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USI Group Holdings AG
Interim Report 2014

The Company is pleased to report its financial results for the six month period ended 30 September 2014.

Shareholders will recall that, on 16th September 2013, your Board announced that the Company had acquired all of the ordinary shares of Goldlink United Limited, a British Virgin Islands corporation ("Goldlink"), in exchange for 11,241,463 shares of USI with a nominal value of CHF 10.00 each, valued at CHF 20.00 each for purposes of the "reverse acquisition". The exchange ratio reflected a valuation of total net assets acquired through Goldlink of $242 million (CHF 225 million) based upon the opinions of independent, professional valuers. These assets consisted primarily of a gold trading business based in Singapore conducted through a subsidiary, Royal Venture Pte Limited ("Royal") which was valued at $66 million and parcels of real estate in Tamil Nadu, India, which were valued at $175 million.

Due to the relative size of the of Goldlink purchase, the presentation and format of the consolidated financial statements for the six month period ended 30 September 2014 and the comparative figures in respect of the six months ended 30 September 2013 reflect a "reverse acquisition". The practical effect of this treatment is that the Income Statement reflects the income of Royal, the operating subsidiary of Goldlink, for the stated reporting periods and only the impact of the former USI Group from the date of the reverse acquisition. The former USI Group's results prior to the reverse acquisition are adjusted through reserves.

Your Company is presenting its interim financial statements in US dollars for the first time to more accurately reflect the main functional currency for the USI Group going forward.

Financial results

Total revenue included in the unaudited consolidated results for the six months ended 30 September 2014 ("Current Period") was $8.1 million compared to $25.4 million for the equivalent period in 2013. Income for the Current Period comprised rental income of $6.3 million (2013 - $0.6 million) and gold trading income of $1.7 million (2013 - $24.8 million). The decline in gold trading is discussed in more detail below; however, resumption of trading activity has accelerated during October and November with trading volumes now running at an annualised rate of approximately $50 million. The Company expects these volumes to increase further in the months ahead.

The Company is reporting a net loss of $10.3 million for the Current Period compared to a profit of $18.1 million for the comparable period in 2013. The net loss for the Current Period is stated after a non-cash reduction in the fair value of investment properties of $5.8 million (2013 – nil), administrative expenses of $3.9 million (2013 - $1.7 million), finance costs of $7.0 million (2013 - $0.7 million) and a non-cash gain on negative goodwill of $ nil (2013 - $19.4 million). In addition, the Company recognised a loss of $0.6 million during the Current Period resulting from the sale of the entire holding in an associated company. Gross proceeds of $8.2 million from that disposal have been used to repay borrowings and to augment working capital.

Excluding non-cash items, the Current Period loss equals $4.9 million compared to $1.3 million. Finance costs are expected to be lower in the second half of 2014/15 compared to the Current Period as a result of the refinancing of debt secured against the Company's properties in Leipzig, Germany announced on 10 September 2014 and as a result of repayment of other borrowings associated with pre-acquisition gold trading activities.

Total assets are reported at $227.8 million at 30 September 2014 compared to $300.4 million at 30 September 2013.

The Company's investment properties in Leipzig were independently valued at $174.4 million at 30 September 2014 compared to $195.0 million at 30 September 2013. The decline in value comprises $5.8 million in respect of fair value adjustments and $14.8 million in respect of adverse movements in the US Dollar/Euro exchange rate. There was a corresponding positive movement on the recognition of Euro denominated debt. Overall the net negative movement on the translation reserve during the Current Period was $3.2 million.

Current assets at 30 September 2014 were $28.2 million compared to $71.9 million at 30 September 2013. The reduction is primarily the result of a reduction of trade debtors to $16.4 million at 30 September 2014 from $64.6 million twelve months earlier. There was a corresponding reduction in trade creditors from $50.2 million to $2.1 million at 30 September 2014.

