



USI GROUP HOLDINGS AG

**ANNUAL REPORT AND
ACCOUNTS**

**FOR THE YEAR ENDED
31 DECEMBER 2010**



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DIRECTORS AND ADVISORS

DIRECTORS

Dr. iur. Victor Lanfranconi (Executive Chairman)
Dr. Robert Bider (Non-Executive)
Mr. Armin Hilti (Non-Executive)
Dr. Volkert Klaucke (Non-Executive)
Mr. William Vanderfelt (Non-Executive)
Mr. David Quint (Executive)
Dr. Doraiswamy Srinivas (Executive)

AUDITORS

PricewaterhouseCoopers AG
Birchstrasse 160
8050 Zurich
Switzerland

COMPANY SECRETARY

Dr. Doraiswamy Srinivas

ASSET MANAGER

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c/o RP&C International Limited
31a St. James's Square
London
SW1Y 4JR
United Kingdom

REGISTRAR

SAG SIS Aktienregister AG
Baslerstrasse 100
Postfach
CH-4601 Olten
Switzerland

LEGAL ADVISORS (as to Swiss Law)

Bär & Karrer AG
Brandschenkestrasse 90
CH 8027 Zurich
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Bahnhofstrasse 106
Postfach 1317
8001 Zurich
Switzerland

REGISTERED NUMBER

CH-020.3.922.903-6



CHAIRMAN'S STATEMENT

The Company is pleased to report its financial results for the year ended 31 December 2010.

The Company's two principal assets at 31 December 2010 were a 94.9% interest in a partnership which owns four buildings in Leipzig, Germany leased to the Free State of Saxony (the "Leipzig Properties") and a 20.07% equity holding in Public Service Properties Investments Limited ("PSPI") a property investment company listed on the Alternative Investment Market ("AIM") of the London Stock Exchange which primarily invests in property leased to specialist operators in the care home sector in the UK and Germany.

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 €8.9 million and is subject to periodic escalations. The purchase price for this acquisition was €166 million, which was principally financed by a €121 million senior debt facility lead by the Royal Bank of Scotland plc – Niederlassung, Frankfurt ("RBS") which was concluded on 4 January 2008.

Shareholders will recall that in December 2008, the RBS syndicate commissioned a valuation of the Leipzig Properties which concluded that their gross market value was €158 million even though all of the rental income had been received without interruption in accordance with the terms of the lease and all debt service covenants contained in the RBS facility had continued to be met in all respects. As a result, the Company found it necessary to raise additional equity and secure some second mortgage funding during 2009 in order to repay €14.6 million of the RBS facility and to restore the 70% loan to value ("LTV") ratio contained in the RBS facility agreement based on the lower valuation.

In December of 2009, the RBS syndicate commissioned another valuation which concluded that the gross market value of the Leipzig Properties had fallen to €149.3 million. Consequently, in March, 2010 the RBS syndicate notified the Company that the LTV ratio in the RBS loan facility had again risen above 70%, the maximum permitted. As a result of the notification the Company agreed to waive its right to extend the RBS facility agreement beyond October of 2010. Despite numerous attempts by the Company's advisors and management during 2010, the Company was not able to obtain alternative financing. As a consequence, it negotiated two extensions with the RBS syndicate which now expire at the end of June, 2011. Recently, the Company has obtained offers to provide debt financing for the Leipzig Properties which involve both a longer term senior facility and a shorter term subordinated facility. The shorter term facility is expensive and contains numerous penalties including potential forced re-sale if the shorter term facility is not be repaid within 2 years. As management of the Company believes these facilities to be the only reasonable alternative available to the Company in the short term and that options exist to repay the subordinated debt given time, we are working to conclude the new facilities as soon as possible.

The Company would stress that all rental income has been received from the Leipzig Properties without interruption in accordance with the terms of the lease and that all debt service covenants contained in the RBS facility have continued to be met in all respects. However, due to an increase in interest rates in the Eurozone brought about by financial problems with certain Eurozone members such as Greece, Ireland, and Portugal, the Company's valuers have valued the properties at €167.1 million as of 31 December, 2010 representing an increase in the capitalisation rate of 4.70% used at 31 December, 2009 to 5.17% used at 31 December 2010. This capitalisation rate reflects a premium of 1.90% over the current yield on the ten-year German Government Bond. In spite of the decline in value brought about by financial uncertainties the Company remains satisfied that the Leipzig Properties offer excellent long-term value for the Company's shareholders.

The Company's investment in PSPI has been held since that Company listed on AIM through an initial public offering ("IPO") in March 2007. In April 2010, PSPI raised an additional CHF 41 million (£25 million) through an Open Offer to existing shareholders by issuing new shares at a discount to the net asset value. The proceeds of the Open Offer will primarily be used for capital expenditure to expand the UK care home portfolio. The

Company subscribed for a further 3.75 million shares in PSPI as part of the Open Offer and it now holds 20.07% of PSPI's enlarged capital base. As a result of exercising less than the Company's full entitlement under the Open Offer, the Company is required to recognise a notional disposal which creates a non cash charge of CHF 4.3 million during the year ended 31 December 2010. In March 2011, PSPI announced a 7.7% increase in the total dividends payable in respect of 2010.

PSPI reported a 25% increase in earnings for 2010, adjusted to exclude non cash and one off items. Net assets at 31 December 2010 were CHF 178 million (2009 – CHF 171 million) and it maintains a conservative loan to value ratio of only 52% (2009 – 53%).

The Swiss Franc appreciated by 12% against sterling and 19% against the Euro between the end of 2009 and the end of 2010 resulting in a negative foreign exchange movement of approximately CHF 16.6 million which has been adjusted through the translation reserve in the Company's balance sheet.

Overall, the Company is reporting a loss of CHF 31.6 million for the year ended 31 December 2010 compared to a loss of CHF 3.0 million for the year ended 31 December 2009. However, these numbers reflect several non cash items and one off items relating to alleged non-compliance with the LTV covenant breach on the Leipzig Properties which, if excluded, would have resulted in an adjusted loss for 2010 of CHF 2.6 million compared to a loss of CHF 1.2 million for 2009.

As stated above, the Directors of your Company have written down the value of the Leipzig Properties to €167.1 million, in line with the view of its own independent external valuer. As a result of that write down and adjusting for foreign exchange losses, gross assets at 31 December 2010 were CHF 284 million compared to CHF 369 million at the end of 2009 and investment properties at the end of 2010 totalled CHF 208 million compared to CHF 273 million at the end of 2009.

Investment in associates (i.e. PSPI) was carried at CHF 36 million at the end of 2010 compared to CHF 43 million at the end of 2009 with the net reduction due to a notional disposal of CHF 4.8 million as a result of the Company reducing its holding in the enlarged capital base of PSPI from 25.16% to 20.07%, foreign exchange losses of CHF 4.8 million and dividends received of CHF 2.1 million, offset by a purchase of CHF 4.3 million of new shares as reported above.

Shareholders' funds at 31 December 2010 were CHF 82 million compared to CHF 126 million at 31 December 2009.

Our Company's objective has been to focus on investment opportunities which offer predictability and sustainability of cash flow, preservation of capital and potential for further capital appreciation. We have continued to pursue those objectives as we have considered various strategic options for our Company. During the past several months, management of your Company has been exploring various strategic options for the Company which would provide it with the size and scalability that present market conditions favour. One such option has now progressed to a stage where agreements are being negotiated leading to a formal combination. Assuming that the discussions are concluded successfully, we expect to finalize documentation and announce plans for the Company within the next several weeks. Your Directors are excited by the prospects presented and look forward to providing details as soon as possible.

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. iur. V. Lanfranconi (Chairman)

Approved by the board: 28 April 2011

**USI GROUP HOLDINGS AG
DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2010**

The Directors present their report and the audited consolidated financial statements to the shareholders for the year ended 31 December 2010.

PRINCIPAL ACTIVITY

The Company's principal activity is that of an investment holding company. The consolidated income statement is set out on page 7. The activities of the subsidiaries are that of investment property companies or intermediate financing and holding companies.

DIRECTORS

The Directors of the Company at 31 December 2010, all of whom have been directors for the whole of the year then ended unless otherwise indicated were:

- Dr. iur. Victor Lanfranconi (Executive Chairman)
- Dr. Robert Bider (Non-Executive)
- Mr. Armin Hilti (Non-Executive)
- Dr. Volkert Klaucke (Non-Executive)
- Mr. William Vanderfelt (Non-Executive)
- Mr. David Quint (Executive)
- Dr. Doraiswamy Srinivas (Executive)

SECRETARY

The secretary of the Company at 31 December 2010 was Dr. Doraiswamy Srinivas, who has been secretary since his appointment on 30 June 2005.

AUDITORS

The appointed auditors are PricewaterhouseCoopers AG, Zurich, Switzerland.

DIRECTORS' INTERESTS

The following Directors' interests in the shares of the company were as stated below:

	31 December 2010	31 December 2009
Dr. iur. V. Lanfranconi	541,565	541,565
Dr. Robert Bider	Nil	Nil
Mr. Armin Hilti	1,992	1,992
Dr. Volkert Klaucke	Nil	Nil
Mr. William Vanderfelt	17,365	17,365
Mr. David Quint	Nil	Nil
Dr. Doraiswamy Srinivas	Nil	Nil

The Company has in issue 63,739 (2009 - 63,739) shares indirectly held by RP&C International (Guernsey) Limited. David Quint and Dr. Doraiswamy Srinivas are both directors of RP&C International Inc, the parent company of RP&C International (Guernsey) Limited. The shares are held by Monkwell Investments Limited (formerly USI Limited), a company incorporated in the British Virgin Islands.

By order of the board



Dr. iur. Victor Lanfranconi
Chairman

Date: 28 April 2011

Report of the statutory auditors
to the general meeting of
USI Group Holdings AG
Zurich

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Report of the statutory auditor on the consolidated financial statements

As statutory auditor, we have audited the accompanying consolidated financial statements of USI Group Holdings AG, which comprise the consolidated income statement, consolidated statement of comprehensive income, consolidated balance sheet, consolidated cash flow statement, consolidated statement of changes in shareholders' equity and notes to the consolidated financial statements on pages 7 to 42 and 48 to 50, for the year ended 31 December 2010.

Board of Directors' Responsibility

The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS), Article 13 of the Additional Rules for the Listing of Real Estate Companies of the SIX Swiss Exchange and the requirements of Swiss law. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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

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

Opinion

In our opinion, the consolidated financial statements for the year ended 31 December 2010 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with the International Financial Reporting Standards (IFRS) and comply with Article 13 of the Additional Rules for the Listing of Real Estate Companies of the SIX Swiss Exchange and Swiss law.

Emphasis of matter

We draw attention to Note 3 "Financial and Other Risk Management" to these consolidated financial statements, where disclosures by management are made regarding the fact that the Group's investment property asset is primarily financed by one senior debt facility, which is scheduled to be repaid in 2011. If the term of the senior debt facility is not extended or if the financing can not be substituted, such a case would set the Group at risk of potential illiquidity. This indicates the existence of a material uncertainty which may cast significant doubt about the ability of the Group to continue as a going concern. Our opinion is not qualified in respect of this matter.

Report on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

PricewaterhouseCoopers AG



Patrick Balkanyi
Audit expert
Auditor in charge

Michael Ruble

Zurich, 28 April 2011

USI GROUP HOLDINGS AG
CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2010

	NOTE	2010 CHF	2009 CHF
Revenue		12,269,009	13,350,031
Fair value (loss) / gain on investment properties	11	(23,196,125)	2,203,940
Administrative expenses	6a	(3,986,178)	(4,719,993)
Other income	6b	64,235	225,596
Net financial income	7	341,219	499,709
Operating profit		(14,507,840)	11,559,283
Net finance costs	8	(16,326,993)	(16,741,486)
Share of profit of associates	12	342,089	2,533,881
Exceptional loss on disposal of associate	12	(4,793,080)	-
Loss before income tax		(35,285,824)	(2,648,322)
Income tax expense	21	3,658,961	(352,630)
Loss for the year		(31,626,863)	(3,000,952)
Attributable to:			
Equity holders of the Company		(31,626,863)	(3,000,952)
		CHF per share	CHF per share
Basic loss per share	9	(32.62)	(3.50)
Diluted loss per share	9	(32.62)	(3.50)

The notes on pages 12 to 42 form part of these financial statements.

USI GROUP HOLDINGS AG
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2010

	2010	2009
	CHF	CHF
Loss for the period	(31,626,863)	(3,000,952)
Other comprehensive income		
Cash flow hedges	5,918,721	582,736
Tax relating to cash flow hedges	(946,995)	(93,654)
Currency translation differences	(16,557,075)	2,387,134
Other comprehensive income for the period	(11,585,349)	2,876,216
Total comprehensive income for the period	(43,212,212)	(124,736)
Attributable to:		
Equity holders of the Company	(43,212,212)	(124,736)

The notes on pages 12 to 42 form part of these financial statements.

USI GROUP HOLDINGS AG
CONSOLIDATED BALANCE SHEET
FOR THE YEAR ENDED 31 DECEMBER 2010

	NOTE	2010 CHF	2009 CHF
ASSETS			
Non-current assets			
Investment property	11	208,230,163	273,479,102
Investments in associates	12	35,888,448	42,973,682
Receivables and prepayments	15	2,492,833	2,974,862
		246,611,444	319,427,646
Current assets			
Receivables and prepayments	15	33,247,124	41,316,247
Cash and cash equivalents		3,759,092	8,279,390
		37,006,216	49,595,637
TOTAL ASSETS		283,617,660	369,023,283
EQUITY			
Capital and reserves			
Share capital	17	67,837,767	67,837,767
Share premium	17	11,617,985	11,617,985
Treasury shares	17	(1,811,769)	(1,144,164)
Cash flow hedging reserve		(62,856)	(5,034,582)
Translation reserve		(41,783,209)	(25,226,134)
Retained earnings		46,424,849	78,051,712
TOTAL EQUITY		82,222,767	126,102,584
LIABILITIES			
Non-current liabilities			
Borrowings	18	26,997,899	32,889,802
Derivative financial instruments	16	-	3,127
Deferred taxation	19	81,637	3,261,836
Other financial liability	20	3,227,755	3,729,137
		30,307,291	39,883,902
Current liabilities			
Trade and other payables	22	1,713,330	58,556
Borrowings	18	165,618,496	193,442,602
Accruals	23	3,755,776	3,778,457
Derivative financial instruments	16	-	5,757,182
		171,087,602	203,036,797
TOTAL LIABILITIES		201,394,893	242,920,699
TOTAL EQUITY AND LIABILITIES		283,617,660	369,023,283

The notes on pages 12 to 42 form part of these financial statements.

USI GROUP HOLDINGS AG
CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2010

	NOTE	2010 CHF	2009 CHF
Cash flow from operating activities			
Cash generated by operations	24	6,466,834	3,180,982
Interest paid		(11,765,574)	(12,544,904)
Income tax paid		(52,198)	(5,165)
Net cash used in operating activities		(5,350,938)	(9,369,087)
Cash flow from investing activities			
Dividends received	12	2,067,134	1,724,962
Interest received		168,792	411,420
Net cash used in investing activities		2,235,926	2,136,382
Cash flow from financing activities			
Proceeds from borrowings		2,150,000	17,533,161
Payments in relation to borrowings		-	(220,028)
Purchase of treasury shares - net		(667,605)	(479,631)
Repayment of borrowings		(2,680,494)	(22,152,909)
Payment of swap breakage costs	8	-	(978,942)
Capital increases	17	-	16,959,359
New issue costs	17	-	(417,367)
Par value capital reduction	17	-	(7,396,986)
Net cash (used) / generated by financing activities		(1,198,099)	2,846,657
Net Increase / (decrease) in cash and cash equivalents		(4,313,111)	(4,386,048)
Movement in cash and cash equivalents			
Cash and cash equivalents at beginning of year		8,279,390	12,797,029
Net increase / (decrease)		(4,313,111)	(4,386,048)
Foreign currency translation adjustments		(207,187)	(131,591)
Cash and cash equivalents at end of year		3,759,092	8,279,390

The notes on pages 12 to 42 form part of these financial statements.

