudvel Limited owns 50% of a quarry located in the Limits of Naxxar measuring *circa* 12,000m^2 (which is currently subject to a promise of sale agreement) and a parcel of land measuring *circa* 17,000m^2 situated in Lija. The value of said sites as at 31 December 2014 amounted to €3.05 million and €0.38 million respectively. Furthermore, the company owns an apartment and a lock-up garage situated at Tas-Sellum, Mellieha Malta.

Madliena Ridge Ltd was incorporated to develop 20 villas on the site known as Madliena Ridge in Madliena Malta. Construction of the villas commenced in 2011 and will be completed in the current financial year. As at the date of this report the company has sold 15 villas and 1 other villa is subject to a promise of sale agreement. The company is actively marketing the remaining stock of 4 villas. The Group holds a 50% shareholding in the company through Hal Mann Properties Ltd.

3.2.3 Hospitality

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

The hotels were acquired by the Group in 1999 as separate blocks of apartments and offer basic accommodation to its residents, mainly targeting tour operator business. As further described in section 3.3.3 of this report, the Mavina Hotel was closed in December 2014 for refurbishment.

3.2.4 Apparel

The Guess franchise for Malta was awarded to SMG Mode Ltd in 2006, pursuant to the terms of an operating license agreement entered into with Guess Europe SAGL. To date the Group operates 3 outlets in Malta on the basis of this franchise. In the third quarter of 2014, the Group opened a fourth outlet operating under the Brooks Brothers franchise. In FY2015, the Group acquired the '7 Camicie' franchise and the brand's apparel is sold through two stores. A seventh outlet has been leased and operates as a warehouse clearance store.

The aforesaid outlets have all been leased from third parties as set out below:

Franchise	Address	Size of outlet	Expiry date of lease
Guess	Bay Street Complex, St George's Bay, St Julians	$96m^2$	2020
Guess	The Point Shopping Mall, Sliema	$189m^2$	2024
Guess	Bisazza Street, Sliema	$70m^2$	2025
Brooks Brothers	Republic Street, Valletta	$230m^2$	2058
7 Camicie	64A, Tower Road, Sliema	$80m^2$	2019
7 Camicie	Treasury Street, Valletta	$20m^2$	2019
Warehouse Clearance	254A, Zabbar Road, Fgura	$90m^2$	2025

3.3 BUSINESS DEVELOPMENT STRATEGY

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

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

3.3.1 Factory modernisation

The present factory and plant, situated in Lija, has been built over a number of years with the core plant and production line dating back to the 1970s. The current set-up has a number of limitations including the suboptimal logistical movement of materials within the factory premises, excessive time consumption between processes and lack of storage facilities.

In view of the above, the Group has in the past three years, engaged a number of consultants to prepare a detailed analysis of the current factory layout and work practices, with the objective of implementing necessary changes to improve operational efficiencies and increase capacity, mitigate rising costs and reduce lead time.

The Group is in the final stages of leasing from Malta Enterprise a factory in Hal Far measuring 14,000 square metres for a period of 65 years. The scope for acquiring this factory is to ease the operational flow at the Lija factory and to have sufficient capacity to consider new projects as and when they arise. Given the close proximity of this factory to the Malta Freeport, management plans to carry out the initial processes of materials (marble, granite and natural stones) at Hal Far, and subsequent stages of manufacture will take place at the Lija factory.

As such, the Group has allocated *circa* €5 million from Bond proceeds to execute a complete modernisation of the Lija factory, which will also include the acquisition of modern machinery and equipment for the production of stone, marble and other similar products. The new machinery and equipment will be placed in both factories (Lija and Hal Far). Works commenced shortly after the Bond Offer and is being structured in phases to allow for minimal disruption of production. It is expected that the said project will be completed by the fourth quarter of 2015.

The Lija factory has been designed to enable a re-organisation of processes, to introduce the latest technology in flexible mechanical and electrical systems and to meet international standards. Furthermore, the purpose built open plan factory floor should result in a more efficient utilisation of space which will release, for alternative use, part of the area occupied by the current factory. The Directors believe that with the modernisation of the Lija factory and the leasing of the Hal Far factory, the Group will be better positioned to increase production throughout, improve the quality of products, enhance its line-up of available products and reduce overall cost of production.

3.3.2 Land development

In view of the revised factory layout and logistical flow as detailed in section 3.3.1 above, an area measuring *circa* 5,200m^2 within the Group's property is being released from its current use as a storage area. It is the intention of the Group to develop the aforesaid parcel of land and construct a mixed-use commercial property measuring *circa* 3,600m^2 (net floor area). The proposed property will include two upper floors earmarked for office space, warehouse facilities at ground level and parking spaces, primarily for rental to third party tenants.

Designs for the proposed development are complete and the Group has submitted an application to the Malta Environment & Planning Authority. Subject to the issuance of development permits, the Group will be utilising *circa* €7 million of Bond proceeds for the construction and finishing of the property, which will provide when complete *circa* 14,000m^2 of rentable space. Construction works are expected to be finalised within 21 months from receipt of the necessary permits.

3.3.3 Hospitality

In an effort to maintain diversification of Group activities and optimise each of the business segments in which the Group operates, the Directors have resolved to enhance earnings generated from hospitality. As a result, the Group closed the Mavina Hotel for renovation in the fourth quarter of 2014. The property is currently made up of three separate blocks of 66 apartments. The initial phase of the project will entail bringing the hotel to shell form, connecting each floor of the three blocks, and constructing two additional floors. The next phase will include mechanical, electrical and plumbing works, interior and exterior finishes, floor tiles, bathrooms, external apertures and internal doors, soft furnishings and any other works necessary to complete the hotel. It is envisaged that the renovated hotel will comprise a total of *circa* 105 rooms.

The cost of the aforesaid works is estimated at *circa* €2.5 million and will be funded through bank financing. The project is also dependent on the attainment of planning and other permits. Subject to obtaining necessary permits and bank funding, works on the hotel should take *circa* 14 months to complete. As of the planned re-opening date, which is set for the second half of 2016, the Group expects to materially improve occupancy and achieved room rates at the hotel that would be more comparable to results achieved by other three-star hotels in the area. In accordance with the Directors' objective to increase income from hospitality, in 2014 the Group inaugurated a new restaurant in Bugibba by the name 'Lovage'. The restaurant has indoor and outdoor seating, and is focused on Mediterranean cuisine.