Total long and short term borrowings were reported at $142.6 million at 30 September 2014 compared to $156.7 million at 30 September 2013. Short term borrowings have reduced from $136.0 million at 30 September 2013 to $7.1 million at 30 September 2014, primarily as a result of refinancing the debt secured against the Leipzig properties.

As a result of the matters referred to above, total equity decreased to $40.2 million at 30 September 2014 from $54.1 million at 30 September 2013. However, as mentioned below, transactions completed after 30 September will increase shareholders' funds by $25.7 million during the second half of the financial year ending 31 March 2015.

Current activities

Royal is engaged in the wholesale trading of gold bullion and jewellery. At the time of the Goldlink acquisition, that business had been set to expand significantly through collaboration with one of India's largest gold manufacturers and importers with which the Company had negotiated a gold supply agreement. In the period leading up to and subsequent to the acquisition, however, the former Indian government imposed various restrictions on the import of gold into India in order to curb the demand for foreign currency which had contributed to a diminution in the value of the Indian rupee. These measures included higher duties, increased costs of financing and limitations on amounts that could be imported into India based on a percentage of gold items exported. Trading in gold was curtailed with official Indian gold imports falling. While restrictions on Indian gold imports have been only partially reduced since the election of Narendra Modi as India's new Prime Minister in May 2014, they are widely expected to be lessened. Mr Modi is a recognised pro-business politician and it is believed that restrictions on the importation of gold will be further eased or even eliminated over the medium term. Once that occurs, the Company expects to resume its activities there.

As a consequence of restrictions on exporting gold to India, Royal has focused on trading gold bullion solely within Singapore since August of this year. Consolidated revenues of Royal were reported at $1.7 million for the period ending 30 September 2014 compared to $24.8 million for the equivalent period in 2013 reflecting the Indian restrictions mentioned earlier. Gold sales in Singapore have since risen to an annualised rate of approximately $50 million based on trading during October and November 2014. The Group is financing working capital for its gold trading operations from proceeds of its convertible bond issue and is not reliant on bank financing.

Through the Goldlink acquisition, USI also acquired 90% of two Indian subsidiaries which hold development rights over 9.2 acres in Madhavaram and 97 acres in Sholingur, Tamil Nadu, India. Independent appraisals valued the development rights at more than $175 million at the time of the Goldlink acquisition. This value was reaffirmed by another independent appraisal as at 31 March 2014 and remains unchanged at 30 September 2014. While the USI subsidiaries have exercised their option to acquire the freehold interests of the Madhavaram and Sholingur properties, the value of those properties can only be reflected on the Company's balance sheet in accordance with International Financial Reporting Standards once all applicable governmental approvals have been obtained and certain restrictions relating to loans to previous owners have been removed. It is hoped that all of the restrictions will be removed and an increase in value of the properties will be reflected on the Company's balance sheet during the course of the current financial year; however, in the event that the delay persists, the Company expects to substitute one or both of these parcels of land with Indian properties of equivalent or greater value. Goldlink's former owner has now put forward several properties for potential substitution and due diligence including appraisals by internationally recognised firms are currently underway.

Demand for residential development in India remains high and all parcels of land under review have been earmarked for residential and related commercial uses. Large contiguous land tracts near urban centres are increasingly difficult to obtain in India, particularly with new land acquisition legislation which has increased cost and time for land purchases. It is believed that undeveloped parcels of land near major urban centres in India represent a good long-term store of value for your Company.

On 18 December 2014, the Company announced that it had sold the entire issued share capital of Tokyo Ventures Pte Limited, a wholly owned second tier subsidiary of the Company ("Tokyo") for $20 million. Tokyo had been engaged in holding certain non-core investment assets and was acquired in September 2013 in connection with the Company's acquisition of Goldlink. The purchase price for Tokyo may be satisfied either in cash or through the transfer to USI of assets and/or securities acceptable to the Company. Payment must be received in full prior to 31 March 2015. As part of the Agreement, the purchaser also acquired the entire issued share capital of Maxiwin International Pte Limited, Fortune Top Investments Pte Limited and Beaufort Overseas Trading Limited, minor subsidiaries of Goldlink, in exchange for the assumption by the purchaser of a payable of $1.4 million owed by the USI group. The effect of the sale is to reduce the number of subsidiaries in the USI Group and to increase shareholders' funds by $25.7 million, which is not reflected in the Company's results for the six months ended 30 September 2014.