USI GROUP HOLDINGS AG
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2010

NOTE	Attributable to equity holders of the Company						
	Share capital	Share premium	Treasury Shares	Translation reserve	Retained Earnings	Cash flow hedging reserve	Total Equity
	CHF	CHF	CHF	CHF	CHF	CHF	CHF
Balance as of 1 January 2009	64,619,736	5,691,010	(664,533)	(27,613,268)	81,052,664	(5,523,664)	117,561,945
Profit / (loss) for the year	-	-	-	-	(3,000,952)	-	(3,000,952)
Other comprehensive income							
Foreign currency translation	-	-	-	2,387,134	-	-	2,387,134
Cash flow hedges – net of tax	-	-	-	-	-	489,082	489,082
Total comprehensive income	-	-	-	2,387,134	(3,000,952)	489,082	(124,736)
Transactions with owners							
Purchase of own shares	17	-	(479,631)	-	-	-	(479,631)
Par value capital reduction	17	(7,396,986)	-	-	-	-	(7,396,986)
Issue of new shares	17	10,615,017	6,344,342	-	-	-	16,959,359
New issue costs	17	-	(417,367)	-	-	-	(417,367)
Balance as of 31 December 2009	67,837,767	11,617,985	(1,144,164)	(25,226,134)	78,051,712	(5,034,582)	126,102,584
Balance as of 1 January 2010							
Profit / (loss) for the year	-	-	-	-	(31,626,863)	-	(31,626,863)
Other comprehensive income							
Foreign currency translation	-	-	-	(16,557,075)	-	-	(16,557,075)
Cash flow hedges – net of tax	-	-	-	-	-	4,971,726	4,971,726
Total comprehensive income	-	-	-	(16,557,075)	(31,626,863)	4,971,726	(43,212,212)
Transactions with owners							
Purchase of own shares	-	-	(667,605)	-	-	-	(667,605)
Balance as of 31 December 2010	67,837,767	11,617,985	(1,811,769)	(41,783,209)	46,424,849	(62,856)	82,222,767

The cashflow hedging reserve represents the Group's share of the Cash Flow hedging reserves of associated companies, specifically PSPI and the interest rate swap referred to in Note 16.

The notes on pages 12 to 42 form part of these consolidated financial statements.

USI GROUP HOLDINGS AG
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010

1. GENERAL INFORMATION

USI Group Holdings AG (the “Company”), domiciled in Switzerland with its registered office at Bahnhofstrasse 106, CH-8001, Zürich, Switzerland, is the ultimate parent company of the USI Group. The Company and its subsidiaries (together the Group), is an investment property Group with a direct and indirect interest in portfolios in Continental Europe, the UK and the USA. It is principally involved in leasing real estate assets where the rental income is primarily generated directly or indirectly from governmental sources.

In March 2007, the Group disposed of 74.84% of its shareholding in Public Services Properties Investments Limited (“PSPI”). As the Group retains a significant influence its remaining shareholding has been accounted for using the equity method as an associated undertaking.

In December 2007, the Group acquired a 94.9% interest in a partnership owning 4 investment properties in Leipzig, Germany.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with and comply with International Financial Reporting Standards (IFRS), published by the International Accounting Standards Board (IASB) and comply with the requirements of the SIX Swiss Exchange’s Listing Rules and the Additional Rules for the Listing of Real Estate Companies. The consolidated financial statements are reported in Swiss Francs unless otherwise stated and are based on the annual accounts of the individual subsidiaries at 31 December 2009 and 2010 which have been prepared up according to uniform Group accounting principles.

The financial information included in this document has been prepared on a consistent basis and using the same accounting policies of the audited financial statements for the year ended 31 December 2010 and 2009.

The consolidated financial statements are prepared under the historical cost convention as modified by the revaluation of investment properties, other financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss. The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results can differ from those estimates (Note 4).

The Group has adopted the following new standards, amendments to standards and interpretations which are mandatory for the financial year ended 31 December 2010.

Amendments to IFRS 3 - Business combinations (applicable to business combinations occurring in accounting periods beginning or after 1 July 2009, prospective application. Early application permitted if IAS 27R also adopted). The amendment entails several changes in the application of the acquisition method. Subsequent changes to the purchase price which depend on future events are recognised in profit or loss (when a liability) instead of goodwill. A step acquisition will result in re-measurement of the previous investment to fair value, through the income statement. All transaction costs will be expensed. The amendment had no impact on the financial statements for the financial year ended 31 December 2010.

Amendments to IAS 27 - Consolidated and separate financial statements (effective as from 1 July 2009, prospective for measurement of non-controlling interest. Early application is permitted if IFRS 3R is also adopted. Choice of whether to account for non-controlling interest at time of a business combination at fair value (i.e. incl. goodwill) or based on their proportionate share of the net assets (i.e. excl. goodwill). The amendment requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control (“economic entity model”). When control over a previous subsidiary is lost. Any remaining non-controlling interest in the entity is re-measured to fair value and the resulting gain or loss is recognised in the income statement. The amendment had no impact on the financial statements for the financial year ended 31 December 2010.

USI GROUP HOLDINGS AG
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010

2.1 Basis of preparation (continued)

IAS 38 (amendment), 'Intangible Assets'. The amendment is part of the IASB's annual improvements project published in April 2009 and the Group will apply IAS 38 (amendment) from the date IFRS 3 (revised) is adopted. The amendment clarifies guidance in measuring the fair value of an intangible asset acquired in a business combination and it permits the Grouping of intangible assets as a single asset if each asset has similar useful economic lives. The amendment had no material impact on the financial statements for the financial year ended 31 December 2010.

IFRIC 17, 'Distribution of non-cash assets to owners' (effective on or after 1 July 2009). The interpretation is part of the IASB's annual improvements project published in April 2009. This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. IFRS 5 has also been amended to require that assets are classified as held for distribution only when they are available for distribution in their present condition and the distribution is highly probable. The standard had no impact on the financial statements for the financial year ended 31 December 2010.

IFRS 5 (amendment), 'Measurement of non-current assets (or disposal groups) classified as held for-sale'. The amendment is part of the IASB's annual improvements project published in April 2009. The amendment provides clarification that IFRS 5 specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. It also clarifies that the general requirement of IAS 1 still apply, particularly paragraph 15 (to achieve a fair presentation) and paragraph 125 (sources of estimation uncertainty) of IAS 1. The amendment had no impact on the financial statements for the financial year ended 31 December 2010.

IAS 1 (amendment), 'Presentation of financial statements'. The amendment is part of the IASB's annual improvements project published in April 2009. The amendment provides clarification that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non-current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time. The amendment had no material impact on the financial statements for the financial year ended 31 December 2010.

The following new standards, amendments to standards and interpretations have been issued but are not effective for 2010 and have not been early adopted:

Amendments to IFRS 7 'Disclosures - Transfers of financial assets' (effective on 1 July 2011, early application permitted). The amendments require additional disclosures in respect of risk exposures arising from transferred financial assets (e.g. factoring, securitisation), any associated liabilities and it includes additional disclosure requirements in respect to those transfers. The Group has not elected to adopt the amendment before the effective date. The amendment is not expected to have a material impact on the financial statements.

IFRS 9 'Financial Instruments' (effective 1 January 2013, retrospective application, early application permitted). IFRS 9 comprises two measurement categories for financial assets: amortised cost and fair value. All equity instruments are measured at fair value. Management has an option to present in other comprehensive income unrealised and realised fair value gains and losses on equity investments that are not held for trading. A debt instrument is at amortised cost only if it is the entity's business model to hold the financial asset to collect contractual cash flows and the cash flows represent principal and interest. It will otherwise need to be considered at fair value through profit or loss. The Group has not elected to adopt the standard before the effective date. The amendment is not expected to have a material impact on the financial statements.

2.1 Basis of preparation (continued)

Amendments to IFRS 9, 'Financial instruments' (effective 1 January 2013, retrospective application, early application permitted) The amendment includes guidance on financial liabilities and derecognition of financial instruments. The accounting and presentation for financial liabilities and for derecognising financial instruments has been relocated from IAS 39 without change, except for financial liabilities that are designated at fair value through profit or loss. Entities with financial liabilities designated at FVTPL recognise changes in the fair value due to changes in the liability's credit risk directly in OCI. There is no subsequent recycling of the amounts in OCI to profit or loss, but accumulated gains or losses may be transferred within equity. The Group has not elected to adopt the amendment before the effective date. The amendment is not expected to have a material impact on the financial statements.

Amendments to IAS 12 'Deferred Tax: Recovery of Underlying Assets' (effective 1 January 2012, early application permitted). The amendment affects investment properties measured at fair value. The recognition of deferred taxes in relation to those investment properties is based on an expected recovery through a sales transaction. The SIC 21 guidance has been included in the standard. The Group has not elected to adopt the amendment before the effective date. The amendment is expected to have a material impact on the financial statements; however the impact of the change cannot be reasonably estimated as of the reporting date.

Amendments to IAS 32 'Financial Instruments: Presentation' (Classification of rights issues; effective as from 1 February 2010, early application permitted). The amendment implies that rights issues are now required to be classified as equity if they are issued for a fixed amount of cash regardless of the currency in which the exercise price is denominated provided they are offered on a pro rata basis to all owners of the same class of equity. The Group has not elected to adopt the amendment before the effective date. The amendment is not expected to have a material impact on the financial statements.

IFRIC 19 'Extinguishing financial liabilities with equity instruments' (effective 1 July 2010, retrospective application from beginning of the earliest comparative period, early application permitted). IFRIC 19 clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished by the debtor issuing its own equity instruments to the creditor (referred to as a "debt for equity swap"). The interpretation requires a gain or loss to be recognised in profit or loss when a liability is settled through the issuance of the entity's own equity instruments. Furthermore, it provides guidance on the calculation of those gains or losses. The Group has not elected to adopt the amendment before the effective date. The amendment is not expected to have a material impact on the financial statements.

2.2 Principles of consolidation

The results of subsidiary undertakings, which are those entities in which the Group has an interest of more than one half of the voting rights or otherwise has power to exercise control over the operations, are consolidated. Subsidiaries are consolidated from the date on which control is transferred to the Group and they cease to be consolidated from the date that control ceases. The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. All intercompany transactions, balances and unrealised gains and losses on transactions between Group companies are eliminated. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

2.3 Segmental reporting

Segmental reporting has been prepared in accordance with IFRS 8 (Segment Reporting).

The chief operating decision maker has been identified as the board of directors, who review the Group's internal reporting and management information in order to assess performance and allocate resources. Management has determined the operating segments based on these reports.

It has been determined that the board of directors reviews management information, considers the business and makes decisions based on the nature of the underlying business. As such, the Group has been organised into the following segments:

- Investments in Government Tenanted Property
- Investments in Associated Undertakings
- Central Corporate Costs

The board of directors assess the performance of the business using a number of measures; however particular emphasis is placed on net profit.

2.4 Foreign currency transactions and translation

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of primary economic environment in which the entity operates ("the functional currency").

The consolidated financial statements are presented in Swiss Francs, which is the Company's functional and presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except where deferred in equity as qualifying cash flow hedges.

Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) assets and liabilities for each balance sheet are translated at the closing rate at the date of the balance sheet.
- (ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates in which case income and expenses are translated at the dates of the transactions); and
- (iii) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign entity is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

The translation rates used are disclosed in Note 5 in the notes to the consolidated financial statements.

2.5 Investment property

Property held for long-term rental yields or for capital appreciation or both and not occupied by the Group is classified as investment property.

Investment property comprises freehold land and buildings. Investment property is initially recognised at historic cost including related transaction costs. After initial recognition investment property is held at fair value. Fair value is based on active market prices, adjusted if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. These valuations are performed in accordance with guidance issued by the International Valuation Standard Committee and are reviewed annually by external valuers.

The fair value of investment property reflects, among other things, rental income from current leases and assumptions about rental income from future leases in the light of current market conditions. The fair value also reflects on a similar basis, any cash outflows that could be expected in respect of the property.

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

Changes in fair values are recorded in the income statement. Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the income statement, when necessary.

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2.6 Leases

Finance lease

When assets are leased out under a finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income.

Lease income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

Operating lease

See Notes 2.10 and 2.19.

Lease classification

See Note 4 (d)

2.7 Loans and receivables

Loans are classified as non-current assets unless management has the express intention of holding the loans for less than 12 months from the balance sheet date, in which case they are included in current assets. The directors determine the classification of the loans at initial recognition and re-evaluate the designation at every reporting date.

Purchases and sales of loans are recognised on the trade date, which is the date that the Group commits to purchase or sell the asset. Loans are initially recognised at fair value plus transaction costs and are subsequently carried at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of loans is established when there is evidence that the Group will not be able to collect all amounts due according to the original terms of loans. In the case of loans, the financial position of the underlying companies and their ability to repay the preference share capital is considered in determining whether the loans are impaired.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement. Loans are derecognised when the rights to receive cash flows from the loans have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. When investments are sold the resulting gains and losses are included in the income statement as gains and losses from loans.

2.8 Impairment of assets

The recoverable amount of assets such as intangible assets and loans and receivables are estimated whenever there is an indication that the asset may be impaired. An impairment loss is recognised in the income statement whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the higher of the net selling price and value in use, determined by discounting the future expected cash flows generated by the related asset.

The carrying amount of the Group's holding in associated undertakings is tested annually for impairment.

The recoverable amount is calculated on the assumption that any sale would be made at fair value, consequently an exercise is performed to ascertain the value in use of the shareholding to ensure this exceeds the carrying amount. If the value in use is less than the carrying amount, an impairment is recognised.

2.9 Accounting for derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are recognised in the income statement in the periods when the hedged item will affect profit or loss (for instance when the forecast sale that is hedged takes place).

However, if the forecast transaction that is hedged results in the recognition of a non-financial asset or a liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the costs of the asset or liability.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

Put options that contain an obligation to purchase own equity instruments are recognised as a financial liability for the discounted, expected redemption amount. The liability is disclosed as Other Financial Liabilities (see Note 20). Call options that contain an option of the Company to repurchase own debt instruments, are recognized as a financial liability for the expected conversion amount. The liability is disclosed as Options (see Note 20).

2.10 Accounting for leases and accrued income

The Group currently treats all of its investment property leases as operating leases, however this classification is considered by the directors for each property on acquisition. An operating lease is a lease in which substantially all the risks and rewards of the asset (investment property) remain with the lessor and as such these assets remain in the Group's balance sheet. Lease payments from the lessee are recognised as rental income and as such disclosed in the income statement on a straight-line basis over the period of the lease.

Accrued income is provided to recognise guaranteed future income over the period of the lease. Accrued income is recognised under non-current assets for all amounts not released to the income statement within 12 months of the balance sheet date, and not receivable within 12 months. Amounts due to be released within 12 months of the balance sheet date are recognised in receivables under current assets.

2.11 Trade receivables and prepayments

Trade receivables and prepayments are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original term of the trade receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

2.12 Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand; deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. In the balance sheet, bank overdrafts are included in borrowings under current liabilities.

2.13 Share capital

Ordinary shares are classified as equity.

Any transaction costs of an equity transaction are accounted for as a deduction from equity to the extent they are incremental costs directly attributable to the equity transaction that otherwise would have been avoided. The costs of an equity transaction that is abandoned are recognised as an expense.

Both reductions in the nominal value of, and reinvestments in, the registered shares are recorded within equity.

2.14 Trade payables and other payables

Trade payables and other payables are recognised initially at fair value.

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2.15 Dividends

Dividends are recorded in the Company's financial statements in the period in which they are approved by the Company's shareholders.

2.16 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Interest on borrowings is charged to the income statement.

Preference shares, which are mandatorily redeemable on a specific date, are classified as liabilities. The dividends on these preference shares are recognised in the income statement as an interest expense.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2.17 Deferred income tax

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

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

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Due to the tax jurisdictions of the Group companies no tax impact is anticipated.

2.18 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

2.19 Revenue recognition

Revenue consists of minimum lease rentals payable over the terms of the operating leases, recognised on a straight line basis, and incremental lease rentals payable under rent escalation clauses in the leases recognised as they arise. Every investment property is accounted for individually. Operating lease agreements are based on long-term leasing contracts.

2.20 Investments in associates

Investments in associates are accounted for using the equity method of accounting. These are entities in which the Group has significant influence and which are neither subsidiaries nor joint ventures. Significant influence is the power to participate in the financial and operating policy decisions of the acquired company but is not control or joint control over those policies (usually 20-50% of voting rights). Under the equity method, the investment in an associate is initially recognized at cost (including goodwill on acquisition) and the carrying amount is increased or decreased to recognize the Group's share of profit or loss of the acquired company after the acquisition date. In order to apply the equity method the most recent available financial statements of an associate are used. The net assets and results from associates are adjusted, if necessary, to comply with the Group's accounting policies.

The Group's share of equity in associated companies, consolidated using the equity method, is shown in the balance sheet as "Investments in associates" and its share of the results of operations for the year is shown in the income statement as "Share of profit of associates".

Associates acquired during the year are accounted for as "Investments in associates" from the date on which significant influence over the acquired company is transferred to the Group, and derecognized from that position as of the date the Group ceases to have significant influence over an associate.

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2.21 Accruals

Accruals are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method.