3.3.4 Retail

The Group is currently implementing an expansion programme in its retail segment. As at the date of this report the Group's complement of stores has increased to seven outlets: three stores under the Guess franchise, one outlet under the Brooks Brothers franchise, two stores selling 7 Camicie Brand apparel and the last store is operated as a warehouse clearance outlet. By operating a number of stores, certain fixed costs are reduced through economies of scale, which enables the Group to achieve lower operating fixed expenses per outlet. The Directors' strategy is to further grow this segment both in terms of number of store openings as well as availability of diverse brands, but will keep under review the performance of present outlets to determine the pace at which the Group's strategy for this area of business can be executed.

3.4 MARKET OVERVIEW

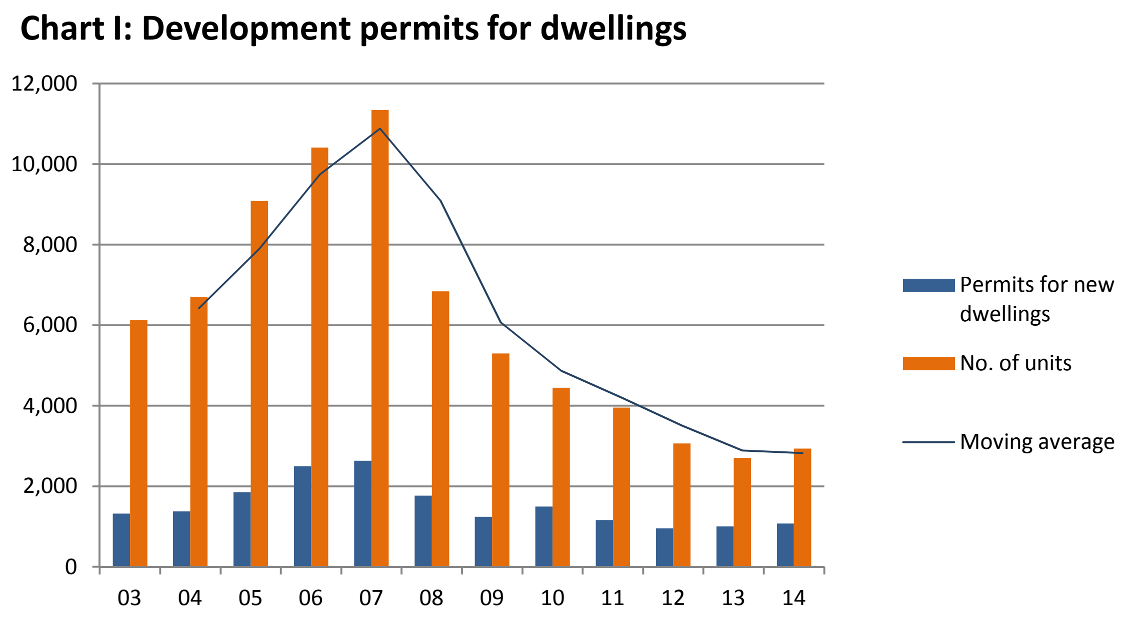
3.4.1 Manufacturing, products & general contracting services

The manufacturing, products and general contracting services segment is directly correlated to the construction industry in Malta which, in general, has been going through a slow period in the past few years.

New dwelling permits peaked in 2007, as depicted in Chart I below, with 2,636 permits issued during the said year, but declined thereafter at a constant rate to a ten-year low of 958 permits in 2012. A modest recovery was registered thereafter as permits increased by 12.1% to 1,074 in 2014. This increase was mostly driven by a rise in the largest residential category, namely apartments, which account for just over three-fourths of total permits issued. Permits for this type of property went up by 159, or 7.7% in 2014. On the other hand, permits for construction of the remaining property categories rose by 73 on aggregate. The total number of new dwelling permits is an indicator of the health of the construction sector, which is expected to remain weak but stable at least in the near term.

Over 2014, output in the construction sector reversed its declining trend as it rose by 1.4% in nominal terms compared with a drop of 3.2% in the previous year. Intermediate consumption, which includes purchases of materials for the industry, also recovered, though to a lesser extent. As a result, the gross value added of the construction industry rose by 1.6% compared with a decline of 2.0% in 2013.

Within the sector employees' compensation, consisting of wages & salaries and employers' social contributions, rose by 2.6% in 2014 compared with a decline of 2.3% in 2013. Moreover, the profit element rose by 1.0% against a decline of 2.8% in 2013.



Source: Malta Environment & Planning Authority

National statistics relating to commercial property in Malta is currently not captured and therefore 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.

In public infrastructure, the construction industry in Malta has benefited from EU funding programmes (European Regional Development Fund and Cohesion Fund) that commenced in 2007 and for which a maximum of 85% of approved projects were financed by the EU. Unlike other property sectors, public infrastructure is relatively resistant to economic shocks and cycles, as Governments recognise infrastructure investment as a prerequisite for sustainable economic growth. At EU level, this sector is set to maintain its importance as a tool to enhance economic growth and it is expected that such programmes will continue to form an integral part of the yearly budget. Furthermore, investment in public infrastructure is also driven by the need to replace ageing infrastructure, amplified by concerns over sustainability and environmental impact.

The Hal Mann Vella Group is exposed to all areas within the property sector and is not reliant on any particular niche market. The target demand for manufacturing, products & general contracting services includes both retail clients (residential and small to medium size commercial entities) and projects (local and international large-scale developments, public tenders and joint venture contracts). In the last four financial years ended 31 December 2014, revenue generated from retail and projects was broadly equal. This split provides a certain level of protection to the Group against any weakness experienced in any one particular niche market. In the near term, the Group plans to enlarge the showroom, increase products on offer and launch a marketing campaign with the aim of placing more emphasis on the more lucrative retail market.