Investment in Indonesia

Your Company has been reviewing investment opportunities in the coal and timber industries in Indonesia during the course of the last year as exports of these commodities are in high demand in India and constitute (together with gold) three of the five largest Indian imports.

On 2 December, your Board announced that one of its subsidiaries had agreed to make a working capital loan to an Indonesian company which owns a producing coal mine in Indonesia with 30 million tonnes of inferred resources. That company has entered into an agreement to supply coal to an Indonesian subsidiary of Mercuria Energy Group, a Swiss commodity trading company and one of the world's largest traders of coal ("Mercuria"). This coal principally will be exported to India, which is one of the world's largest coal importers. Under the terms of the working capital loan, USI will receive a mine service fee of $5 per metric tonne of coal sold and has negotiated the right to convert its loan at any time prior to 31 March 2015, into a 51% ownership interest in the mine.

USI's shipments to Mercuria, along with direct coal exports to India, are expected to grow significantly. At the same time, the Company is taking steps through a newly appointed manager based in Indonesia, to acquire, process and market tropical hardwood timber from Indonesia for export to India, one of the world's largest tropical hardwood importing and consuming markets.

Other activities

During May and August, the Company sold all of its shareholding in Public Service Properties Investments Limited realising approximately $8.2 million which has primarily been used to repay short term borrowings of the Group. Following that sale, the Company's remaining assets consist of four office buildings in Leipzig, Germany (the "Leipzig Properties").

The Leipzig Properties

The Leipzig Properties were constructed in 1995 and leased until 31 March 2020 to the Free State of Saxony (Covenant strength AAA), which has the right to extend the lease for an additional period of 5 years. Annual rent payable under the lease is currently €9.4 million and is subject to periodic escalations. In September 2014, the Group successfully completed a €96 million refinancing secured against the Leipzig Properties with the new debt consisting of senior, junior and subordinated tranches. The €50 million senior loan has been provided on an interest only basis at a fixed rate of 5% per annum, repayable in March 2020. The €31 million junior loan has been provided on a fully amortising basis over the same period with interest payable at a fixed rate of 3% per annum on the outstanding principal. The €15 million subordinated loan accrues interest on a compounding basis at a fixed rate of 8% per annum. The Group has agreed to acquire the subordinated loan on or before 31 July 2016 at a premium of between 0% and 9% of the principal amount and accrued interest, depending on the time of repayment.

Rental income continues to be received from the Leipzig Properties without interruption in accordance with the terms of the lease: however, the Company's independent valuer reduced the value of the Leipzig Properties to €137.5 million at 30 September 2014 from €141.8 million at 31 March primarily to reflect the shortening of the unexpired lease term. The Company expects to begin negotiations for an extension of the lease with the Government of Saxony in late 2015/early 2016.

Overall, your Company is pleased with its progress to date in spite of the setbacks in gold trading noted above and continued delays in bringing its real estate assets in India onto the Company's consolidated balance sheet. Efforts to build the gold business and the trading of other commodities has commenced as have efforts to substitute the Company's Indian properties, if necessary. It remains your Board's intention to declare dividends once its acquired business interests are consolidated and stabilized.

We look forward to reporting the results of our endeavours as part of the Company's full year results to 31 March 2015.

USI Group Holdings AG
Dr. Volkert Klaucke (Chairman)
Approved by the board: 29 December 2014

2014 Interim Report
The document is available at www.usigroupholdings.ch

Full information concerning the Company's Board members and other matters are available from the Company's website at www.usigroupholdings.ch.

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SIX Swiss Exchange – symbol USIN, security number 227.101, ISIN CH0002271010