3. FINANCIAL AND OTHER RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency and price risk, cash flow and fair value interest rate risk), credit risk and liquidity rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

Risk management is carried out by the senior management of the asset manager under policies approved by the board of directors. Senior management identifies, evaluates and hedges financial risks. The board provides principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity

(a) Market risk

(i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Euro and Pound Sterling. Limited foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations. However, most operating entities have limited exposure to exchange risk outside their functional currencies.

The Group has investments in foreign operations, whose net assets are exposed to foreign currency translation risk. Currency exposure arising from the net assets of the Group's foreign operations in Continental Europe are managed primarily through borrowings denominated in the relevant foreign currencies, although the directors monitor and permit currency exposure in this regard as an element of its financing strategy.

Historically the Group has not entered into any currency hedging transactions in respect of the net assets of subsidiaries denominated in currencies other than Swiss Francs. The Group will review this policy from time to time.

At 31 December 2010, if the Swiss Franc had increased by a three year average movement of 13.2% (2009 – 12.0%) against the Pound Sterling with all other variables held constant, profit for the year would have increased by CHF 22,748 (2009 CHF 48,910) different, mainly as a result of foreign exchange losses on translation of Pound Sterling denominated cash balances.

At 31 December 2010, if the Swiss Franc had increased by three year average movement of 6.7% (2009 – 4.5%) against the Euro with all other variables held constant, profit for the year would have increased by CHF 5,428 (2009 – CHF 12,061) different due to foreign exchange losses on translation of Euro denominated cash balances.

Exchange rate volatility is calculated on the basis of historic price movements.

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3. FINANCIAL AND OTHER RISK MANAGEMENT (CONTINUED)

(ii) Cash flow and fair value interest rate risk

The Group's interest-rate risk mainly arises from long-term borrowings, derivative financial instruments and to a limited extent, from cash and cash equivalents. Borrowings issued at variable rates expose the Group to cashflow interest-rate risk. Borrowings issued at fixed rates and derivative financial instruments expose the Group to fair value interest-rate risk. Group policy is to maintain a significant percentage of its borrowings in fixed rate instruments. The board regularly meet to review levels of fixed and variable borrowings and takes appropriate action as required.

The table below shows the sensitivity of profit and equity to movements in market interest rates for continued business:

	CHF 2010	CHF 2009
Shift in basis points	0.5	0.5
Profit impact of increase	(802,596)	(919,810)
Profit impact of decrease	802,596	919,810
Equity impact of increase	0	(532,000)
Equity impact of decrease	0	532,000

(b) Credit risk

Credit risk arises from cash, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to rental customers, including outstanding receivables. For banks and financial institutions, only independently rated parties with a minimum rating of 'A-' (as per Standard and Poors ratings) are accepted. The table below shows the credit limit and balance of the three major bank counterparties at the balance sheet date.

	2010	2009	2010	2009
Counterparty	Rating	Rating	Balance	Balance
Bank A	A+	A+	898,464	4,693,335
Bank B	BB-	A-	177,798	414,005
Bank C	A	A	2,669,585	2,970,349

Bank B is Allied Irish Bank (UK) plc which is a wholly owned subsidiary of Allied Irish Banks plc ("AIB"). In October 2010, Standard and Poor's downgraded AIB. In December 2010, AIB was effectively nationalised by the Irish Government.

The Group's concentration of credit risk with non financial institutions is primarily with its rental customers. Management has assessed that the credit risk is low as the rental contracts are granted to, directly or indirectly, governmental customers with good credit history and due to the good record of recovery of receivables. As a result, the Group has not incurred any significant losses.

Other receivables of CHF 31 million (€25 million) are held on short term deposit as collateral for a €25 million credit facility outlined in Note 18, these balances are held with Bank A.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. Due to the nature of the underlying businesses, the Group maintains flexibility in funding by maintaining availability under committed credit lines.

Management monitors rolling forecasts of the Group's liquidity reserve on the basis of expected cash flow.

In addition, the Group's investment property asset is substantially financed by one senior debt facility, which is scheduled to be repaid by 30 June 2011. The Group has signed a non-binding agreement with a new financier who has committed to funding the outstanding balance of the existing senior debt facility pending final execution of the agreement. This refinancing will include a senior credit facility of € 81.5 million which will be reduced by annual amortization with the final balance repayable in 9 years and a subordinated loan of € 28.0 million repayable in 18 months with an option to extend for an additional six months. The additional financing is expected to be completed by the end of June 2011.

If the term of the existing senior debt facility is not extended or if the financing can not be substituted, there is a material uncertainty about the Group's ability to continue as a going concern with respect to liquidity. The Group will monitor the situation.

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3. FINANCIAL AND OTHER RISK MANAGEMENT (CONTINUED)

The table below analyses the Group's financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

At 31 December 2010	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 Years
Borrowings	172,225,426	1,587,383	30,514,960	-
Trade and other payables (Note 22)	1,713,330	-	-	-
Derivative financial instruments (Note 16)	-	-	-	-
Other financial liabilities (Note 20)	-	-	3,227,755	-
Total	173,938,756	1,587,383	33,742,715	-
At 31 December 2009	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 Years
Borrowings	208,782,745	19,284,052	20,821,327	-
Trade and other payables (Note 22)	58,556	-	-	-
Derivative financial instruments (Note 16)	5,752,466	-	-	-
Other financial liabilities (Note 20)	-	-	3,729,137	-
Total	214,593,767	19,284,052	24,550,464	-

(d) Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the consolidated balance sheet) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the consolidated balance sheet plus net debt. The Group's intention is to maintain the gearing ratio below 75%.

The gearing ratios at 31 December 2010 and 2009 were as follows:

	CHF 2010	CHF 2009
Total borrowings (Note 18)	192,616,395	226,332,404
Less: cash and cash equivalents	(3,759,092)	(8,279,390)
Net debt	188,857,303	218,053,014
Total equity	82,222,767	126,102,584
Total capital	271,080,070	344,155,598
Gearing ratio	69.67%	63.36%

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3. FINANCIAL AND OTHER RISK MANAGEMENT (CONTINUED)

3.2 Fair value estimation

Effective 1 January 2009, the group adopted the amendment to IFRS 7 for financial instruments that are measured in the balance sheet at fair value, this requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

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

2010	NOTE	Level 1	Level 2	Level 3	Total
Assets					
- Investments in associates	12	35,888,448	-	-	35,888,448
- Short term cash deposits		-	31,160,413	-	31,160,413
Total assets		35,888,448	31,160,413	-	67,048,861
Liabilities					
Financial liabilities at fair value through profit or loss					
-Other financial liabilities	20	-	-	3,227,755	3,227,755
-Short term credit facility		-	31,160,413	-	31,160,413
-Option fair value	16	-	-	-	-
Total liabilities		-	31,160,413	3,227,755	34,388,168
2009					
Assets					
- Investments in associates	12	42,973,682	-	-	42,973,682
- Short term cash deposits	15	-	37,185,781	-	37,185,781
Total assets		42,973,682	37,185,781	-	80,159,463
Liabilities					
Financial liabilities at fair value through profit or loss					
-Derivatives financial instruments	16	-	5,752,466	-	5,752,466
-Other financial liabilities	20	-	-	3,729,137	3,729,137
-Short term credit facility	18	-	37,185,781	-	37,185,781
-Option fair value	16	-	-	3,127	3,127
-Warrant fair value	16	-	-	4,716	4,716
Total liabilities		-	42,938,247	3,736,980	46,675,227

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the group is the current bid price. These instruments are included in level 1. Instruments included in level 1 comprise primarily FTSE 100 equity investments classified as trading securities or available-for sale.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date, with the resulting values discounted back to present value.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

Refer to Note 20 for additional disclosure about level 3 instruments.

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3. FINANCIAL AND OTHER RISK MANAGEMENT (CONTINUED)

3.2 Fair value estimation

The following table presents the changes in level 3 instruments for the year ended 31 December 2010:

	Other financial liabilities	Options	Warrants	Total balance
At 31 December 2009	3,729,137	3,127	4,716	3,736,980
Additions	-	-	-	-
Gains and losses recognised in income statement or foreign exchange.	(501,382)	(3,127)	-	(504,509)
Settlements	-	-	(4,716)	(4,716)
At 31 December 2010	3,227,755	-	-	3,227,755

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experiences and other factors, including expectations of future events that are believed to be reasonable under the circumstance. The Group makes estimates and assumptions concerning the future. By definition, the resulting accounting estimates may not equal the related actual results. The estimates and assumptions that may have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are described below.

(a) Estimate of fair value of investment properties

The best evidence of fair value is current prices in an active market for similar lease and other contracts. In the absence of such information, the Group determines the amount within a range of reasonable fair value estimates. In making this judgement, the Group considers information from a variety of sources including:

- i) current prices in an active market for properties of different nature, condition or location (or subject to different lease or other contracts), adjusted to reflect those differences;
- ii) recent prices of similar properties in less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and
- iii) discounted cash flow projections based on reliable estimates of future cash flows, derived from the terms of any existing lease and other contracts, and (where possible) from external evidence such as market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of cash flows.

(b) Principal assumptions for management's estimations of fair value

If information on current or recent prices or assumptions underlying the discounted cash flow approach investment properties are not available, the fair values of investment properties are determined using discounted cash flow valuation techniques. The Group uses assumptions that are mainly based on market conditions existing at each balance date.

The principal assumptions underlying management's estimation of fair value are those related to: the receipt of contractual rentals; expected future market rentals; void periods; maintenance requirements; and appropriate discount rates. These valuations are regularly compared to actual market yield data and actual transactions by the Group and those reported by the market.

Management relies on valuations produced by qualified independent valuation companies. Were the discounted rate used in preparing the independent valuation reports to differ by 5% to the rate used by the independent valuer, the net effect of the carrying amount of investment properties after deferred taxation would be an estimated CHF 8.3 million lower or CHF 9.2 million higher.

The expected future market rentals are determined based on the specific terms of the rental contracts. However, were rental income to differ by 10% to the amount in the current rental contract the net effect of the carrying amount of investment properties after deferred taxation would be an estimated CHF 17.5 million higher or lower.

Management has assumed that the current rent being received in respect of its investment property will be maintained on expiry of the lease. This is a material assumption in supporting the valuation of the investment property on each valuation date.

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4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(c) Treatment of property acquisition in 2007

In December 2007, the Group acquired a 94.9% interest in a partnership owning 4 investment properties in Leipzig, Germany. This acquisition has been accounted for as an asset acquisition which comprises a group of assets without significant processes and activities and not as a business combination under IFRS 3. The acquired business did not constitute a business as defined by IFRS.

(d) Lease classification

The Group determines the classification of leases on each asset having regard to whether substantially all risks and rewards incidental to ownership of the asset is transferred to the lessee. Other than the long-term business lease described in Note 2.6, the Group has no operating leases.

(e) Impairment of investments in associates.

A sensitivity analysis has been performed to ascertain the sensitivity of the value of the Group's holding in PSPI to fluctuations in the fair value of items on its balance sheet. This revealed that a 5% movement in the value of the Investment Properties held by PSPI would result in a CHF 5.05 million movement in the fair value of the Group's holding. Were this to be a downwards movement this would result in a potential impairment of CHF 1.30 million as at 31 December 2010.

5. FOREIGN EXCHANGE RATES

	Balance Sheet		Income Statement and Cash Flow Statement	
	2010 CHF	2009 CHF	average 2010 CHF	average 2009 CHF
GBP	0.6874	0.6050	0.62175	0.59064
USD	1.0632	0.9636	0.96145	0.92362
EUR	0.8023	0.6723	0.72469	0.66245

6. a) ADMINISTRATIVE EXPENSES

	2010 CHF	2009 CHF
Professional fees and other costs	670,433	1,353,652
Abort costs	33,208	241,962
Audit fees	154,057	179,808
Property rent, maintenance and sundry expenses	813,799	560,179
Capital tax expense	-	41,304
Management fees	2,314,681	2,343,088
	<u>3,986,178</u>	<u>4,719,993</u>

Included in property rent, maintenance and sundry expenses are repairs of CHF 178,101 (2009 – CHF 143,318) in respect of investment properties generating rental income. These costs were incurred in respect of investment properties where the group is responsible for structural and roof repairs. There were no repairs and maintenance costs incurred in respect of investment properties that did not generate rental income.

b) OTHER (INCOME) / EXPENSES

	2010 CHF	2009 CHF
Fair value adjustment through income statement	(64,235)	(225,596)
	<u>(64,235)</u>	<u>(225,596)</u>

The above balance represents the fair value adjustment charged to the income statement in relation to the liability from the put option. For further information refer to Note 20.

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7. NET FINANCE INCOME / (EXPENSES)

	2010 CHF	2009 CHF
Interest income	333,376	518,147
Other income / (expenses)		
- Net gain / (loss) from fair value adjustment of options and warrants (Note 16)	7,843	110,605
- Net foreign exchange losses	-	(129,043)
	<u>341,219</u>	<u>499,709</u>

8. NET FINANCE COSTS

	2010 CHF	2009 CHF
Interest costs		
- Interest on notes	2,248,508	1,533,503
- Interest on mortgages	8,330,923	11,393,057
- Amortisation of debt issue costs	2,798,545	1,952,551
- Other interest and borrowing expenses	612,369	764,454
- Swap breakage costs	-	978,942
- Net foreign exchange losses	2,280,285	-
- Interest expense on put option	56,363	118,979
	<u>16,326,993</u>	<u>16,741,486</u>

9. EARNINGS PER SHARE

Basic (loss) / earnings per share (EPS) is calculated by dividing the net (loss) / profit attributable to shareholders by the weighted average number of ordinary shares outstanding during the period.

	2010 CHF	2009 CHF
Net profit / (loss) attributable to shareholders	(31,626,863)	(3,000,952)
Weighted average number of ordinary shares outstanding	969,629	857,304
Basic loss per share (CHF per share)	(32.62)	(3.50)

For diluted EPS, the weighted average number of shares outstanding is adjusted to assume conversion of all potentially dilutive shares arising on USI shares.

	2010 CHF	2009 CHF
Total		
Net dilutive profit / (loss) attributable to shareholders	(31,626,863)	(3,000,952)
Weighted average number of ordinary shares outstanding for dilutive earnings	969,629	857,304
Diluted loss per share (CHF per share)	(32.62)	(3.50)

9. EARNINGS PER SHARE (CONTINUED)

In January 2004, the Company issued CHF 7 million of 4% Senior Unsecured Pre-IPO Notes due in 2011. Each noteholder received warrants attached to the notes which may be exercised up to two years after a public offering of the Company's shares. The warrants entitle the noteholders to subscribe for the Company's shares at a discount to the public offering of shares between 5% - 20% depending on the timing of a public flotation of the Company's shares. As at 31 December 2010, CHF nil (2009- CHF nil) of 4% Senior Unsecured Pre-IPO Notes were outstanding. New warrants entitling the holders to 42,505 shares were issued at an exercise price of CHF 152.20 per share. These warrants were cash settled by the Company up to the expiry date of 31 October 2010.

In July 2005, the Company approved a stock option plan for management. The plan allows for options of up to 6% of the issued number of shares to be awarded to management at an exercise price of CHF 161.91 per share. At 31 December 2010, no options had been awarded nor had conditional capital been created for this purpose.

In October 2006, the Company issued CHF 15 million of 3.5% subordinated Convertible Notes due in 2011 that are unconditionally and irrevocably guaranteed by, and convertible into registered shares of the Company. During 2010, the Company issued CHF 13,215,200 of 4.0% subordinated Convertible Notes due in 2015. Of these CHF 9,914,000 were converted from the CHF 15 million Notes due in 2011.

Management has estimated that the maximum number of additional ordinary shares that could be issued at 31 December 2010 as 134,937 (2009 – 115,676). However due to the loss in the year these have an anti-dilutive effect and have not been considered in the calculation of diluted earnings per share.

10. DIVIDENDS

No dividends were paid in 2010 or 2009.

In August 2009, the Company completed a capital distribution to shareholders, whilst in October 2009 a rights issue and private share placement were completed as described in Note 17.

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11. INVESTMENT PROPERTY

	2010 CHF	2009 CHF
As at 1 January	273,479,102	271,428,571
Net (losses) / gains on fair value adjustment	(23,196,125)	2,203,940
Net changes in fair value adjustments due to exchange differences	(42,052,814)	(153,409)
As at 31 December	208,230,163	273,479,102
Fire Insurance Value	122,435,498	146,110,367

On 21 December 2007, the Group acquired a 94.9% interest in a partnership which owns 4 investment properties in Leipzig, Germany. These were acquired for a purchase price of €166 million which, in part, was funded by senior debt of €121 million (See Note 18).