3.4.2 Property development & letting

During the historical financial years under review, the Hal Mann Vella Group was primarily involved in the development of the Northport Apartments in Xemxija and the villas at Madliena Ridge. Most of the units have been sold or are subject to promise of sale agreements. In view of the softening of property market in recent years, as detailed in the above section, the Group has been fairly successful in its property offerings.

Rental income of the Group represents proceeds derived from the leasing of a warehouse complex known as 'Il-Binja il-Gdida' in Lija and a block of 12 apartments (Spinola Residence) located in St Julians. Both properties are leased to third party tenants, except for the basement level of the warehouse complex which is primarily utilised by the Group. On receipt of the relevant development permit, the Group will initiate construction of a mixed-use commercial property in Lija which will provide 14,000m^2 of rentable space. The Directors believe that there is a healthy demand for leasing good quality commercial property in Malta and are therefore confident that the new premises will be leased over a short timeframe once development is complete.

In view of the low to moderate outlook of the property sector in Malta, the Group will continue to source good quality property for development, trading and/or leasing commensurate with the level of demand in the market.

3.4.3 Hospitality

The buoyant performance of the tourism sector persisted for the fifth consecutive year. During 2014 tourist arrivals, nights stayed and expenditure recorded increases when compared with the previous year's levels. Tourist numbers rose by 6.8% to just under 1.7 million visitors. At the same time, nights stayed and the aggregate amount of spending went up by 4.9% and 6.1% respectively. Malta's performance also compares positively with other competing markets. According to the World Tourism Barometer, the global industry recorded an average growth in arrivals of 4.7%, while in the EU-28, tourist arrivals went up by 5.3%.

The number of non-package tourists climbed by 8.1% and accounted for almost 55% of total arrivals in 2014, while the number of tourists on package holidays went up by 5.1%. Similar to a year earlier, repeat visitors accounted for nearly a third of total tourists.

As in 2013, the vast majority of travellers, around 1.4 million, visited Malta for leisure purposes. This tourist category also accounts for most of the expansion in the number of arrivals, rising by more than 90,000, or 7.0% over 2013 levels. Meanwhile, 130,173 foreigners visited the islands for business and professional purposes, an increase of 10.3% over 2013.

With regard to Malta's tourist markets, during 2014 the United Kingdom remained Malta's most important source market, accounting for 28.9% of total arrivals. Additionally, this market contributed the largest increase in tourist arrivals, with over 33,000, or 7.3% on 2013. This has been mainly attributable to the introduction of British Airways flights to Malta and increased traffic on UK flights by low-cost airlines. At the same time, tourist arrivals from Italy, Malta's second largest source market, increased by 12.3% to 262,631 visitors, raising Italy's market share to 15.5%. Arrivals from France and Scandinavia also went up remarkably. The increase in French tourists is partly driven by the introduction of an additional route by a low-cost carrier during the course of the year. Improvements were also recorded by smaller source markets, mainly Dutch, Swiss, American and Belgian, while the combined number of visitors from other countries also surged.

Conversely, for the fourth year running, arrivals from Spain dropped, reflecting the cessation of some routes by low-cost carriers and possibly the continued weak demand in Spanish outbound leisure tourism. Notable declines were also recorded in the Russian, German and Libyan markets. The drop in visitors from Libya reflected the closure of scheduled routes to this country during the course of 2014, owing to the uncertain political situation there.

Malta International Airport data on passenger movements confirm the sustained expansion in tourism activity. The volume of tourist traffic through Malta's airport exceeded 4.2 million, a rise of 6.4% over 2013. This was partly stimulated by increased aircraft movements, reflecting the opening of new routes and additional flights to established destinations, including London, Rome, Brussels and Frankfurt. This led to a 4.8% growth in seat capacity.

Total nights stayed by tourists during 2014 rose by 4.9% on a year earlier. Nonetheless, since nights went up less rapidly than tourist arrivals, the average length of stay dipped marginally to 8.0 nights. When compared with a year earlier, nights stayed in collective and private accommodation during 2014 went up by 2.8% and 9.2%, respectively. Three-quarters of tourist arrivals spent their stay in collective accommodation, including hotels, aparthotels, guesthouses, hostels and tourist villages. The remainder stayed in private accommodation, which comprises self-catering apartments, farmhouses and private residences.

Malta International Airport has announced that it expects to host some 4.5 million passengers in 2015, forecasting a 7% growth over the previous year. Focus will be maintained on increasing traffic during the winter months and attracting more visitors from new markets to Malta. This bodes well for the Maltese hospitality industry to continue to grow revenues and increase profitability. Beyond 2015, Malta' EU Presidency in 2017 together with Valletta serving as the European City of Culture in 2018 are widely expected to generate increased demand for hotels and enhance Malta's image as a tourist destination, which would in turn generate future growth.

3.4.4 Apparel

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 2013. 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.

