



USI®

USI Group Holdings AG

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USI Group Holdings AG
Interim Report 2015

The Company is pleased to report its financial results for the six month period ended 30 September 2015 (“H1 2016”).

The first half of the year has been a period of development albeit against a back drop of challenging markets. Our most notable progress has been the conditional acquisition of land in proximity to the East Coast Road (“ECR Property”) near Chennai in eastern India in substitution for a parcel of real estate that the Company acquired as part of the Goldlink acquisition in 2013. The ECR Property, for which an international real estate valuation firm has placed a development value in excess of \$90 million, has been conditionally acquired in exchange for the transfer of 4 million shares (valued at CHF 20 per share) previously issued to Goldlink’s former owner and an investment by the Company of up to \$8 million of cash. The ECR Property is presently designated as agricultural land and a change in land use (“CLU”) is being obtained prior to the transfer of the unencumbered freehold interest and development rights to the Company. We expect the ECR Property to provide substantial development opportunities in the years ahead.

The Company continues to own four investment properties in Leipzig (“the Leipzig Properties”) which 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 escalation. The Leipzig Properties generate net cash flow of approximately €5.5 million per annum, all of which is being used to amortise debt secured against them.

In the current environment, the Company is not planning to expand its trading activities but rather to increase its focus on securing additional land parcels in India and sourcing other investment opportunities there. I comment in more detail on our current activities below, after discussing our unaudited consolidated financial results for H1 2016.

FINANCIAL RESULTS

Total revenue included in the consolidated results for H1 2016 was \$30.8 million compared to \$8.1 million for the first six months of FY 2015 (“H1 2015”). Income for H1 2016 comprised gold trading income of \$25.6 million (H1 2015 - \$1.7 million) and rental income of \$5.2 million (H1 2015 - \$6.3 million).

The Company is reporting a net loss of \$3.8 million for H1 2016 compared to a loss of \$10.2 million for H1 2015. The net loss for H1 2016 is stated after a non-cash reduction in the fair value of the Leipzig Properties of \$4.1 million (H1 2015 – \$5.8 million) and administrative expenses of \$1.9 million (H1 2015 - \$3.9 million). Finance costs for H1 2016 were stated at \$3.1 million (H1 2015 - \$7.0 million) and included a positive movement in foreign exchange rates of \$1.1 million (H1 2015 – nil).

Excluding non-cash items, the Company's loss for H1 2016 totalled \$0.9 million (H1 2015 - \$4.6 million).

Total assets are reported at \$191.7 million at 30 September 2015 compared to \$189.4 million at 31 March 2015. The Leipzig Properties were independently valued at €35.7 million (\$152.5 million) at 30 September 2015 compared to €39.4 million (\$151.2 million) at 31 March 2015. The net increase in value comprises \$5.4 million in respect of positive movements in the US Dollar/Euro exchange rate offset by \$4.1 million of reduction in the Leipzig Properties fair value. While there was a corresponding adverse movement on the recognition of Euro denominated debt of \$3.5 million, overall the net positive movement on the foreign exchange translation reserve during H1 2016 was \$0.8 million.

Current assets at 30 September 2015 were \$15.9 million compared to \$13.9 million at 31 March 2015. Current liabilities at 30 September 2015 were stated at \$35.0 million compared to \$9.8 million at 31 March 2015. The primary reason for the increase is the transfer of €15 million from long term to current borrowings in respect of subordinated debt (and accrued interest) secured against the Leipzig Properties which is due to be refinanced by 31 July 2016. Long term borrowings at 30 September 2015 were \$109.7 million compared to \$120.7 million at 31 March 2015. Provision for a gross dividend of \$7.0 million was made at 30 September 2015, although I am pleased to note that 83% of this amount was satisfied through the delivery of treasury shares with only \$1.2 million paid in cash.

As a result of the matters referred to above, total equity (prior to re-issuance of any treasury shares) decreased to \$33.9 million at 30 September 2015 compared to \$38.2 million at 31 March 2015. Although net assets at 30 September 2015 are stated after deducting \$13.4 million in respect of treasury shares, total equity will increase by a similar amount once the Company exchanges those shares for cash or other assets in the days ahead.

In September 2015, the Company's shareholders approved the payment of a dividend of CHF 0.5 per share, the Company's first declared dividend since 2004. As mentioned above, 83% of shareholders elected to receive dividend shares valued at CHF 13.50 per share.

CURRENT ACTIVITIES

Land Development in India

Through the Goldlink acquisition, USI acquired development rights over 106.2 acres of land in Tamil Nadu, India, which independent appraisals valued at over \$175 million at the time and in subsequent independent reports as of 31 December 2014 and 31 March 2015 respectively. As previously reported, the value of these properties can only be reflected on the Company's balance sheet in accordance with IFRS once all applicable governmental approvals have been obtained and certain restrictions relating to loans to previous owners have been removed. While it was hoped that these restrictions would be removed during FY 2015, the delay has persisted. As a result, the Company has wanted to locate alternative properties, and in this context, announced in May 2015 a conditional agreement to acquire 80 acres out of a possible 120 acres of land in proximity to the East Coast Road near Chennai. The Company has now conditionally acquired 94.5 acres of ECR Property and is negotiating to acquire other parcels of land in the same geographic region. It is hoped that the value of all the new properties will be reflected on the Company's balance sheet during the course of FY 2016.

Demand for residential and commercial real estate 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 the cost and time required to consummate land purchases. Since 2007, property values in India have risen on average by 9% p.a. and residential properties near Chennai have risen on average by 20% p.a. It is believed that development properties comprising parcels of land near major urban centres in India represent a very good long-term store of value.

The Leipzig Properties

Rental income is being received from the Leipzig Properties without interruption in accordance with the terms of the lease: however, as reported earlier, the Company's independent valuer reduced the value of the Leipzig Properties to €135.7 million at 30 September 2015 from €139.4 million at 31 March 2015, 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 the months ahead.

Gold

The Group is engaged in the wholesale trading of gold bullion in Singapore. This business had been set to expand significantly in collaboration with large gold manufacturers and importers in India. However, in 2013 the Indian government imposed various restrictions on the import of gold into India in order to curb 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. As a result, trading in gold was curtailed with official Indian gold imports falling dramatically. As a consequence of these Indian restrictions, the Group has focused on trading gold bullion solely within Singapore. Restrictions on Indian gold imports have been partially reduced since November 2014 and they are expected to be lessened further. As these restrictions are removed, the Company expects to commence direct gold trading to India.

Coal

In December 2014, your Board announced that one of its subsidiaries had agreed to make a working capital loan to an Indonesian company, PTSBB, which owns a producing coal mine in Indonesia. PTSBB has entered into an agreement to supply coal to an Indonesian subsidiary of a major international commodity trading company principally for export to India, which is one of the world's largest coal importers. Under the terms of the current working capital loan, which matures on 31 March 2018, USI receives interest on the loan at a rate of 10% per annum and a mine service fee of \$3 per metric tonne of coal sold. Due, in part, to the fall in global commodity prices, demand for the Indonesian coal has fallen. As a consequence, coal production at PTSBB was halted in September and is not expected to restart until February / March 2016. Revenue from the Company's investment in Indonesia was \$0.3 million in H1 2016.

Overall, your Company is pleased with its progress to date in spite of weakness in global commodities markets and continued delays in bringing its real estate assets in India onto the Company's consolidated balance sheet. Efforts to acquire new parcels of land have been successful and are continuing to be pursued. We expect to report further progress in the not too distant future.

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

USI Group Holdings AG

Dr. Volkert Klauke (Chairman)

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The document is available at www.usigroupholdings.ch

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