Valuation of the investment properties was made as at 31 December 2010 by Botta Management AG, (“Botta”) an independent Property Consultant. A discounted cash flow method was used to calculate market value assuming an 11 year calculation period and a terminal value. This resulted in a gross capital valuation of €167.05 million (2009 - €183.86 million).

The fire insurance value is set at €98.23 million (2009 - €98.23 million).

Further information required in accordance with the SIX Swiss Exchange’s Additional Rules for the Listing of Real Estate Companies can be found on pages 48 to 50. This information is part of the notes to the consolidated financial statements.

Included in property rent, maintenance and office expenses as detailed in Note 6 (a), are repairs of CHF 178,108 (2009 – CHF 143,318) in respect of investment properties generating rental income. There were no repairs and maintenance costs incurred in respect of investment properties that did not generate rental income.

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12. INVESTMENTS IN ASSOCIATES

	2010 CHF	2009 CHF
As at 1 January	42,973,682	39,855,735
Share of profits	342,089	2,533,881
Exchange differences	(4,797,972)	2,240,771
Dividends received	(2,067,134)	(1,724,962)
Purchase of new shares	4,267,599	-
Exceptional loss on disposal	(4,793,080)	-
Share of cashflow hedging reserve	(36,736)	68,257
As at 31 December	35,888,448	42,973,682

The Group's share of results of its associates and its share of the assets and liabilities are as follows:

Name	Country of Incorporation	Assets CHF	Liabilities CHF	Revenues CHF	Profits CHF	% Interest Held
Public Service Properties Investments Limited	British Virgin Islands	90,217,471	54,329,024	6,790,553	342,089	20.07%

On 14 April 2010, the Group purchased a further 3.75 million shares in PSPI at CHF 1.14 (£0.70) per share as part of an Open Offer to existing shareholders. The purchase was offset by existing loans. PSPI raised CHF 40.7 million (£25 million) through the offer, which left the Group owning 20.07% of the enlarged capital base as part of a rights issue of a total of 35,631,326 shares by PSPI Limited. Each Share cost £0.70, thereby totalling £2,625,000 (or CHF 4,267,599). This kept USI's shareholding in PSPI at above 20.00% (20.07%) and retained its status as an associated undertaking.

The exceptional loss effectively represents a partial disposal as the date of the rights issue by PSPI as USI's shareholding decreased from 25.16% to 20.07%. It represents the difference between USI's share of the "old equity" pre-capital raise after the share purchase at 25.16% and its share of the newly enlarged PSPI equity at its new shareholding of 20.07%.

The market price of shares in Public Service Properties Investments Limited ("PSPI") at 31 December 2010 was 73.75 (2009 – 70.00) pence per share. This results in a value of £15,162,069 (CHF 22,066,876) (2009: £11,766,117) for the Group's holding of 20,558,738 shares (2009: 16,808,738). PSPI is listed on the AIM Stock Exchange, London.

Impairment Test of Carrying Value

In accordance with IAS 36, "Impairment of Assets" an annual test has been performed to compare the recoverable amount with the carrying value to ensure that no impairment has occurred.

It has been assumed that any sale of PSPI would be performed at fair value. Consequently, all items on the balance sheet of PSPI as at 31 December 2010 have been compared on a line by line basis to their deemed fair value at the same date, less selling costs of 5%.

This has indicated that the recoverable amount of the holding in the associate exceeds its carrying value by CHF 1.9 million and as such no impairment has occurred or been recognised in the financial statements.

Additionally, a sensitivity analysis has been performed to ascertain the sensitivity of the value of the Group's holding in PSPI to fluctuations in the fair value of items on its balance sheet. This revealed that a 5% movement in the value of the Investment Properties held by PSPI would result in a CHF 5.05 million movement in the fair value of the Group's holding. Were this to be a downwards movement this would result in a potential impairment of CHF 1.3 million as at 31 December 2010.

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13. FINANCIAL INSTRUMENTS BY CATEGORY

Assets as per balance sheet 2010	Notes	Assets at fair value through the profit and loss designated	Available for sale	Loans and receivables	Derivatives used for hedging	Total
		CHF	CHF	CHF	CHF	CHF
Receivables and prepayments	15	-	-	35,739,957	-	35,739,957
Cash and cash equivalents		-	-	3,759,092	-	3,759,092
Total		-	-	39,499,049	-	39,499,049

Cash and cash equivalents is denominated in the following currencies:

Pounds Sterling	172,330
Euro	2,750,597
Swiss Francs	836,165
Total	3,759,092

Liabilities as per balance sheet 2010		Liabilities – Fair value through the profit and loss designated	Other financial liabilities	Derivatives used for hedging	Total
		CHF	CHF	CHF	CHF
Borrowings	18	-	192,616,395	-	192,616,395
Other financial liabilities	20	3,227,755	-	-	3,227,755
Derivative financial instruments	16	-	-	-	-
Total		3,227,755	192,616,395	-	195,844,150

Assets as per balance sheet 2009	Notes	Assets at fair value through the profit and loss designated	Available for sale	Loans and receivables	Derivatives used for hedging	Total
		CHF	CHF	CHF	CHF	CHF
Receivables and prepayments	15	-	-	44,291,109	-	44,291,109
Cash and cash equivalents		-	-	8,279,390	-	8,279,390
Total		-	-	52,570,499	-	52,570,499

Cash and cash equivalents is denominated in the following currencies:

Pounds Sterling	407,480
Euro	3,238,331
Swiss Francs	4,633,579
Total	8,279,390

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13. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Liabilities as per balance sheet 2009		Liabilities – Fair value through the profit and loss account designated	Other financial liabilities	Derivatives used for hedging	Total
		CHF	CHF	CHF	CHF
Borrowings	18	-	226,332,404	-	226,332,404
Other financial liabilities	20	3,729,137	-	-	3,729,137
Derivative financial instruments	16	4,716	-	-	4,716
Derivative financial instruments	16	5,755,593	-	-	5,755,593
Total		9,489,446	226,332,404	-	235,821,850

14. INVESTMENTS IN SUBSIDIARIES

The subsidiaries of the Group are :

	Country of Incorporation	Ownership Percentage	
		2010	2009
USIGH Limited	BVI	100%	100%
USI AG	Switzerland	100%	100%
USIGH II Investments Limited	BVI	100%	100%
USI III Investments Holdings Limited	BVI	100%	100%
USI IV Investments Holdings Limited	BVI	100%	100%
USI Germany Limited	BVI	100%	100%
USI Leipzig Limited	BVI	100%	100%
USI Verwaltungszentrum Leipzig GbR	Germany	94.9%	94.9%
Holdings in associated undertakings:			
Public Service Properties Investments Limited (formerly USI Group Holdings Limited)	BVI	20.07%	25.16%

15. RECEIVABLES AND PREPAYMENTS

	2010 CHF	2009 CHF
Non current		
Loans and receivables	2,492,833	2,974,862
Current		
Other receivables	32,972,814	41,275,318
Prepayments	274,310	40,929
	35,739,957	44,291,109

Included in Other Receivables is an amount of CHF 31,016,413 (€25 million) which is held on short term deposit as collateral for the €25 million credit facility outlined in Note 18.

Included in Loans and receivables is an amount of CHF 2,492,833 (€2 million) which was lent on 31 March 2008 to Ridgemont Holdings Limited, a subsidiary company of RP&C Inc. Interest of CHF 171,293 (2009 – CHF180,823) has been accrued in the year on this balance and is included in Other Receivables. This balance is due in May 2013.

Included in Other Receivables for 2009 is an amount of CHF 2.48 million (€1.65 million) which was lent during 2009 to Public Service Investment Properties Limited. This amount was repaid in 2010.

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16. DERIVATIVE FINANCIAL INSTRUMENTS

Non-current liabilities	2010		2009	
	Assets CHF	Liabilities CHF	Assets CHF	Liabilities CHF
Option fair value	-	-	-	3,127

Option fair value

The option attached to the convertible note as described in Note 18 has been treated as an embedded derivative and has been recognised at fair value. The net change in fair value of this option has been recognised through the income statement.

The methodology is a Trinomial Model as used by Tsiveriotis and Fernandes which values the component of the value attributable to the possibility of the convertible bond ending up as equity separately from the component of the value attributed to the possibility of the bond ending up as debt. The approach is described by Hull in his book Options, Futures, and Other Derivatives. The valuation uses a risk free interest rate of 2.50% (2009 – 2.50%), credit spread rate of 3.0% (2009 – 3.00%) and a volatility of 12.0% (2009 – 18.5%).

The call option attached to the convertible bonds issued in 2010 (see Note 18) has been valued at zero and, as such, not separated from the host instrument. However, the valuation of the instrument may change in future periods and as such will be revalued as required.

Interest rate swap

The notional principle amount of the interest rate swap at 31 December 2010 was € nil (2009 - €106.4 million). The interest rate swap agreement was cancelled upon the extension of the associated mortgage in October 2010 as outlined in Note 18.

The interest rate swap was classified as non-current as the Group has no automatic right to cancel the instrument.

Current liabilities	2010		2009	
	Assets CHF	Liabilities CHF	Assets CHF	Liabilities CHF
Warrant fair value	-	-	-	4,716
Interest rate swaps – cashflow hedges	-	-	-	5,752,466
	-	-	-	5,757,182

Warrant fair value

The warrants expired on 31 October 2010 with an exercise price of CHF 152.20. The Black Scholes model was used in calculating the fair value of the warrant using a volatility rate of 15% in 2009.

17. SHARE CAPITAL

	2010 CHF	2009 CHF
Authorised:		
Equity interests:		
985,298 (2009 – 985,298) Ordinary shares of CHF 68.85 (2009 – 68.85) each	67,837,767	67,837,767
Allotted, called up and fully paid:		
Equity interests:		
985,298 (2009 – 985,298) Ordinary shares of CHF 68.85 (2009 – 68.85) each	67,837,767	67,837,767

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17. SHARE CAPITAL (CONTINUED)

	Number of shares	Ordinary shares CHF	Share premium CHF	Total CHF
At 1 January 2009	831,122	64,619,736	5,691,010	70,310,746
Par value capital reduction	-	(7,396,986)	-	(7,396,986)
Issue of new shares	154,176	10,615,017	6,344,342	16,959,359
New issue costs	-	-	(417,367)	(417,367)
At 31 December 2009	985,298	67,837,767	11,617,985	79,455,752
Par value capital reduction	-	-	-	-
Issue of new shares	-	-	-	-
New issue costs	-	-	-	-
At 31 December 2010	985,298	67,837,767	11,617,985	79,455,752

Under the articles of association, share capital may be increased by a maximum of CHF 30,763,557 through the issuance of up to 446,820 registered shares with a nominal value of CHF 68.85 each in respect of conditional capital for advisors, bondholders and creditors.

Under the articles of association, the board of directors may increase share capital in the amount of up to CHF 17,996,357 until 26 May 2011 through the issuance of up to 261,385 fully paid in additional registered shares with a nominal value of CHF 68.85 each.

Capital reduction and reinvestment

During 2009, a capital distribution of CHF 8.90 per share took place that reduced the share capital of USI Group Holdings AG from CHF 64,619,736 (831,122 with a nominal value of CHF 77.75 each) to CHF 57,222,750 (831,122 shares with a nominal value of CHF 68.85 each). Additionally a reinvestment of CHF 3,098,319 (45,001 shares at par value of CHF 68.85) took place with a subscription price of CHF 110.00 per share.

Rights Issue and Private Placement

On 29 September 2009, the Group completed a rights offering during which 59,695 new registered shares were validly subscribed at a subscription price of CHF 110.00 and a nominal value of CHF 68.85 each. This increased the share capital of the Group by CHF 4,110,001 (59,695 shares with a nominal value of CHF 68.85). 86,325 shares for which subscription rights were not duly exercised during the rights exercise period were offered in a private placement.

On 21 October 2009, the Group placed 49,480 registered shares under the private placement at a subscription price of CHF 110.00 per share and a nominal value of CHF 68.85 each. This increased the share capital of the Group by CHF 3,406,698 (49,480 shares with a nominal value of CHF 68.85).

Treasury Shares	2010 shares	2009 shares	2010 CHF	2009 CHF
Balance at 1 January	9,915	4,727	1,144,164	664,533
Purchase of shares	13,652	6,353	1,591,671	721,857
Capital reinvestment	-	647	-	71,170
Par value capital reduction	-	-	-	(74,894)
Sale of shares	(7,898)	(1,812)	(924,066)	(238,502)
Balance at 31 December	15,669	9,915	1,811,769	1,144,164
Average price of shares purchased - CHF	116.59	113.29		
Average price of shares sold - CHF	117.00	131.62		

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18. BORROWINGS

	2010 CHF	2009 CHF
Non-current		
Notes	26,997,899	32,889,802
	<u>26,997,899</u>	<u>32,889,802</u>
Current		
Mortgages	159,839,546	193,442,602
Notes	5,778,950	-
	<u>165,618,496</u>	<u>193,442,602</u>
Total borrowings	<u>192,616,395</u>	<u>226,332,404</u>

Notes consist of CHF 15 million convertible bonds due in 2011. The bonds have a principal amount of CHF 1,000, a cash coupon of 3.5%, a yield to maturity (including redemption premium) of 6.25% and a conversion price of CHF 175.26. During the year new notes due in 2015 were issued with a principal amount of CHF 100, a cash coupon of 4.0%, a yield to maturity (including redemption premium) of 6.25% and a conversion price of CHF 120.00. Holders of the pre-existing CHF 15 million convertible bonds were given the option to convert into the new notes issued. Of the CHF 15 million, CHF 9.914 million of the note holders converted to the new notes (for CHF 11.065 million new notes including accrued interest to date) leaving CHF 5.086 million of old notes due in 2011. Additionally CHF 2.15 million of new cash subscriptions were received for the new notes. In total CHF 13.215 million of new notes were issued.

In addition, the newly issued notes contained a conversion option that was determined to be a multi-element arrangement. At the time of issuance, the fair value of the notes was determined to be equal to the book value of the debt, and as such, no equity component was recognized. Also, the new notes contain a call option on behalf of the Company. Refer to Note 16 for consideration of this call option

During 2009 the Group secured €11.5 million of second mortgage funding. These take the form of a number of loan notes to third parties. They are secured against the property in Leipzig, Germany, run for a five year term to May 2014 and attract 7.0% interest and 2.0% fees over this period.

During 2008, the funding of the acquisition of the investment properties in Leipzig, Germany was concluded. The acquisition was funded by the utilisation of €121 million of senior debt, with the balance being paid from existing cash resources of the Group. The senior debt runs for a three year term with a one year extension at the option of the borrower. Interest is payable quarterly at the Euribor rate plus a margin of 120 bps per annum. The senior debt is securitised by first ranking and fully enforceable land charges over the property acquired. The cost of arranging the financing totalled €3,343,786 and will be amortised over the initial term of the loan. On the same date an interest rate swap was executed for a principal sum to match that of the senior debt which fixed the interest rate payable over the 3 year term at 4.52% and provided a 100% hedge throughout its duration.

During 2009, the Group repaid €14.6 million of the above senior debt of €121 million. This was done in order to remedy the covenant breach for the period ending 31 December 2008 and to bring the loan to value back within the 70% prescribed in the facility agreement. As a result of the repayment a waiver of the applicable debt covenant was obtained for 2010.

As a result of the above repayment, the Group also terminated a proportionate amount of the interest rate swap associated with the borrowings. This resulted in a cash loss to the Group of CHF 978,942, based on the mark to market prices at the time of the transaction (see Note 8). On 20 October 2010 the loan facility expired and the associated interest rate swap lapsed. The loan was renewed for a six month term to 20 April 2011 at a margin of 300bps over Euribor to 20 December 2010 and then 400bps over Euribor to maturity.

The borrowings in respect of the Leipzig properties have been included in current liabilities in both 2009 and 2010.

On 30 November 2007, the Group entered into a one year agreement for a CHF 31 million (€25 million) credit facility. The full amount was drawn down on 3 January 2008 and renewed on 3 January 2009 and 2010 for a further year. The average interest rate charged in 2010 was 0.84% (2009 – 1.09%) whilst the current interest rate is 1.12%.

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18. BORROWINGS (CONTINUED)

The maturity of non-current is as follows:

	2010 CHF	2009 CHF
Between 1 and 2 years	-	-
Between 2 and 5 years	26,997,899	32,889,802
Over 5 years	-	-
Non-current borrowings	26,997,899	32,889,781

The carrying amounts and fair value of the non-current borrowings are as follows:

	Carrying amounts		Fair values	
	2010 CHF	2009 CHF	2010 CHF	2009 CHF
Notes	26,997,899	32,889,802	25,875,105	33,947,090
	26,997,899	32,889,802	25,875,105	33,947,090

The fair values are based on cash flows discounted using a rate based upon a borrowings rate of 6.0% to 9.0% (2009 – 6.25% - 9.00%).