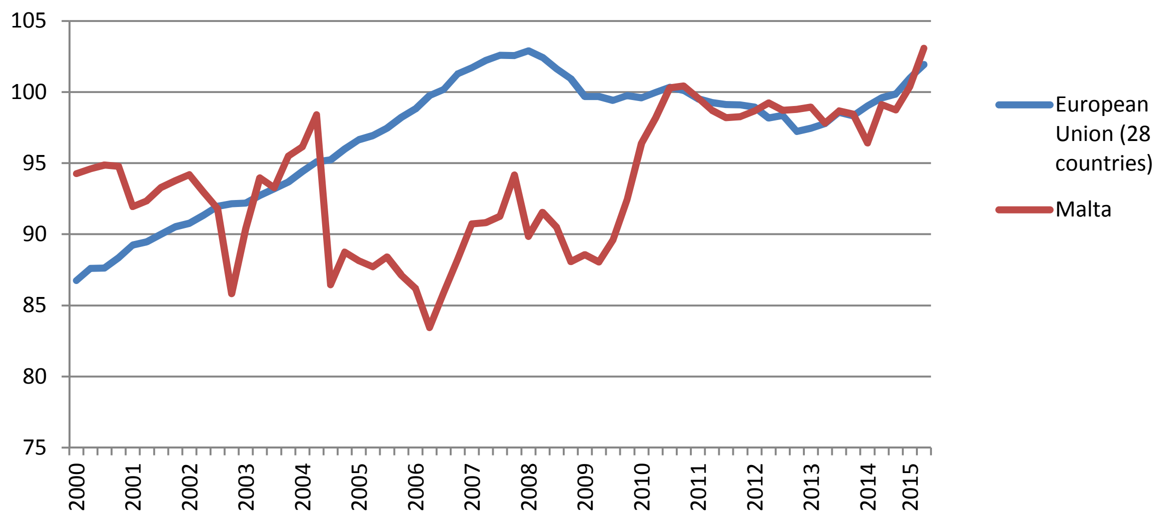
Turnover of Apparel Retail Stores in Malta	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**CAGR 2008-13**
0 – 9 employees							
Total turnover (€' million)	73	64	53	54	59	55	**-4.6%**
No. of outlets (units)	701	702	667	675	690	664	
Average turnover (€' million)	0.10	0.09	0.08	0.08	0.09	0.08	
Year-on-year growth		-12%	-14%	1%	8%	-4%	
10 – 49 employees							
Total turnover (€' million)	36	34	50	50	47	47	**4.5%**
No. of outlets (units)	18	17	28	28	28	33	
Average turnover (€' million)	1.98	2.02	1.77	1.80	1.66	1.41	
Year-on-year growth		2%	-12%	2%	-7%	-15%	
50 – 249 employees							
Total turnover (€' million)	46	52	68	64	77	83	**10.3%**
No. of outlets (units)	7	8	12	13	14	15	
Average turnover (€' million)	6.59	6.51	5.64	4.92	5.53	5.53	
Year-on-year growth		-1%	-13%	-13%	12%	0%	
Total Turnover (€' million)	**155**	**151**	**170**	**168**	**183**	**184**	**3.0%**
Year-on-year growth		-3%	13%	-1%	9%	1%	

Source: National Statistics Office Malta (NACE 47.71 data)

Chart II: Retail Apparel Market in Malta

Over the six year period to 2013, the total number of outlets decreased by 14 units (-2%) from 726 outlets in 2008 to 712 in 2013. In addition, it is observed that there has been a shift from smaller stores (a decrease of 37 units in 6 years) to larger ones (from 25 stores in 2008 to 48 stores in 2013). Moreover, consumer spending has also changed and shows a preference towards the larger stores. In fact, in the reviewed period, smaller outlets registered a compounded annual decrease in turnover of 4.6%, while the larger outlets recorded a compounded annual growth rate in turnover of 4.5% (mid-sized stores) and 10.3% (stores having >50 employees per outlet).

Chart III: Retail Trade (2010 = 100)



Source: EUROSTAT (retail trade except motor vehicles and motor cycles quarterly data)

Chart III 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 Q1 2015, revenue generated from retail sales in Malta and the EU (average) has been broadly stable with a positive trend. 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.

In general, the retail market in Malta is subject to stiff competition, both from local retailers as well as from online sales (through the internet). Notwithstanding this generic view, particular brands are performing better than others and continue to be sought after. The Directors are confident that with the availability of two top international brands in Malta – Guess and Brooks Brothers – the Group's outlets can compete well for a share of the retail market in Malta and should perform according to established projections. The latest addition of the 7 Camicie Brand is also expected to contribute positively to the Group's financial results.

3.5 MAJOR ASSETS

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

Major assets	**FY2014 €'000**	**FY2013 €'000**	**FY2012 €'000**	**FY2011 €'000**
Hal Mann factory, plant & machinery and adjacent buildings	22,888	19,854	14,020	13,989
50% of Warehouse Complex (known as 'il-Binja il-Gdida')	2,000	2,151	2,100	2,100
Site for the construction of a commercial building (5,200m^2)	5,000	3,630	3,630	3,630
50% shareholding in quarry in Naxxar (12,000m^2)	3,046	3,046	3,046	3,046
Site in Lija (17,000m^2)	380	380	380	380
Mavina and Huli hotels	4,934	4,972	4,844	1,457
Spinola apartments	2,327	2,372	2,421	
Northport apartments	747	1,295	1,917	2,301
Apartment and garage at tas-Sellum	462	462	462	462
Other assets	4,396	3,018	3,154	3,849
	46,180	**41,180**	**35,974**	**31,214**

Source: Consolidated audited financial statements of Hal Mann Vella Group p.l.c. for the years ended 31 December 2011 to 2014.

PART 2

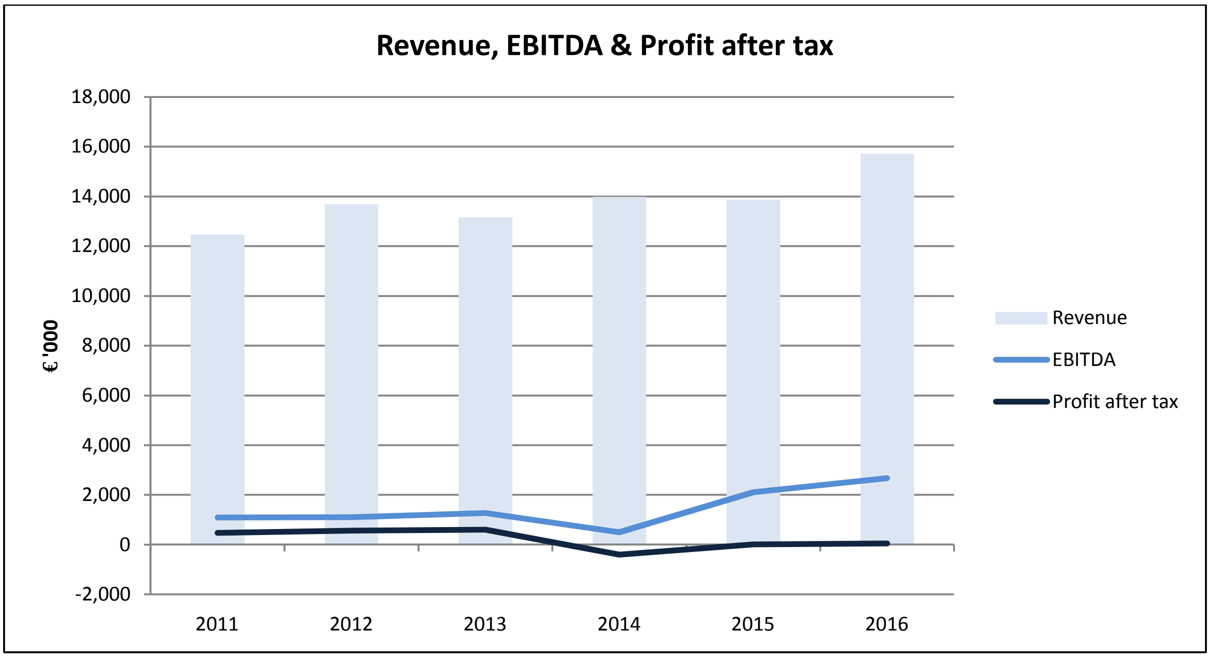
4. GROUP PERFORMANCE REVIEW

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

4.1 FINANCIAL INFORMATION

The following financial information is extracted from the audited consolidated financial statements of Hal Mann Vella Group p.l.c. (the "**Company**") for the four years ended 31 December 2011 to 2014. The financial information for the years ending 31 December 2015 and 31 December 2016 has been provided by the Company.

Hal Mann Vella Group p.l.c. **Consolidated Income Statement** **for the years ended 31 December** **(€'000)**	**2016** **Projection**	**2015** **Forecast**	**2014** **Actual**	**2013** **Actual**	**2012** **Actual**	**2011** **Actual**
Revenue	15,704	13,866	13,979	13,156	13,684	12,461
Manufacturing, products & contracting services	11,228	10,504	10,993	10,487	11,007	10,543
Property development & letting	1,246	845	851	1,173	1,224	800
Hotel operations & restaurant	880	236	434	373	393	321
Fashion retail	2,350	2,281	1,701	1,123	1,060	797
Net operating costs	(13,030)	(11,754)	(13,482)	(11,883)	(12,578)	(11,371)
EBITDA	**2,674**	**2,112**	**497**	**1,273**	**1,106**	**1,090**
Depreciation and amortisation	(1,140)	(827)	(568)	(558)	(402)	(431)
Change in fair value of investments & property	-	-	2,886	5,946	-	-
Share of results of joint ventures	260	320	127	779	324	167
Income - acquisition of shares from subsidiary	-	-	-	15	-	-
Other	-	-	80	-	(3)	-
Net finance costs	(1,871)	(1,780)	(1,070)	(835)	(604)	(616)
Profit before tax	**(77)**	**(175)**	**1,952**	**6,620**	**421**	**210**
Taxation	130	185	86	(780)	149	270
Profit after tax	**53**	**10**	**2,038**	**5,840**	**570**	**480**



For the purpose of comparing normalised earnings in the above chart, uplifts in fair value of property amounting to €2.4 million and €5.2 million in FY2014 and FY2013 respectively (after accounting for deferred taxation on the said revaluation) has been excluded from profit after tax of the relevant financial years.

The key accounting ratios are set out below:

	FY2016	FY2015	FY2014	FY2013	FY2012	FY2011
Operating profit margin *(EBITDA/revenue)*	17%	15%	4%	10%	8%	9%
Interest cover (times) *(EBITDA/net finance cost)*	1.43	1.19	0.46	1.52	1.83	1.77
Net profit margin *(Profit after tax/revenue)*	-	-	-3%[2]	5%[2]	4%	4%
Earnings per share (€)[1] *(Profit after tax/number of shares)*	-	-	-0.08[2]	0.13[2]	0.11	0.10
Return on equity *(Profit after tax/shareholders' equity)*	-	-	-1%[2]	2%[2]	3%	2%
Return on capital employed *(Operating profit/total assets less current liabilities)*	4%	3%	1%	3%	3%	3%
Return on assets *(Profit after tax/total assets)*	-	-	-1%	1%[2]	1%	1%

[1]Earnings per share calculation set out above has been based on the current number of shares in issue of the Company of 4,999,820 shares of €1 each.
[2] Uplifts in fair value of property of €2.4 million and €5.2 million in FY2014 and FY2013 respectively have been excluded from the computation.

Source: Charts Investment Management Service Limited

The Hal Mann Vella Group's revenue for FY2014 amounted to €14.0 million, reflecting an increase of €1.0 million on the turnover level registered in FY2013. The 7% increase in revenue was mainly due to better performance in the manufacturing, products & general contracting segment and the fashion retail segment.

The Group generates approximately 80% of revenue from manufacturing, sale of products & general contracting services. In the four historical financial years ended 31 December 2013, achieved income from this segment was stable at between €10.5 million to €11.0 million. Such income is derived from projects as well as retail customers in broadly equal proportions. During the years FY2011 to FY2014, the Group was principally involved in the following projects:

FY2014	FY2013	FY2012	FY2011
Smart City, Kalkara	Smart City, Kalkara	Tigne Point, Sliema	Smart City, Kalkara
Valletta City Gate	Valletta City Gate	Valletta City Gate	Fort Cambridge, Sliema
House of Four Winds, Valletta	House of Four Winds, Valletta	Fort Cambridge, Sliema	Spinola Residence, Sliema
Casa Ellul, Valleta	Casa Ellul, Valleta	Spinola Residence, Sliema	Ta' Monita, Marsascala
Life Sciences Park & ICT, University of Malta	Life Sciences Park & ICT, University of Malta	PriceWaterhouseCooper, Qormi	Skyparks, MIA Luqa
Midi plc – Q1 Project			

Other Group revenue principally included sale of property, hotel operations and fashion retail, which in aggregate amounted to €2.99 million in 2014 (2013: €2.67 million). Property sales mainly comprised the disposal of units at Northport in Xemxija, Malta and income from hospitality was earned through the operation of the Mavina and Huli Hotels in Bugibba, Malta. Income from retail was mainly achieved from the operation of three Guess outlets, since the Brooks Brothers outlet commenced operations in the latter part of 2014 and therefore did not have any material impact on revenue for the respective year.