The carrying amounts of the Group's total borrowings are denominated in the following currency:

	2010 CHF	2009 CHF
Swiss francs	18,648,127	16,004,372
Euros	173,968,268	210,328,032
	192,616,395	226,332,404

19. DEFERRED INCOME TAX

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

	2010 CHF	2009 CHF
Deferred tax liabilities to be recovered after more than 12 months	81,673	3,261,836

The gross movement on the deferred income tax account is as follows:

	2010 CHF	2009 CHF
Beginning of the year	3,261,836	2,817,594
Income statement charge (Note 21)	(3,711,159)	352,630
Settlement of deferred tax asset	789,954	98,286
Net changes due to exchange differences	(258,958)	(6,674)
End of the year	81,673	3,261,836

In prior years, deferred taxation has been provided on the fair value gains on investment property (see Note 11) at a rate of 15.83%.

USI GROUP HOLDINGS AG
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010

20. OTHER FINANCIAL LIABILITIES

	2010 CHF	2009 CHF
Liability from put option	3,227,755	3,729,137
	3,227,755	3,729,137

The above financial liability relates to the minority holding of 5.1% in the acquired partnership USI Verwaltungszentrum GbR, therefore no minority is disclosed within equity.

The seller has an irrevocable right (put option) to sell its 5.1% holding at a value based on a pre-determined formula within the option agreement to USI during a specified period, the earliest date being 1 March 2013. In addition, included within the liability is the fair value of a 5.1% profit share arrangement implicit within the partnership agreement with the holder of the put option.

The Group (buyer) has an irrevocable right (call option) to buy the 5.1% holding at a value based on a pre-determined formula within the option agreement from the seller during a specified period, the earliest date being 1 March 2013.

The parties agree that the purchase for the shares corresponds to their market value which will be calculated on the basis of the following formula: 5.1% of the average net annual basic rent paid for the lease object in the years 2008 – 2012 (or in the 5 years preceding the year in which the purchase or sales option was executed, if not executed in the year 2013) (inclusive) x 4.2.

21. INCOME TAXES

	2010 CHF	2009 CHF
Current tax	(52,198)	-
Deferred tax (Note 19)	3,711,159	(352,630)
	3,658,961	(352,630)

The tax on the Group's profit before tax is based on the applicable tax rate of the parent company of 7.83% (2009 - 7.83%).

	2010 CHF	2009 CHF
Loss before tax per consolidated income statement	(35,285,824)	(2,648,322)
Tax calculated at domestic tax rates applicable to profits in the respective countries	2,762,880	207,364
Tax losses for which no deferred tax asset was recognised	(304,704)	(298,156)
(Expenses) not tax deductible / income not taxable	(546,227)	(97,427)
Local tax rate different to parent tax rate	1,747,012	(164,411)
Tax charge	3,658,961	(352,630)

As at 31 December 2010, the Group had unused tax losses of CHF 34.9 million (2009 - CHF 22.7 million), which expires between 2011 and 2017. These losses were not capitalised as it is unlikely that they will be utilised by the Group. The expenses not tax deductible / income not taxable includes companies in jurisdictions without any income tax. The tax rate for Germany was 16% which is significantly higher than that of the parent company.

USI GROUP HOLDINGS AG
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010

22. TRADE AND OTHER PAYABLES

	2010 CHF	2009 CHF
Other payables	1,713,330	58,556
	1,713,330	58,556

23. ACCRUALS

	2010 CHF	2009 CHF
Other accrued expenses including interest	3,755,776	3,778,457
	3,755,776	3,778,457

24. CASH GENERATED FROM OPERATIONS

	NOTE	2010 CHF	2009 CHF
Loss for the year attributable to equity holders:		(31,626,863)	(3,000,952)
Adjustments for:			
- Interest expenses and other finance expenses		16,119,806	16,741,486
- Net foreign exchange losses		-	129,043
- Interest income	7	(341,219)	(518,147)
- Tax		(3,659,182)	443,257
- Changes in fair value of investment property/loans	11	23,196,125	(2,203,940)
- Changes in other liabilities		57,673	29,690
- Exceptional loss on disposal of associate	12	4,793,080	-
- Changes in receivables and prepayments		111,537	(3,600,618)
- Changes in fair value of options and warrants		(7,843)	(110,605)
- Changes in accruals		(1,834,191)	(2,194,351)
- Loss / (profit) from associate	12	(342,089)	(2,533,881)
		6,466,834	3,180,982
Cash generated / (used) by operations			

USI GROUP HOLDINGS AG
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010

25. RELATED PARTY TRANSACTIONS

Dr. iur. V. Lanfranconi is a director of the Group and also of some of the subsidiaries. Dr. iur. V. Lanfranconi is the majority beneficial owner of the Group's issued share capital. David Quint and Dr. Doraiswamy Srinivas are directors of RP&C International Inc (RP&C), the Group and some of its subsidiaries. William Vanderfelt is also a non executive director of RP&C and the Group. RP&C is the parent company of RP&C International (Guernsey) Limited which held 6.47% of the issued ordinary share capital of the Group at 31 December 2010 (31 December 2009 – 6.47%).

The Group was charged CHF 2,314,681 (2009 – CHF 2,343,088) management fees for services rendered by RP&C. One third of these fees received have been re-allocated to Dr. iur. V. Lanfranconi.

At 31 December 2010, RP&C was owed CHF 901,506 (2009 – CHF 199,546) by the Group of which Dr. iur. V. Lanfranconi was owed CHF 300,502 (2009 – CHF 66,515).

For the year ended 31 December 2010, the Group was charged CHF 306,350 (2009 – CHF 284,550) for office, secretarial and related expenses by Dr. iur. V. Lanfranconi.

For the year ended 31 December 2010, the Group was charged CHF 243,671 (2009 – CHF 103,546) other charges and expenses by RP&C.

During the year ended 31 December 2008, a loan of CHF 2,492,833 (€2,000,000) was made to Ridgemont Holdings Limited, a wholly owned subsidiary of RP&C International Inc. Interest totalling CHF 171,293 has been accrued during the year on this loan (2009 – CHF 180,823).

During the year ended 31 December 2010, a loan of CHF 1,659,150 (£1,139,996) was made by RP&C International Inc to the Group.

During the year ended 31 December 2009, a loan of CHF 2,454,261 (€1,650,000) was made to Public Service Properties Investments Limited, a company in which the Group had a 25.16% shareholding, this loan was repaid during 2010. Interest totalling CHF 39,392 (2009 – CHF 6,960) has been accrued in the year on this loan.

All transactions with related parties were carried out on an arms length basis

The following directors' fees were recognised in 2010 and 2009. Of these amounts, CHF 42,278 (2009 – CHF Nil) was outstanding at the year end.

	2010 CHF	2009 CHF
Dr. Robert Bider	30,000	30,000
Mr. Armin Hilti	30,000	30,000
Dr. Volkert Klaucke	30,000	30,000
Mr. William Vanderfelt	30,000	30,000

The total compensation of key management are only directors fees in the total amount of CHF 120,000 (2009 – CHF 120,000) (Note 29).

26. EMPLOYEES

The Company had no employees at 31 December 2010 (2009 – none).

27. FINANCIAL COMMITMENTS

	2010 CHF	2009 CHF
Commitments for capital expenditure:		
Authorised and contracted for	nil	nil

28. SUBSEQUENT EVENTS

The Group's investment property asset is substantially financed by one senior debt facility, which is scheduled to be repaid by 30 June 2011. The Group has signed a non-binding agreement with a new financier who has committed to funding the outstanding balance of the existing senior debt facility pending final execution of the agreement. This refinancing will include a senior credit facility of € 81.5 million which will be reduced by annual amortization with the final balance repayable in 9 years and a subordinated loan of € 28.0 million repayable in 18 months with an option to extend for an additional six months. The additional financing is expected to be completed by the end of June 2011.

If the term of the existing senior debt facility is not extended or if the financing can not be substituted, there is a material uncertainty about the Group's ability to continue as a going concern with respect to liquidity. This loan has currently been extended to June 2011 and the Group will monitor the situation.

USI GROUP HOLDINGS AG
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010

29. DISCLOSURE OF COMPENSATION AND PARTICIPATIONS OF BOARD OF DIRECTORS AND GROUP MANAGEMENT (As required by Art. 663b bis and Art. 663c. Swiss Code of Obligations)

2010 All amounts in CHF Board of Directors (BoD)	Basic Remuneration		Variable Remuneration		Total
	Cash	Equities/ Options	Cash	Equities/ Options	
Dr. iur. V. Lanfranconi	-	-	-	-	-
Dr. Robert Bider	30,000	-	-	-	30,000
Mr. Armin Hilti	30,000	-	-	-	30,000
Dr. Volkert Klaucke	30,000	-	-	-	30,000
Mr. William Vanderfelt	30,000	-	-	-	30,000
Mr. David Quint	-	-	-	-	-
Dr. Doraiswamy Srinivas	-	-	-	-	-
Total BoD	120,000	-	-	-	120,000
Group Management (GM)					
RP&C International Inc.	2,314,680	-	-	-	2,314,680
Total GM	2,314,680	-	-	-	2,314,680

Basic remuneration of Group Management relates to payments made by the Group in accordance with the asset management agreement.

On 31 December 2010, there were no loans or credit to individual members of the Board of Directors.

As at 31 December 2010, the following numbers of participations were held by the Board of Directors and the Group Management (including persons closely related to these members):

All amounts in CHF Board of Directors (BoD)	Shares
Dr. iur V. Lanfranconi	541,565
Dr. Robert Bider	-
Mr. Armin Hilti	1,992
Dr. Volkert Klaucke	-
Mr. William Vanderfelt	17,365
Mr. David Quint	-
Dr. Doraiswamy Srinivas	-
Total BoD	560,922
Group Management (GM)	
RP&C International Inc.	63,739
Total GM	63,739

USI GROUP HOLDINGS AG
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010

29. DISCLOSURE OF COMPENSATION AND PARTICIPATIONS OF BOARD OF DIRECTORS AND GROUP MANAGEMENT (As required by Art. 663b bis and Art. 663c. Swiss Code of Obligations) (CONTINUED)

2009 All amounts in CHF	Basic Remuneration		Variable Remuneration		Total
	Cash	Equities/ Options	Cash	Equities/ Options	
Board of Directors (BoD)					
Dr. iur. V. Lanfranconi	-	-	-	-	-
Dr. Robert Bider	30,000	-	-	-	30,000
Mr. Armin Hilti	30,000	-	-	-	30,000
Dr. Volkert Klaucke	30,000	-	-	-	30,000
Mr. William Vanderfelt	30,000	-	-	-	30,000
Mr. David Quint	-	-	-	-	-
Dr. Doraiswamy Srinivas	-	-	-	-	-
Total BoD	120,000	-	-	-	120,000
Group Management (GM)					
RP&C International Inc.	2,343,088	-	-	-	2,343,088
Total GM	2,343,088	-	-	-	2,343,088

Basic remuneration of Group Management relates to payments made by the Group in accordance with the asset management agreement.

On 31 December 2009, there were no loans or credit to individual members of the Board of Directors.

As at 31 December 2009, the following numbers of participations were held by the Board of Directors and the Group Management (including persons closely related to these members):

All amounts in CHF	Shares
Board of Directors (BoD)	
Dr. iur. V. Lanfranconi	541,565
Dr. Robert Bider	-
Mr. Armin Hilti	1,992
Dr. Volkert Klaucke	-
Mr. William Vanderfelt	17,365
Mr. David Quint	-
Dr. Doraiswamy Srinivas	-
Total BoD	560,922
Group Management (GM)	
RP&C International Inc.	63,739
Total GM	63,739

USI GROUP HOLDINGS AG
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010

30. SEGMENT INFORMATION

Year ended 31 December 2010	Investments in Government Tenanted Property CHF	Investments in Associated Undertakings CHF	Central Corporate Costs CHF	Total CHF
Revenue	12,269,009	-	-	12,269,009
Profit after tax	(19,755,584)	(4,450,991)	(7,420,288)	(31,626,863)
Assets				
Investment properties (Note 11)	208,230,163	-	-	208,230,163
Investments in associates (Note 12)	-	35,888,448	-	35,888,448
Cash	2,669,747	-	1,089,345	3,759,092
Segment assets for reportable segments	210,899,910	35,888,448	1,089,345	247,877,703
Liabilities				
Total borrowings (Note 18)	142,807,994	-	49,808,401	192,616,395
Segment liabilities for reportable segments	142,807,994	-	49,808,401	192,616,395
Year ended 31 December 2009	Investments in Government Tenanted Property CHF	Investments in Associated Undertakings CHF	Central Corporate Costs CHF	Total CHF
Revenue	13,350,031	-	-	13,350,031
Profit after tax	(158,619)	2,533,881	(5,376,214)	(3,000,952)
Assets				
Investment properties (Note 11)	273,479,102	-	-	273,479,102
Investments in associates (Note 12)	-	42,973,682	-	42,973,682
Cash	2,970,349	-	5,309,041	8,279,390
Segment assets for reportable segments	276,449,451	42,973,682	5,309,041	324,732,174
Liabilities				
Total borrowings (Note 18)	173,142,230	-	53,190,174	226,332,404
Segment liabilities for reportable segments	173,142,230	-	53,190,174	226,332,404

All revenue derived from Investments in Government Tenanted Property is derived from one external customer in Germany.

USI GROUP HOLDINGS AG
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010

30. SEGMENT INFORMATION (CONTINUED)

Reportable segments' assets are reconciled to total assets as follows:

Year ended 31 December	2010 CHF	2009 CHF
Total reportable segment assets	247,877,703	324,732,174
Receivables and prepayments (Note 15)	35,739,957	44,291,109
Total assets per balance sheet	283,617,660	369,023,283

Reportable segments' liabilities are reconciled to total liabilities as follows:

Year ended 31 December	2010 CHF	2009 CHF
Total reportable segment liabilities	192,616,395	226,332,404
Derivative financial instruments (Note 16)	-	5,760,309
Other financial liability (Note 20)	3,227,755	3,729,137
Deferred taxation (Note 19)	81,637	3,261,836
Trade payables and accruals (Note 22 and 23)	5,469,106	3,827,013
Total liabilities per balance sheet	201,394,893	242,920,699

31. ASSESSMENT OF RISK (as required by Art. 663b bis Par 12, Swiss Code of Obligations)

Financial risk assessment and management is an integral part of the USI Group Holdings AG Group-wide enterprise risk management and is governed by policies reviewed by the Board of Directors. The policies provide guidance on operational risk limits, types of authorized financial instruments and monitoring procedures. Such monitoring procedures contain regular review of accounting policy assessment including changes in accounting policy, significant accounting matters, and items requiring significant management judgement and estimates. The implementation of the accounting policy, the adherence to the regulation and the monitoring on a day-to-day risk basis are carried out by the relevant accounting and treasury functions. Regular reporting on the review of the financial risk management is performed by the relevant accounting and controlling functions.

The Group has established a yearly process driven by management evaluating in detail financial risk assessment in the areas of accounting complexity, control environment, market dynamics, cultural and individual parameters.

The major financial risks identified and therefore the most critical accounting policies consist of revenue recognition, accounting for acquisitions and strategic alliances, intangible assets and Impairments, accounting for associates, foreign exchange risk, equity based compensation and contingencies.

The major financial risks in the area of control environment consist of information systems complexity, outsourcing of critical processes, timely review of results, and the robustness of the documentation of processes. The major financial risks identified in the area of market dynamics consist of the local customs and practices, country specific risks and overall market dynamics.

32. BOARD APPROVAL

The consolidated financial statements on pages 7 to 42 are subject to approval by the AGM and have been authorised by the board of directors on 28 April 2011 and were signed on its behalf by:

Dr. iur. V. Lanfranconi, Chairman

Mr. Armin Hilti, Director

Report of the statutory auditor
to the general meeting of
USI Group Holdings AG
Zurich

Report of the statutory auditor on the financial statements

As statutory auditor, we have audited the accompanying financial statements of USI Group Holdings AG, which comprise the balance sheet, income statement and notes on pages 44 to 47, for the year ended 31 December 2010.

Board of Directors' Responsibility

The Board of Directors is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the company's articles of incorporation. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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

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

Opinion

In our opinion, the financial statements for the year ended 31 December 2010 comply with Swiss law and the company's articles of incorporation.

Emphasis of matter

We draw attention to Note 8 "Financial Risk Management" to these financial statements, where disclosures by management are made regarding the fact that USI Group Holdings AG investment property asset is primarily financed by one senior debt facility, which is scheduled to be repaid in 2011. If the term of the senior debt facility is not extended or if the financing can not be substituted, such a case would set USI Group Holdings AG at risk of potential illiquidity. This indicates the existence of a material uncertainty which may cast significant doubt about the ability of USI Group Holdings AG to continue as a going concern. Our opinion is not qualified in respect of this matter.

In addition, the above mentioned issue may cause concerns that the accumulated deficit exceeds the share capital in relation to article 725 para. 2 Swiss Code of Obligations and the company would need to comply with corresponding regulations.

Report on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

We further confirm that the proposed appropriation of available earnings complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.



Patrick Balkanyi
Audit expert

Michael Ruble

Auditor in charge
Zurich, 28 April 2011

BALANCE SHEET
USI Group Holding AG

	31.12.2010	31.12.2009
	CHF	CHF
ASSETS		
Cash and cash equivalents	821,723	4,626,926
Receivables third parties	1,385,557	1,334,340
Prepaid expenses	-	-
Inter-company	75,109,224	95,561,526
Marketable securities	1,811,769	1,144,164
Total current assets	79,128,273	102,666,956
Investments	4,327,978	4,327,978
Total non-current assets	4,327,978	4,327,978
TOTAL ASSETS	83,456,251	106,994,934
LIABILITIES		
Other current liabilities		
Shareholders	38,022	38,022
Accrued expenses	1,195,462	295,546
Total liabilities	1,233,484	333,568
Share capital	67,837,771	67,837,771
Legal reserves	23,823,595	27,555,231
Free reserves	13,188,231	13,855,838
Treasury Shares	1,811,769	1,144,162
Accumulated deficit	(24,438,599)	(3,731,636)
<i>Balance carried forward from prior year</i>	-	-
<i>Annual loss</i>	(24,438,599)	(3,731,636)
Total shareholders' equity	82,222,767	106,661,366
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	83,456,251	106,994,934

INCOME STATEMENT
USI Group Holding AG

1 January – 31 December

	2010	2009
	CHF	CHF
Other income	-	-
Other income	<hr/>	<hr/>
Directors' fees	(84,555)	(84,557)
Professional fees	(246,753)	(409,092)
Tax consultancy	(43,793)	(11,621)
Audit fees	(107,600)	(132,563)
Listing fees	(11,304)	(8,958)
Insurance	(15,949)	(19,502)
Abort costs	-	(69,462)
Management charges	(2,314,680)	(2,343,088)
Formation, capital raising and organisational costs		
Capital tax expenses, reclaims and rent, maintenance and general administration	(546,205)	(477,205)
Impairment provision	(20,598,622)	-
EBIT	(23,969,461)	(3,556,048)
Financial expenses	(52,709)	(80,255)
Foreign exchange losses	(417,293)	(96,955)
Financial income	864	1,622
Loss before income tax expenses	(24,438,599)	(3,731,636)
Income tax expense	-	-
NET LOSS	(24,438,599)	(3,731,636)

NOTES
USI Group Holding AG

To the financial statements at 31 December 2010

Disclosures required by Swiss law:

1) Company information

There were no movements in share capital in 2010.

Capital reduction and reinvestment

During 2009, a capital distribution of CHF 8.90 per share took place that reduced the share capital of USI Group Holdings AG from CHF 64,619,739 (831,122 with a nominal value of CHF 77.75 each) to CHF 57,223,613 (831,122 shares with a nominal value of CHF 68.85 each). Additionally a reinvestment of CHF 3,098,319 (45,001 shares at par value of CHF 68.85) took place with a subscription price of CHF 110.00.

Rights issue and private placement

On 29 September 2009, the Company completed a rights offering during which 59,695 new registered shares were validly subscribed at a subscription price of CHF 110.00 and a nominal value of CHF 68.85 each. This increased the share capital of the company by CHF 4,110,001 (59,695 shares with a nominal value of CHF 68.85). 86,325 shares for which subscription rights were not duly exercised during the rights exercise period were offered in a private placement.

On 21 October 2009, the Company placed 49,480 registered shares under the private placement at a subscription price of CHF 110.00 per share and a nominal value of CHF 68.85 each. This increased the share capital of the company by CHF 3,406,698 (49,480 shares with a nominal value of CHF 68.85)

Authorised share capital

The share capital may be increased by a maximum amount of up to CHF 17,996,357 until 26 May 2011 through the issuance of up to 261,385 fully paid in additional registered shares with a nominal value of CHF 68.85 each.

Conditional share capital

The share capital may be increased by a maximum of CHF 30,763,557 through the issuance of up to 446,820 registered shares with a nominal value of CHF 68.85 each in respect of conditional capital for management, advisors, bondholders and creditors.

During 2009, a reinvestment of 45,001 shares in the amount of CHF 3,098,319 took place.

2) Significant shareholders

At the year end, the following significant shareholders were listed in the share register with shareholdings in excess of 3% of issued share capital.

	31.12.10	31.12.09
Dr. iur V Lanfranconi	54.96%	54.96%
Monkwell Investments Ltd (formerly USI Limited)	4.92%	4.92%
USI USA II	3.45%	3.45%
Esquire Banque Privée (Suisse) SA	5.78%	5.78%

3) Guarantees

The Company has granted a guarantee for USIGH Limited in the amount of EUR 25 million and a joint surety for Healthcare Properties Etzelgut Ltd. in the amount of CHF 6 million.

4) Significant investments

Company name	Domicile	Share capital	Shares held	Type of shares and nominal value	Ownership
USI AG	Switzerland	CHF 15,000,000	150,000	Ordinary CHF 100	100%
USIGH Limited	British Virgin Islands	\$0.02	2	Ordinary USD 0.01	100%

The companies are holding and finance companies.

5) Treasury shares

Treasury shares (in number of shares)	2010 Shares	2009 Shares	2010 CHF	2009 CHF
Balance at 1 January	9,915	4,727	1,144,164	664,533
Purchase of shares	13,652	6,353	1,591,671	721,857
Capital reinvestment	-	647	-	71,170
Par value capital reduction	-	-	-	(74,894)
Sale of shares	(7,898)	(1,812)	(924,066)	(238,502)
Balance at 31 December	15,669	9,915	1,811,769	1,144,164
Average price of shares purchased - CHF	116.59	113.29		
Average price of shares sold - CHF	117.00	131.62		

6) Assessment of risk (art. 663b bis para. 12 CO)

USI Group Holdings AG, as ultimate parent Company of the group, prepares a centralised risk management system for the Group (including USI AG). This risk management system separates strategic risks from operative risks. All identified risks are quantified according to their realisation, probability and impact. These risks are the objective of an annual discussion process in the Group's Board of Directors and Audit Committee meetings. The identification and remediation of risks is a key management objective.

Risks that arise from the accounting and financial reporting process are included in the risk assessment process. The Internal Control System framework over financial reporting includes relevant control measures, which reduce the overall financial reporting risk. Non-financial reporting risks are categorised depending on their possible impact (low, average and high) and appropriately monitored.

7) DISCLOSURE OF COMPENSATION AND PARTICIPATIONS OF BOARD OF DIRECTORS AND GROUP MANAGEMENT (As required by Art. 663b and Art. 663c. Swiss Code of Obligations)

Refer to Note 29 of the consolidated financial statements.

8) Financial risk management

The Group's investment property asset is substantially financed by one senior debt facility, which is scheduled to be repaid by 30 June 2011. The Group has signed a non-binding agreement with a new financier who has committed to funding the outstanding balance of the existing senior debt facility pending final execution of the agreement. This refinancing will include a senior credit facility of € 81.5 million which will be reduced by annual amortization with the final balance repayable in 9 years and a subordinated loan of € 28.0 million repayable in 18 months with an option to extend for an additional six months. The additional financing is expected to be completed by the end of June 2011.

If the term of the existing senior debt facility is not extended or if the financing can not be substituted, there is a material uncertainty about the Group's ability to continue as a going concern with respect to liquidity. The Group will monitor the situation.

Proposal of the Board of Directors for appropriation of accumulated deficit at 31 December 2010

in CHF

Accumulated deficit	
Accumulated deficit at 1 January 2010	(3,731,636)
Offsetting balance of accumulated deficit carry forward with legal reserve on general meeting of shareholders on 25 May 2010	3,731,636
Balance after general meeting of shareholders on 25 May 2010	-
Net loss 2010	(24,438,599)
Accumulated deficit	(24,438,599)
Offsetting balance of accumulated deficit carry forward with legal reserve	-
Accumulated deficit carried forward	(24,438,599)

USI GROUP HOLDINGS AG
OTHER INFORMATION (Audited)
FOR THE YEAR ENDED 31 DECEMBER 2010

Additional Rules for the Listing of Real Estate Companies of the SIX Swiss Exchange

General Information

Property Details

<i>Name, address</i>	<i>Owner¹</i>	<i>Ownership status²</i>	<i>Approximate Year of construction</i>	<i>Year of renovation</i>	<i>% of leased usable space</i>	<i>As % of Investment Properties Portfolio</i>	<i>Gross lettable area M²</i>
Germany Office Building - Behördenzentrum, Free State of Saxony, Schongauerstrasse 1-17, 04328, Leipzig, Germany.	USI GbR	FH	1995	-	100	100	50,707

1 USI Gbr = USI Verwaltungszentrum Leipzig GbR

2 FH = Freehold (100%)

3 Gross lettable area comprises 49,879 sqm of three office buildings plus 828 sqm single-storey facilities.

Significant lessees of USI Group owned properties

Name of Lessee	Location	Details of leased properties	Lease period expiry date	Aggregate annual lease payments	Percentage of total lease payments to the USI Group:
Free State of Saxony	Leipzig, Germany	3 four-storey office buildings and 1 single-storey building.	March 2020	€ 8,938,728 (CHF 12,334,554 [*])	100.00%

Equity Ownership of the Company and/or the USI Group in Real Estate Companies

Other than the subsidiaries disclosed above, the Company and/or the USI Group do not own equity interests in any other real estate companies.

^{*} Exchange rate based on EUR: CHF = 0.72469.

Independent appraisal firms and valuation methods

The USI Group has commissioned Botta Management AG for the purpose of estimating the fair value of the real estate holdings owned by the USI Group.

Valuation method of Botta Management AG (“Botta”)

The valuation method of Botta is the discounted cash flow analysis. This method stems from the calculation of the capitalised income value of an undertaking. Thereby all future profits are converted into present cash value.

Capitalised Value of Property: With respect to the calculation of a property, all future estimated earnings and expenses (without interest on capital accounts and amortisation) are - as is the case when evaluating an undertaking - being collected. The difference between the respective earnings and expenses results in the cash flow. The cash flow can be positive or negative. This future cash flow is recalculated to the present value by using a cash equivalent factor. The later - expressed in years - this cash flow accrues, the lower the present value of such a cash flow is. Since properties represent very durable values, most properties still show a significant residual value after the examination period (normally 10 years) has expired. Thus, the residual value of the property has to be calculated at the end of the examination period. The residual value will then also be recalculated expressing the present cash value. The sum of all present cash values from the annual earnings and the cash value of the residual value results in the present capitalised income value of the property (DCF-value).

The sum of all cash values over a certain period of time and a possible residual value result in the capitalised income value of the undertaking.

The following basic data needs to be defined when applying this method:

- i) Object: name of the property.
- ii) Initial year: determination of the point in time, on which the calculation will be conducted. Normally this will be the present year.
- iii) Examination period: as examination period as the duration of the lease – which means until 2020. Over this period exact information relating to the future earnings and expenses can normally be given. After the expiration of the lease, a residual value will be calculated and will be discounted.
- iv) Discount factor: The discount factor is the interest rate by which future earnings are being discounted to the present value. Starting point for the determination of the interest rate is normally the actual sustainable interest rate for 10 year German Government Bonds. A risk premium is charged additionally. Thereby market risks relating to the property are accounted for. The risk premium varies for a normal customary property between 0.5% and 1.5%. Main factors are the location of the property with respect to the use and the risk of renting out. For purposes of valuing the Leipzig Property, a risk premium of 1.5% / 1.7% is applied. That is a very conservative assumption in view of the quality of the property. A discount factor of 4.7% was used for the valuation at 31 December 2010 (2009 – 4.8%).
- v) Capitalisation factor, calculation of residual value: With this interest rate the residual value of the property can be calculated. The capitalisation factor is - depending on the examination period and the condition of the property – 0.2% higher than the discount factor at 4.9% (2009 – 5.0%)
- vi) For the calculation of the annual amounts, the effective rental income is reduced by costs of the lessor such as insurance, real estate tax and maintenance. These were assumed to be at 3.4% of rental income (2009 – 3.4%)
- vii) General increase in renting costs: Thereby future general increase in prices with respect to earnings in connection with a property can be accounted for.
- viii) General increase in costs: Thereby future general increases in prices with respect to expenses in connection with a property can be accounted for.
- ix) Adjustment Amount: Here extraordinary expenses can be accommodated.
- x) Growth rate assumed by Botta of 2.0%.

USI GROUP HOLDINGS AG
OTHER INFORMATION (Audited)
FOR THE YEAR ENDED 31 DECEMBER 2010

Market Value

With regard to the above, Botta are of the opinion that the Market Value of the subject property as at 31 December 2010 is **EUR 167,050,000** (in words: One Hundred and Sixty Seven Million and Fifty Thousand Euros) (2009: €183,860,000)

Neither the Company nor any member of the USI Group has any relationship with this appraisal firm.

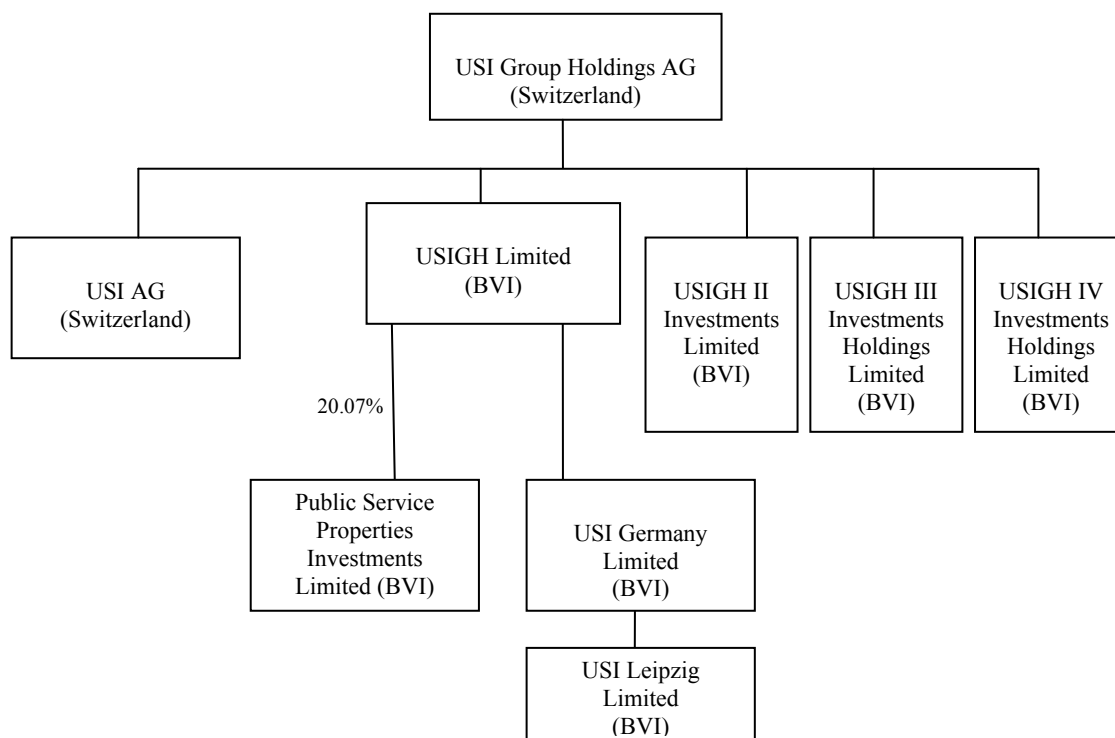
I Corporate Governance

This report describes certain key information relating to corporate governance at USI Group Holdings AG. The report's content and structure fulfil the requirements of the "Directive on Information Relating to Corporate Governance" of the SIX Swiss Exchange in force.

1 Group Structure and Shareholders

1.1 Group Structure

At 31 December 2010, the corporate structure of the group (the "USI Group") was as follows (for the internal organizational structure, refer to sections 3.3 and 4):



USI Group Holdings AG has its address at Bahnhofstrasse 106, 8001 Zurich, Switzerland. For its ISIN, Security Number and SIX Swiss Exchange Symbol see the end of this report, section 9. Its market capitalization as at 31 December 2010 amounts to CHF 113,604,859.