As to EBITDA, the Hal Mann Vella Group registered a decrease of 61% (-€0.8 million) in FY2014 from €1.3 million in FY2013 to €0.5 million. The aforesaid reduction in EBITDA is principally due to the renovation programme at the factory that commenced during FY2014. Although the upgrades are being implemented in phases to minimise the impact on operations, the execution thereof has nonetheless slowed work flows and created temporary inefficiencies, thus resulting in an increase in operating costs. The Directors anticipate that the full benefits of the new factory layout and modern machinery will be reflected in the income statement (through growth in revenue coupled with a decline in operating costs) as of FY2016.

During the year ended 31 December 2014, immovable property at Lija, which includes the factory, showroom and adjacent buildings, was revalued by €2.4 million (net of deferred taxation). As a result, the profit for the year ended 31 December 2014 amounted to €2.0 million (2013: €5.8 million).

Share of results of joint ventures in FY2014 amounted to €0.1 million (FY2013: €0.8 million) and principally related to the income generated by Madliena Ridge Limited, of which, the Group has a 50% shareholding in the company. During the last two years, Madliena Ridge Limited was active in selling its portfolio of 20 fully detached villas in Madliena, Malta. The development is nearing completion stage and 5 villas (of which 1 is subject to a promise of sale agreement) remain available for sale. The Group is projecting that the remaining properties will be sold by FY2016.

Income generated from manufacturing, products & general contracting services and property development & letting is projected to remain broadly stable in FY2015 and FY2016. However, management is placing more emphasis on retail sales and smaller projects (rather than major contracts) as this segment provides more stable earnings at higher margins. In FY2015, the Directors upgraded and increased the retail space at the Lija showroom, increased the number of products on offer and will be launching a marketing campaign in the latter part of FY2015.

With respect to hotel operations, there will be a decline in revenue in FY2015 due to the closure for renovation of the Mavina Hotel. As to fashion retail, the Directors have maintained a prudent outlook and have therefore projected stable revenues for FY2015 and FY2016 at €2.3 million and €2.4 million respectively.

Hal Mann Vella Group p.l.c. Consolidated Cash Flow Statement for the years ended 31 December (€'000)	**2016 Projection**	**2015 Forecast**	**2014 Actual**	**2013 Actual**	**2012 Actual**	**2011 Actual**
Net cash from operating activities	4,059	4,981	(2,949)	747	(340)	1,970
Net cash from investing activities	(765)	(12,071)	(12,960)	(299)	212	(2,322)
Net cash from financing activities	(3,237)	14,080	25,138	(2,392)	(1,252)	678
Net movement in cash and cash equivalents	**57**	**6,990**	**9,229**	**(1,944)**	**(1,380)**	**326**
Cash and cash equivalents at beginning of year	7,522	532	(8,697)	(6,753)	(5,373)	(5,699)
Cash and cash equivalents at end of year	**7,579**	**7,522**	**532**	**(8,697)**	**(6,753)**	**(5,373)**

Net cash flows from operating activities principally relate to cash inflows generated in operational activities of the Group and movements in changes in working capital(in particular movements in inventory of property, receivables and property held for resale).

Net cash used in investing activities in FY2014 amounted to €13.0 million and mainly represented: acquisition of property, plant & equipment, and ongoing maintenance expenditure (€2.0 million); advances to related parties (€2.3 million) and financial assets (€8.6 million). Net cash used in investing activities in FY2015 will primarily include: (i) the modernisation of the factory and acquisition of new machinery and equipment; (ii) construction of the mixed use commercial property; and (iii) renovation of the Mavina Hotel.

In FY2014, the principal cash flows in financing activities related to net movement in bank borrowings, other loans and bond issue (+€25.6 million).

Hal Mann Vella Group p.l.c. Consolidated Balance Sheet as at 31 December (€'000)	**2016 Projection**	**2015 Forecast**	**2014 Actual**	**2013 Actual**	**2012 Actual**	**2011 Actual**
ASSETS						
Non-current assets						
Property, plant & equipment	39,117	39,474	29,246	26,086	20,005	25,790
Interest in joint-venture	2,711	3,451	2,562	2,622	2,112	1,788
Investment property	12,709	13,112	12,753	11,581	9,158	2
Financial assets	-	-	10,938	-	-	-
Other non-current assets	1,314	1,336	215	1,336	1,204	934
Non-current assets	**55,851**	**57,373**	**55,714**	**41,625**	**32,479**	**28,514**
Current assets						
Inventories	5,638	5,638	6,000	5,638	3,291	3,330
Property for resale	3,225	3,301	4,182	3,512	6,811	5,422
Trade and other receivables	10,362	10,342	10,627	9,281	11,853	13,104
Cash and cash equivalents	7,579	7,522	764	494	379	1,079
Current assets	**26,804**	**26,803**	**21,573**	**18,925**	**22,334**	**22,935**
Total assets	**82,655**	**84,176**	**77,287**	**60,550**	**54,813**	**51,449**
EQUITY AND LIABILITIES						
Total equity	**28,759**	**28,706**	**30,138**	**28,078**	**22,024**	**19,583**
Non-current liabilities						
Long-term borrowings	36,403	37,361	37,043	6,698	13,473	13,115
Trade and other payables	-	-	369	-	-	-
Deferred taxation	2,844	3,268	3,654	3,776	3,476	2,365
Non-current liabilities	**39,247**	**40,629**	**41,066**	**10,474**	**16,949**	**15,480**
Current liabilities						
Short-term borrowings	631	1,063	612	15,194	8,090	7,722
Trade and other payables	13,920	13,686	5,376	6,612	7,714	8,551
Current taxation due	98	92	95	192	36	113
Current liabilities	**14,649**	**14,841**	**6,083**	**21,998**	**15,840**	**16,386**
Total liabilities	**53,896**	**55,470**	**47,149**	**32,472**	**32,789**	**31,866**
Total equity and liabilities	**82,655**	**84,176**	**77,287**	**60,550**	**54,813**	**51,449**

Total assets as at 31 December 2014 amounted to €77.3 million (FY2013: €60.6 million) and principally include: (i) the factory, plant & machinery and other properties valued at €46.2 million (FY2013: €41.2 million) as detailed in section 3.5 above; (ii) investment in joint venture companies amounting to €2.6 million (FY2013: €2.6 million), mainly representing a 50% shareholding in Madliena Ridge Ltd; non-current financial assets of €11.0 million (FY2013: €1.3 million); (iii) inventories relating to factory raw materials, products, fashion retail and hotel consumables of €6.0 million (FY2013: €4.5 million); and (iv) trade and other receivables amounting to €10.6 million (FY2013: €10.4 million).