At 31 December 2010 the principal shareholdings of the USI Group were in the following non-listed companies:

Company	No of Shares Owned	Type of Shares and Nominal Value	Direct / Indirect Ownership %	Voting Rights %
USIGH Limited, Nerine Chambers, Road Town, Tortola, BVI, registered number 1039705	10,000	Ordinary US\$ 0.01	100	100
USI AG, Bahnhofstrasse 106, 8001 Zurich, Switzerland	150,000	Ordinary CHF 100	100	100
USI Germany Limited, Nerine Chambers, Road Town, Tortola, BVI, registered number 1440436	1	Ordinary US\$ 1.0	100	100
USI Leipzig Limited, Nerine Chambers, Road Town, Tortola, BVI, registered number 1417877	1,000	Ordinary no par value	100	100
USIGH II Investments Limited, Nerine Chambers, Road Town, Tortola, BVI, registered number 1439903	1	Ordinary US\$ 1.0	100	100
USIGH III Investments Holdings Limited, Nerine Chambers, Road	1	Ordinary US\$ 1.0	100	100

Town, Tortola, BVI, registered number 1531975				
USIGH IV Investments Holdings Limited, Nerine Chambers, Road Town, Tortola, BVI, registered number 1532071	1	Ordinary US\$ 1.0	100	100

In addition, the Company had a minority participation of 20.07% in Public Services Properties Investments Limited (BVI) ("PSPI"), a property investment company listed on the Alternative Investment Market ("AIM") of the London Stock Exchange (ISIN: VGG729641024, Symbol: PSPI), as of 31 December 2010. The market value of this participation was £15,059,276 (CHF 21,685,357). As at 22 April 2010, this minority participation was reduced to 20.07%, as a result of a share capital increase by PSPI, in which the Company did not participate in proportion to its existing shareholdings. The participation has, as at 19 April 2011, a market value of approximately £17.4 million (approximately CHF 25.3 million).

The USI Group also owns 94.9% of a partnership USI Verwaltungszentrum Leipzig Gbr and has an option to purchase the remaining 5.1% of such partnership.

1.2 Significant shareholders

At 31 December 2010 the Company had the following major shareholders:

Name of Holder	No of registered shares with a nominal value of CHF 68.85	Percentage ownership of total equity capital and voting rights
Dr Victor Lanfranconi and Mrs Beatrix Lanfranconi Spaeti	541,565	54.97%
RP&C International (Guernsey) Limited ¹ of PO Box 122, Helvetia Court, South Esplanade, St Peter Port, Guernsey GY1 4EE, Channel Islands	63,739	6.47%
Esquire Consolidated Limited ²	56,948	5.78%
Equinox USI Limited ³ c/o Herndon Plant Oakley Limited, One Shoreline Plaza, 800 North Shoreline, Suite 2200, South Tower, Corpus Christi, Texas 78401, USA	48,019	4.87%
USI – USA I ⁴ 4571 Stephen Circle NW, Suite 200 Canton OHIO 44718 USA	34,037	3.45%
USI – USA II ⁵ 4571 Stephen Circle NW, Suite 200 Canton OHIO 44718 USA	40,595	4.12%
European Asset Value Fund 1 Boulevard Royal, L2449, Luxembourg	34,573	3.51%
Treasury Shares	15,669	1.59%

¹ Shares held on behalf of RP&C International (Guernsey) Limited by Monkwell Investments Limited, as nominee.

² Of which 10,420 Shares held through Monkwell Investments Limited. The company is administered by Ardel Trust Company (Guernsey) Limited, PO Box 175, Frances House, Sir William Place, St Peter Port, Guernsey, Channel Islands GY1 4HQ. The balance of the shares are held through J. P. Morgan Securities Limited and J. P. Morgan (Suisse) S.A.

³ Held through Monkwell Investments Limited. Candies Family Investment LLC owns 41% of Equinox USI Limited.

⁴ Held through Monkwell Investments Limited. Henry S Belden IV, Marathon, Florida, USA, is a trustee of HSB Charitable Trust and BVB Charitable Trust, which in aggregate hold 72.1% of the shares of USI-USA I, Limited.

⁵ Held through Monkwell Investments Limited. Henry S Belden IV, Marathon, Florida, USA, owns 54.5% of the shares of USI-USA II, Limited. In addition, he holds a 90% interest in Southgate Investment, which holds 28.1% of the shares of USI-USA II, Limited.

Other existing shareholders	150,153	15.24%
Total	985,298	100%

Disclosure notices of significant shareholdings made to the Company and the SIX Swiss Exchange Ltd Disclosure Office during the year under review pursuant to art. 20 of the Swiss Federal Act on Stock Exchanges and Securities Trading may be reviewed on the exchange's electronic publication platform at the following address: http://www.six-exchange-regulation.com/obligations/disclosure/major_shareholders_en.html

1.3 Crossholdings

There are no cross-shareholdings between the Company and any other entity that would exceed 5% of capital or voting rights on both sides.

2 Capital structure

2.1 Capital

The Company's share capital amounts to CHF 67,837,767.30, divided into 985,298 registered shares with a par value of CHF 68.85, fully paid in.

The conditional capital for management and advisors amounts to CHF 3,155,326.65 and the conditional capital for bondholders and other creditors amounts to CHF 30,763,557.00.

The authorized capital amounts to CHF 17,996,357.25.

2.2 Authorized and conditional capital

2.2.1 Authorized capital

Pursuant to an authorization in Article 3c of the Company's articles of incorporation (the "**Articles**") the board of directors may increase the share capital in the amount of up to CHF 17,996,357.25 until 26 May 2011 through the issuance of up to 261,385 fully paid in additional registered shares with a nominal value of CHF 68.85 each. An increase in partial amounts is permitted. The date of issuance, the issue price, the payments with regard to the issue price, the dividend entitlement as well as the allocation of not-exercised subscription rights shall be determined by the board of directors. The board of directors may restrict or withdraw subscription rights in connection with mergers, acquisitions of interests, financing and/or re-financing of mergers or acquisitions of interests, or other investment projects, national or international placements of shares, conversion of loans or other equity securities into shares and for the broadening of the shareholder basis. The new registered shares are subject to the transfer restrictions specified in the Articles.

2.2.2 Conditional capital

According to Article 3a of the Articles the share capital may be increased by a maximum amount of CHF 3,155,326.65 through the issuance of up to 45,829 fully paid registered shares with a nominal value of CHF 68.85 each through the exercise of option rights granted to the management and advisors of the company or its subsidiaries. The subscription rights of the shareholders shall be excluded. The conditions of the option rights, the issue price, the dividend entitlement as well as the type of contribution shall be determined by the board of directors. The acquisition of registered shares through the exercise of option rights as well as every subsequent transfer of shares shall be subject to the restrictions set forth in Article 4 of the articles of incorporation.

Furthermore, pursuant to Article 3b of the Articles the share capital may be increased conditionally by a maximum amount of CHF 30,763,557.00 through the issuance of up to 446,820 fully paid registered shares with a nominal value of CHF 68.85 each through the exercise of conversion rights, warrant rights or option rights which have been or will be granted to bondholders or other creditors of the company or its subsidiaries. The subscription rights of the shareholders shall be excluded. The conditions of the option rights and of the conversion rights, the issue price, the dividend entitlement as well as the type of contribution shall be determined by the board of directors. The board of directors

may restrict or withdraw the right for advance subscription (*Vorwegzeichnungsrecht*) of the shareholders in connection with (i) the financing (refinancing inclusively) of acquisitions of enterprises or parts thereof, participations or other investment projects of the company and/or its subsidiaries or (ii) the issuance of bonds with option or conversion rights on national or international capital markets. If the right of advance subscription (*Vorwegzeichnungsrecht*) is excluded, (i) the bonds or bonds with warrants (*Anleihen oder Optionsanleihen*) have to be offered at market conditions, with (ii) the period of time for exercising the conversion and the options rights being not more than 10 years from the issue date, and (iii) the exercise price of the new registered shares corresponding to the market conditions at the time of issue. The acquisition of registered shares through the exercise of conversion and/or option rights as well as every subsequent transfer of these shares shall be subject to the restrictions set forth in Articles. Part of this conditional capital has been reserved for issues of shares pursuant to the securities referred to in section 2.7.1 and section 2.7.2.

2.3 Changes in capital in the past three years

On 27 May 2008, the general meeting of shareholders resolved to reduce the share capital of the Company from CHF 69,385,680.70 by CHF 7,126,746.20 to CHF 62,258,934.50 by reduction of the par value of each of its shares from CHF 86.65 to CHF 77.75.

In connection with the Company's re-investment scheme the board of directors resolved on 11 September 2008 to increase the share capital out of the authorized capital in the amount of CHF 2,360,801 from CHF 62,258,934.50 to CHF 64,619,735.50 through the issuance of 30,364 registered shares with a par value of CHF 77.75 each.

On 26 May 2009, the general meeting of shareholders resolved to reduce the share capital of the Company from CHF 64,619,735.50 by CHF 7,396,985.80 to CHF 57,222,749.70 by reduction of the par value of each of its shares from CHF 77.75 to CHF 68.85.

In connection with the Company's re-investment scheme the board of directors resolved on 3 September 2009 to increase the share capital out of the authorized capital in the amount of CHF 3,098,318.85 from CHF 57,222,749.70 to CHF 60,321,068.55 through the issuance of 45,001 registered shares with a par value of CHF 68.85 each.

In connection with the Company's rights issue pursuant to the prospectus dated 30 September 2009 the board of directors resolved on 1 October 2009 to increase the share capital out of the authorized capital in the amount of CHF 4,110,000.75 from CHF 60,321,068.55 to CHF 64,431,069.30 through the issuance of 59,695 registered shares with a par value of CHF 68.85 each.

In connection with the Company's private placement pursuant to the prospectus dated 30 September 2009 the board of directors resolved on 26 October 2009 to increase the share capital out of the authorized capital in the amount of CHF 3,406,698.00 from CHF 64,431,069.30 to CHF 67,837,767.30 through the issuance of 49,480 registered shares with a par value of CHF 68.85 each.

2.4 Shares and participation certificates

As at 31 December 2010, the Company has 985,298 registered shares with a par value of CHF 68.85, fully paid in. The shares rank equally among each other in all respects (including in respect of entitlements to dividends and liquidation proceeds). Each share confers one vote in the shareholders' meeting.

The Company has not issued any participation certificates.

2.5 Profit sharing certificates

The Company has not issued any profit sharing certificates.

2.6 Limitation on transferability and nominee registration

2.6.1 Limitations on transferability for each share category; indication of statutory group clauses and rules for granting exceptions

The board of directors can refuse the approval of an acquirer of registered shares as a shareholder with the right to vote, if the holdings of the shareholder together with his shares already registered exceed the limit of 2% of all the shares recorded in the commercial register. Legal entities and associations that are linked together by capital, voting power, management or in other manner, as well as all persons, entities and partnerships that are acting in concert with a view to circumvent the percentage limit, are deemed one person.

2.6.2 Reasons for granting exemptions in the year under review

There have been no exemptions from the limitations on transferability of shares (see section 2.6.1) granted in the year under review.

2.6.3 Nominee registration

Pursuant to the Articles, the board of directors can register nominees as shareholders with the right to vote, based on separate regulations or individual agreements.

2.6.4 Procedure and conditions for cancelling statutory privileges and limitations on transferability

The Articles do not provide for any privileges. The limitations on the transferability of shares (see section 2.6.1) may be abolished by a vote of the absolute majority of the shares represented at a shareholders' meeting.

2.7 Convertible bonds and warrants/options

The Company has not issued any convertible bonds, warrants or options, other than mentioned in the following sections.

2.7.1 CHF 15,000,000 of 3.5% Convertible Bonds Due 2011

In October 2006, USIGH Limited issued CHF 15,000,000 of convertible bonds due 2011 (the "**2006-2011 Bonds**"), some of them with warrants ("**Warrants**"). The 2006-2011 Bonds have a principal amount of CHF 1,000, a cash coupon of 3.5%, a yield to maturity (including redemption premium) of 6.25% and a conversion price of CHF 175.26. 32,159 Warrants are outstanding, each of which is exercisable into one share at a price of CHF 120 per share and expires on 30 September 2013. As at 31 December 2010, 2006-2011 Bonds in the aggregate principal amount of CHF 5,086,000 were outstanding.

Subject to adjustment under their terms, 29,020 registered shares with a nominal value of CHF 68.85 each of the Company would have to be issued under the terms of the 2006-2011 Bonds if all bondholders fully exercised their conversion rights. Subject to adjustment under their terms, 32,159 registered shares with a nominal value of CHF 68.85 each of the Company would have to be issued if all warrant holders fully exercised their Warrants. By 31 December 2010, no shares had been issued under the 2006-2011 Bonds and Warrants.

2.7.2 CHF 25,000,000 of 4% Convertible Bonds Due 2015

In September 2010, USIGH Limited issued CHF 25,000,000 of convertible bonds due 2015 (the "**2010-2015 Bonds**" defined for section 2.7.2). The 2010-2015 Bonds have a principal amount of CHF 100, a cash coupon of 4%, a yield to maturity of 6.25% and a conversion price of CHF 120. As at 31 December 2010, 2010-2015 Bonds in the aggregate principal amount of CHF 13,215,200 were outstanding.

Subject to adjustment under their terms, 110,126 registered shares with a nominal value of CHF 68.85 each of the Company would have to be issued under the terms of the 2010-2015 Bonds if all bondholders fully exercised their conversion rights. By 31 December 2010, no shares had been issued under the 2010-2015 Bonds.

3 Board of Directors

The members of the board of directors (the "**Board**") are responsible for the overall management and operation of the Company. The Board consists of 7 individuals.

	Nationality	Function	Member since	End of tenure
Non executive members				
Armin Hilti	CH	member	1983	2011
William W. Vanderfelt	GB	member	2005	2013
Dr Robert Bider	CH	member	2005	2011
Dr Volkert Klaucke	D	member	2005	2011
Executive members				
Dr. iur. Victor Lanfranconi	CH	chairman	2005	2011
Dr Doraiswamy Srinivas	USA/GB	member	2005	2013
David Quint	USA/GB	member	2005	2012

3.1 Members of the Board

Dr iur. Victor Lanfranconi (1942), Swiss citizen, Executive Chairman and CEO, trained as a Swiss lawyer specializing in international corporate and contract law. Dr Lanfranconi has over 30 years of experience in property investments ranging from warehouses to luxury apartments, nursing homes, hospitals and US postal facilities. In addition, Dr Lanfranconi has served on the boards of directors of healthcare facilities in Switzerland and Germany. Dr Lanfranconi studied law at the University of Zurich and the University of Basel.

Dr Doraiswamy Srinivas (1951), U.S./UK citizen, Director of Investor Relations, is Chief Operating Officer of RP&C International Inc ("RP&C") and is a director of RP&C and related companies. He has advised the USI Group since 1989 and has been a director of various USI Group subsidiaries for more than 10 years. Dr Srinivas previously served as Managing Director, Corporate Finance at SBCI Swiss Bank Corporation Investment Bank in New York where he was responsible for private placements and structured finance in North America. He subsequently held similar positions at Leu Securities and Guinness Mahon Capital Markets (now Investec) in London. Dr Srinivas attended the University of St. Gallen and the Columbia Business School. He holds a doctorate in finance and economics.

Mr David Quint (1950), U.S./UK citizen, is a co-founder and Chief Executive Officer of RP&C. Prior to founding RP&C in 1992, Mr Quint served as Managing Director of Belden & Blake Corporation's United Kingdom subsidiary and as an attorney with Arter & Hadden. Mr Quint is a graduate of the University of Notre Dame where he received a degree in Modern Languages and a Juris Doctorate. He is also a non-executive director of Global Energy Development plc.

Mr Armin Hilti (1945), Swiss citizen, was Chief Financial Officer and member of the management of Scana Lebensmittel AG, Regensdorf (Switzerland), a former subsidiary of the Company. Mr Hilti substantially contributed to the success of this company and its former Swiss and Belgian subsidiaries.

Mr William W. Vanderfelt (1942), UK citizen, is a former Managing Director of the Petercam Group, Belgium, a leading independent member firm of Euronext, Brussels. He serves as a director of Renaissance US Growth Investment Trust PLC and Chairman of Vietnam Opportunity Fund. He is also a director of RP&C.