In FY2015, value of properties is expected to increase by €9.7 million, mainly as a result of the investment in modernising the factory floor and in new machinery & equipment, development of the mixed-use commercial property, and the renovation of the Mavina Hotel. Cash and cash equivalents as at 31 December 2015 is projected to amount to €7.5 million and will principally be utilised to complete the capital expenditure programmes initiated in FY2015.

Total liabilities represent trade and other payables which amounted to €6.6 million in FY2013 (FY2012: €7.7 million), deferred tax liabilities of €3.8 million (FY2012: €3.5 million) and borrowings as detailed below:

Hal Mann Vella Group p.l.c. Borrowings & Bonds as at 31 December (€'000)	**2016 Projection**	**2015 Forecast**	**2014 Actual**	**2013 Actual**	**2012 Actual**	**2011 Actual**
Bank borrowings						
Hal Mann International Ltd	-	-	-	1,221	1,798	2,436
Hal Mann Vella Ltd	-	-	-	1,632	540	876
Sudvel Ltd	-	-	-	-	-	-
Vinmar Ltd	-	-	-	-	-	-
Hal Mann Services Ltd	-	-	-	629	443	574
Hal Mann Properties Ltd	-	125	263	400	1,013	1,767
Hal Mann Industries Ltd	-	-	-	332	-	-
SMG Mode Ltd	-	-	-	290	191	179
Hal Mann (Letting) Ltd	261	822	1,431	1,601	1,620	-
Hal Mann Vella Group p.l.c.	460	580	1,867	1,163	1,192	1,306
Mavina Holiday Complex Ltd	2,078	2,289	-	140	-	-
Bank overdrafts	630	1,063	232	9,191	7,133	6,452
	3,429	**4,879**	**3,793**	**16,599**	**13,930**	**13,590**
Bonds						
5% Secured Bonds 2024	29,557	29,497	29,439			
	29,557	**29,497**	**29,439**	**-**	**-**	**-**
Other borrowings						
Shareholders' loans	3,330	3,330	3,330	3,338	5,438	5,623
Amounts due to related parties	718	718	1,094	1,955	2,196	1,625
(unsecured, interest free & no fixed date of repayment)						
	4,048	**4,048**	**4,424**	**5,293**	**7,634**	**7,248**
Total borrowings and bonds	**37,034**	**38,424**	**37,656**	**21,892**	**21,564**	**20,838**

The key accounting ratios are set out below:

	FY2016	FY2015	FY2014	FY2013	FY2012	FY2011
Net assets per share (€)[1]	5.75	5.74	6.03	5.62	4.40	3.92
(Net asset value/number of shares)						
Gearing ratio (%)	51	52	55	43	49	50
(Net debt/net debt + shareholders' equity)						
Liquidity ratio (times)	1.83	1.81	3.55	0.86	1.41	1.40
(Current assets/current liabilities)						

[1]Earnings per share calculation set out above has been based on the current number of shares in issue of the Company of 4,999,820 shares of €1 each.

Source: Charts Investment Management Service Limited

The gearing ratio (net debt/net debt + equity) demonstrates the degree to which the capital employed in a business is funded by external borrowings as compared to shareholders' funds. A company with high leverage tends to be more vulnerable when its business goes through a slowdown. At a leverage of 55% in FY2014, the Group's capital is funded to a higher degree from external debt as opposed to shareholders' funds. The Directors expect this higher leverage to be temporary as cash balances gradually increase through improved revenues and earnings generated from a more efficient factory, the new commercial premises and the re-opening of the Mavina Hotel.

PART 3

5. COMPARABLES

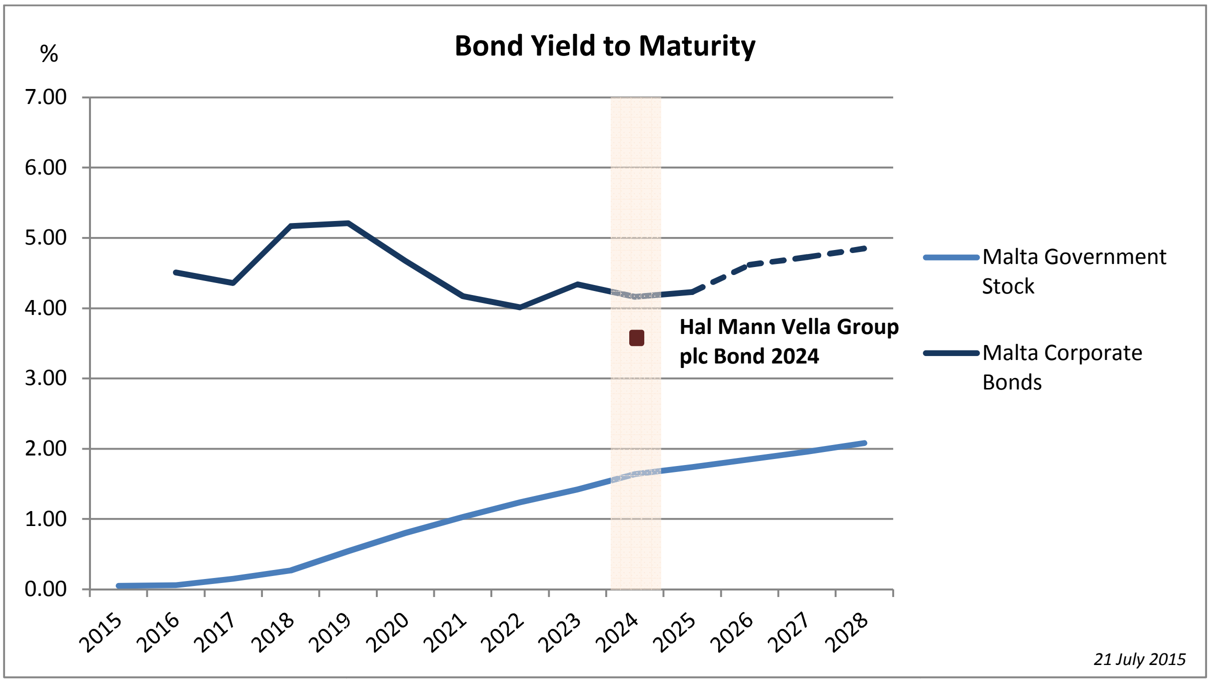
The table below compares the Company and its proposed bond issue to other debt issuers listed on the Malta Stock Exchange and their respective debt securities. The list includes all issuers (excluding financial institutions) that have listed bonds maturing in the medium term (within nine to ten years), similar to the duration of the Company's bonds. Although there are significant variances between the activities of the Company and other issuers (including different industries, principal markets, competition, capital requirements etc), and material differences between the risks associated with the Company's business and that of other issuers, the comparative analysis provides an indication of the financial performance and strength of the Company.

Comparative Analysis	**Nominal Value** (€'000)	**Yield to Maturity** (%)	**Interest Cover** (times)	**Total Assets** (€'million)	**Net Asset Value** (€'million)	**Gearing Ratio** (%)
6.0% AXI plc 2024	40,000	4.16	2.80	188.38	102.17	65.05
6.0% IHG Holdings plc 2024	35,000	4.46	2.65	149.76	40.37	201.23
5.3% Mariner Finance plc 2024	35,000	3.59	3.84	60.03	20.91	62.25
5.0% Tumas Investments plc 2024	25,000	3.63	3.34	281.07	95.10	137.46
5.0% Hal Mann Vella plc 2024	**30,000**	**3.53**	**0.51**	**77.29**	**30.14**	**55.04**
5.1% PTL Holdings plc 2024	36,000	3.65	1.04	72.48	6.13	87.51
5.75% IHI plc 2025	45,000	4.23	2.21	1,012.04	594.81	50.31
5.1% 6PM Holdings plc 2025	13,000	5.10	10.3	9.12	4.12	36.63
						21 July 2015

Source: Malta Stock Exchange, Charts Investment Management Service Limited
Annual Accounts: Tumas Group Company Ltd (YE 31/12/2013), International Hotel Investments plc (YE 31/12/2014), Island Hotels Group Holdings plc (YE 31/10/2014), AX Holdings Ltd (YE 31/10/2014), Mariner Finance plc (YE 31/12/2014), PTL Holdings plc (YE 31/12/14), Hal Mann Vella Group plc (YE 31/12/14), 6PM Holdings plc (YE 31/12/14)

The interest cover ratio determines the ability of a company to pay interest on its outstanding borrowings. For the financial year ended 31 December 2014, the Group's earnings before depreciation, interest and taxes was 0.51 times higher than interest expenses for the year. This is significantly below the minimum acceptable level of par (1.0 times). As explained elsewhere in the report, FY2014 is a transitory period for the manufacturing sector of the Group since major renovations are being implemented at the factory. This has created certain inefficiencies in production and as a consequence increased operating costs (and reduced EBITDA). Management believes that improved EBITDA should be achieved as from FY2016.

The debt to equity ratio or gearing ratio demonstrates the degree to which the capital employed in a business is funded by external borrowings as compared to shareholders' funds. A company with high leverage tends to be more vulnerable when its business goes through a slowdown. At a gearing ratio of 55%, the Group's external net debt is marginally higher than its shareholders' funds. The Group's management is satisfied with such leverage given that the expected increase in operations in the near term should enable the Group to reduce its gearing level by the redemption date of the Bonds.



To date, there are no corporate bonds which have a redemption date beyond 2025 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. The premium over Malta Government Stock has been assumed at 277 basis points, which is the average premium for medium term corporate bonds. The Hal Mann Vella Bond is currently trading at 189 basis points above Malta Government Stock.

PART 4

6. EXPLANATORY DEFINITIONS

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

Equity Ratios	
Earnings per share	Earnings per share (EPS) is the amount of earnings per outstanding share of a company's share capital. It is computed by dividing net income available to equity shareholders by total shares outstanding as at balance sheet date.
Cash Flow Statement	
Cash flow from operating activities	Cash generated from the principal revenue-producing activities of the Company.
Cash flow from investing activities	Cash generated from the activities dealing with the acquisition and disposal of long-term assets and other investments of the Company.
Cash flow from financing activities	Cash generated from the activities that result in change in share capital and borrowings of the Company.
Balance Sheet	
Non-current assets	Non-current asset are the Group's long-term investments, which full value will not be realised within the accounting year. Non-current assets are capitalised rather than expensed, meaning that the Group allocates the cost of the asset over the number of years for which the asset will be in use, instead of allocating the entire cost to the accounting year in which the asset was purchased. Such assets include investment properties, and property, plant & equipment and investments accounted for using the equity method.
Current assets	Current assets are all assets of the Group, which are realisable within one year from the balance sheet date. Such amounts include inventory, accounts receivable, cash and bank balances.
Current liabilities	All liabilities payable by the Group within a period of one year from the balance sheet date, and include accounts payable and short-term debt.
Net debt	Borrowings before unamortised issue costs less cash and cash equivalents.
Non-current liabilities	The Group's long-term financial obligations that are not due within the present accounting year. The Group's non-current liabilities include bank borrowings and bonds.
Total equity	Total equity includes share capital, reserves & other equity components, and retained earnings.
Financial Strength Ratios	
Liquidity ratio	The liquidity ratio (also known as current ratio) is a financial ratio that measures whether or not a company has enough resources to pay its debts over the next 12 months. It compares a company's current assets to its current liabilities.

Interest cover	The interest coverage ratio is calculated by dividing a company's EBITDA of one period by the company's interest expense of the same period.
Gearing ratio	The gearing ratio indicates the relative proportion of shareholders' equity and debt used to finance a company's assets, and is calculated by dividing a company's net debt by net debt plus shareholders' equity.