Dr Robert Bider (1947), Swiss citizen, has over 30 years of experience in the healthcare industry. He holds a PhD in Technical Sciences and a Masters in Industrial Management (MIM) from the Federal Institute of Technology, Zurich. He started his career in the management sector of the University Hospital, Zurich, and became head of the consulting department of the Swiss Hospital Institute, Aarau. Thereafter he joined the Hirslanden Group in 1985 as the Managing Director of Clinic Hirslanden. In 1990 he started a national expansion strategy and became CEO of the Hirslanden Group which is now comprised of 13 private hospitals. He was elected as a board member of Hirslanden in June 2001. Dr. Bider is presently associated with Rhino Partners AG, a leading Swiss mid-market private equity house, offering capital, expertise and an extensive network to mid-sized Swiss companies in the context of succession solutions or spin-outs. He is also a board member of Grand Hotels Bad Ragaz, Medi-Clinic Switzerland AG and Medi-Clinic Corporation Limited. Dr. Bider is also chairman of SENIOcare, the largest group of nursing homes in Switzerland.

Dr Volkert Klaucke (1946), German citizen, has over 30 years of experience in investment banking. He worked for nearly 20 years at Deutsche Bank in Luxembourg, Tokyo, New York and Frankfurt

where he was primarily responsible for corporate finance and mergers and acquisitions. Dr Klaucke joined Pricewaterhouse, Frankfurt in 1991 as a Partner and Member of the Corporate Finance Executive Committee for Europe. From 1994-1995, he was Managing Director of Mees Pierson, Germany. Dr Klaucke has served on the boards of directors and advisory committees of various European and American corporations including Caisse Depot et Consignation GmbH in Frankfurt, Deutsche Börse in Düsseldorf and Vespucci Income Shares Inc. (a subsidiary of Munich Re) in New York. Dr Klaucke holds a doctorate in Business Management from the University of Hamburg. Dr Klaucke is also a member of the board of the German Foundation against World Hunger.

None of the non-executive directors have been members of the management of the Company or one of the Company's subsidiaries in the three financial years preceding the period under review, other than William W. Vanderfelt who is a non-executive director of USIGH Limited.

None of the non-executive directors have significant business connections with the Company or any of the Company's subsidiaries other than William W. Vanderfelt who is a non-executive director of RP&C.

3.2 Elections and terms of office

Pursuant to the Articles, the members of the Board shall hold office for at most three years. A year shall be the period from one ordinary shareholders' meeting to the next. The tenure of office is defined separately for each member of the Board and is usually three years. Members elected in a by-election step into the tenure of office of their predecessors. Members of the Board may be re-elected after their tenure of office expires, without limitation.

The remaining term of office for each member of the Board is disclosed above (before section 3.1).

3.3 Internal organizational structure

3.3.1 Board

The Board may take decisions on all matters which by law or the Articles are not allocated to the general meeting of shareholders (Article 698 of the Swiss Code of Obligations (hereinafter "**CO**")).

According to the internal organizational regulations of the Company of 27 July 2005, as amended on 20 July 2006 (hereinafter the "**Regulations**"), the Board acts, in principle, as a collective body. Its members may not act alone on behalf of the Company and may not give instructions on their own, except where the Articles, the Regulations or a decision of the Board otherwise permit.

Each year at the first meeting following the annual general meeting of shareholders, the Board appoints a chairman (the "**Chairman**"). The Board chooses the secretary, who may or may not be a member of the Board. Re-election of any member is permitted for any position.

The Chairman has the following duties:

- chairing meetings of the Board and general meetings;
- determining the agenda for meetings of the Board except in cases where proposals are made by other members of the Board;
- representation of the Board to the public, to public authorities and to the shareholders;
- supervision of the execution of measures which have the approval of the Board;
- preparation of amendments to the Articles, conduct of the voting procedures and other matters to be addressed at any general meeting;
- in association with RP&C, preparation of materials concerning strategic planning, short-term corporate goals, financial planning and budgets to be approved by the Board;

- decisions concerning non-budgeted investments and expenditures up to CHF 2.25 million and up to CHF 100,000 respectively; and
- decisions requiring urgent action or in exceptional circumstances which would otherwise be addressed by the Board, the nomination and compensation committee or the audit committee. Such decisions shall be submitted for approval to the responsible bodies as soon as possible.

3.3.2 Committees

The Board has formed two committees, the audit committee (hereinafter the "**Audit Committee**") and the nomination and compensation committee (hereinafter the "**Nomination and Compensation Committee**"), which consist of members of the Board, a majority of whom are independent non-executive directors. Each committee must report to the Board on a regular basis, not less than once a year.

3.3.2.1 Audit Committee

The Audit Committee consists of Dr Klaucke, the chairman of the Audit Committee, Mr Hilti and Dr Srinivas.

The responsibilities of the Audit Committee are determined in a special Audit Committee Charter. The Committee's primary duties are to:

- review the semi-annual and annual financial statements and consider whether they are complete and reflect appropriate principles;
- monitor the integrity and effectiveness of the Company's financial reporting process and systems of internal controls regarding finance and accounting, operational processes as well as manual and automatic finance and accounting data processing;
- oversee the qualifications of the public accounting firm engaged as the Company's independent auditor to prepare or issue an audit report on the financial statements of the Company;
- monitor the independence and performance of the Company's external and internal auditors (if any);
- provide for appropriate communication among the independent external auditors, RP&C and the Board;
- review and monitor the Company's financial strategies and procedures; and
- report to the Board on the Committee's activities and findings.

The Board has not delegated any decision-making powers to the Audit Committee.

The Audit Committee has the authority to conduct or authorize investigations into any matter within the scope of its duties and responsibilities pursuant to the Audit Committee Charter. It is empowered to:

- retain outside counsel, accountants or other experts to advise the Committee or assist it in the conduct of an investigation;
- seek any information it requires from RP&C or from the Company's employees – all of whom are directed to cooperate with the Committee's requests – or external parties;
- meet with RP&C, external auditors or outside counsel, as deemed necessary or appropriate.

3.3.2.2 Nomination and Compensation Committee

The Nomination and Compensation Committee consists of Dr Lanfranconi, the chairman of the Nomination and Compensation Committee, Mr Vanderfelt and Dr Bider.

The responsibilities of the Nomination and Compensation Committee are determined in a special Nomination and Compensation Committee Charter. Its primary duties are to:

- assist the Board in discharging its responsibilities relating to compensation of Directors of the Company;
- approve or establish proposals for all compensation plans, policies and programs relating to compensation and benefits for directors and direct employees (if any);
- propose to the Board compensation of directors and direct employees (if any);
- ensure that newly elected directors receive the appropriate introductions and orientation and the elected directors receive the adequate continuing education and training to fully discharge their obligations;
- assist the Board in identifying individuals who are qualified to become Board members, when vacancies arise;
- recommend to the Board the director nominees for the next annual shareholders' meeting;
- recommend to the Board a set of corporate governance principles to be published in a directive on corporate governance;
- prepare any disclosure statement on compensation and corporate governance required by applicable law, regulations or the rules of a stock exchange on which the Company's shares are listed or traded;
- lead the Board in its annual review of the Board's performance; and
- recommend to the Board director nominees for each committee.

The Board has not delegated any decision-making powers to the Nomination and Compensation Committee.

The Committee has the authority to conduct or authorize investigations into any matter within the scope of its duties and responsibilities pursuant to the Nomination and Compensation Committee Charter. It is empowered to:

- retain outside counsel, accountants or other experts to advise the Committee or assist it in the conduct of an investigation;
- seek any information it requires from the Company's employees – all of whom are directed to cooperate with the Committee's requests – or external parties;
- meet with RP&C, external auditors or outside counsel, as deemed necessary or appropriate.

3.3.3 Work methods of the Board and its committees

3.3.3.1 Board

The Chairman, or the secretary, convenes the meetings of the Board as often as business affairs of the Company require, usually not less than four times each year. Meetings are also held by telephone conference and actions may be taken pursuant to circular resolutions, if no member of the Board

requests in writing that the item to be resolved or discussed be considered at a meeting. The usual length of the meetings is 1-2 hours. In the year under review 5 meetings were held. At all of the meetings, senior officers of RP&C (in addition to the executive directors of the Company) were present, and external legal consultants attended all meetings at the invitation of the Chairman.

The Nomination and Compensation Committee reports its actions at the next meeting of the Board. The Audit Committee reports to the Board as required at each Board meeting about its activities, decisions, findings and recommendations. It reports at least semi-annually on the interim and final accounts at the board meeting which approves such accounts. Their primary duties and responsibilities are set out above (see section 3.3.2).

3.3.3.2 Audit Committee

In the year under review 2 meetings were held. The usual length of the meetings is 1 hour. A senior officer of RP&C (in addition to the members of the Audit Committee) attended both meetings held in the year at the invitation of the Chairman.

3.3.3.3 Nomination and Compensation Committee

The usual length of the meetings is 1 hour. In the year under review no meeting was held.

3.4 Definition of areas of responsibility

The Board has the responsibilities and duties set forth in the CO, in particular in Article 716a CO.

Furthermore, the Regulations state that the following matters shall be reserved to the Board:

- passage of resolutions regarding any authorised capital increases as well as any resulting amendments to the Articles;
- determination of the beginning and the end of each fiscal year of the Company pursuant to the Articles;
- the adoption of any stock option plan and the issuance of shares to option holders on exercise of such options;
- the formation, acquisition, merger, sale and/or liquidation of subsidiaries with a value in excess of CHF 2.25 million;
- the acquisition, sale and hypothecation of assets with a value in excess of CHF 2.25 million;
- the initiation and/or settlement of judicial and administrative proceedings or disputes of any nature with a value in excess of CHF 100,000;
- business decisions of a long-term nature or which involve unusual or extraordinary risks;
- the approval of expenditures or obligations in excess of CHF 100,000 for individual transactions or CHF 1,000,000 in the aggregate in any one fiscal year, unless such expenditures do not exceed the budget or other Board approved guidelines;
- the entry into any transaction which is not in the ordinary course of business of the Company, including any sale or lease of the Company's assets in excess of CHF 2.25 million;
- the entry into new projects with expenditures or obligations in excess of CHF 2.25 million, unless such projects have been approved in the Company's budget or other Board approved documents;
- the conclusion of any merger arrangements between the Company and any other entity or the decision to wind up or liquidate the Company, including any proposals to be made to

shareholders at a general meeting of shareholders regarding the merger, liquidation or winding-up of the Company;

- the formation or acquisition of interests in other companies, irrespective of their legal form, or the purchase of other businesses in whole or in part if the value of any such purchase exceeds CHF 2.25 million;
- regarding subsidiaries of the Company:
 - the execution, alteration or termination of articles of association;
 - the voluntary liquidation, merger or continuation of a subsidiary after the occurrence of any matter requiring its liquidation;
 - the approval of the annual accounts and the distribution of dividends or other distributions to shareholders, or the exercise of any other shareholders' rights;
 - the appointment and/or termination of managers and Board members as well as the execution, alteration or termination of employment or pension arrangements with managers or Board members;
 - the resolution of matters which, pursuant to law or the articles of association, require the approval of the shareholders.
- any participation in revenues or profits of the Company in any form except commissions which can be viewed as usual in the trade, or the provision of benefits or remuneration to individual employees in excess of CHF 50,000 p.a.;
- the grant of pension entitlements to any employees;
- any decisions concerning the appointment of the management;
- borrowing in excess of CHF 500,000;
- the grant of a loan or the creation of a contingent liability to, or in respect of, third parties in excess of CHF 500,000;
- the approval of any transaction between the Company and members of the Board;
- the adoption and/or alteration of the Regulations.

In accordance with Article 716b CO, and subject to inalienable and reserved matters as described above, the Board has delegated the management to a third party, whose responsibilities are set out below (see section 4).

3.5 Information and control instruments vis-à-vis senior management

The management provides the Chairman with a copy of management accounts on a quarterly basis. In addition, the management provides each member of the Board, within 60 days after the end of each interim reporting period, with a provisional half-yearly report and, within 90 days after the end of each fiscal year, with a provisional annual report.

Furthermore the management informs the Board at each Board meeting of all current matters, important events and deviations from the budget. Extraordinary transactions and issues must be reported by the management to the Board immediately. Each member of the Board is entitled to request and receive information on all matters of the Company and has access to the Company's and the Company's subsidiaries' property, records and personnel. Board members may make use of this possibility by requesting documents, in particular in the area of financial planning and reporting.

The Audit Committee's primary duties and its authority are set out above (see section 3.3.2.1). The Company has not appointed an internal audit function; its risk management is described in the notes to the consolidated annual financial statements, section 3.

4 Senior management

Pursuant to the Regulations, the responsibility for the day-to-day management and ongoing operations is vested with the management, which remains under the supervision of the Board. Members of management are appointed by the Board and serve at the discretion of the Board, subject to any applicable agreement.

RP&C was appointed as the USI Group's exclusive manager, adviser and administrator under the management agreement between the Company and RP&C, amended as of 1 June 2007 (the "**Management Agreement**"). RP&C is also responsible for identifying, advising on the acquisition of, financing and monitoring the USI Group's properties.

RP&C is an investment banking firm established in 1992 to provide specialist advisory services and financial solutions to public and private companies.

Without the prior consent of the Company, RP&C shall not assign, subcontract or delegate the performance of its duties to any other person except for certain administrative functions such as accounting tasks. Notwithstanding the foregoing, the Company approves the delegation of certain advisory functions to RP&C's subsidiaries, RP&C International Limited and RP&C International (Securities) Inc, and certain administrative functions to Legis Corporate Services Limited.

4.1 Members of the senior management of RP&C

Mr David Quint (see section 3.1)

Dr Doraiswamy Srinivas (see section 3.1)

Ralph Beney (1961), English citizen, the Finance Director of RP&C and Chief Financial Officer of USI Group, was previously a Director of Guinness Mahon Capital Markets in London, where he was responsible for fund advisory relationships and structured finance as well as for accounting for the capital markets division. Prior to joining Guinness Mahon in 1993, Mr. Beney spent seven years as the Chief Financial Officer of various Bank Leu subsidiaries. He is a Chartered Accountant and a member of the Securities Institute.

Richard Borg (1966), English citizen, the General Counsel of RP&C and of the USI Group, was previously a solicitor at Norton Rose in London, where he was a member of the Corporate Finance Department specializing in investment funds. He also serves as a director, officer and registered representative of RP&C International (Securities) Inc. Mr. Borg read law at the University of Oxford.

4.2 Other activities and vested interests

Important other activities and vested interests of the members of the senior management of the Manager are described in their individual profiles as appropriate (see sections 3.1 and 4.1).

4.3 Management contract

According to the Management Agreement between the Company and RP&C, the Company has appointed RP&C to be the USI Group's exclusive manager, adviser and administrator. RP&C is domiciled at c/o RP&C International Limited, 31a St. James's Square, London, SW1Y 4JR, United Kingdom. RP&C is entitled to receive from the Company an annual management fee equal to 2% of the consolidated net asset value of the USI Group less 1% of cash and cash equivalents as determined from time to time in accordance with the provisions in the Management Agreement. The amounts of the management fees paid in the year under review and in the prior year are disclosed in Notes 6a, 25 and 29 to the Consolidated Financial Statements.

The Management Agreement has no fixed term. The Company can terminate the appointment of RP&C, *inter alia*, by giving not less than 36 months' written notice to RP&C.

4.3.1 Duties of RP&C as manager and adviser

Pursuant to the Management Agreement, RP&C has the following duties as manager and adviser to the Company:

- advising the Company on its business plan and strategy, including the generic identification of properties which meet the criteria laid down by the Board for acquisitions from time to time;
- monitoring operation of the assets, liaising with the operators of the assets, and reporting to the Board with respect thereto;
- advising the Company generally in connection with conditions in the capital markets;
- carrying out reviews and evaluations of the assets whenever RP&C shall deem such actions are necessary or when the Company shall reasonably so require;
- advising generally on the holding of investments and assets;
- advising and instructing the administrator on administrative requirements in order to implement the Board's decisions;
- co-operating with the custodian with respect to the performance of its duties;
- instructing the administrator to pay out of the investments of the USI Group such amounts as may be required from time to time in order to enable RP&C to perform its duties under the Management Agreement and to discharge the proper expenses of the USI Group. In this connection, and for these purposes, RP&C is authorized to give instructions with respect to the bank accounts of the USI Group and to instruct bankers of the USI Group as to deposits and currencies;
- supplying, as and when requested by the Company, such information as may be in its possession or may reasonably be obtained or provided by it;
- providing to the Company on a quarterly basis a detailed breakdown of the composition of the assets and investments including a summary of all transactions undertaken during the previous quarter as well as an analysis of current market conditions;
- attending quarterly meetings of the Board for the purposes, *inter alia*, of discussing the information provided as described above; and
- providing the Company with such additional advice as the Board shall require for the purposes of properly assessing its assets and investments.

Subject to the terms of the Management Agreement and to such directions as may from time to time be given by the Board, RP&C is authorized to act for the companies of the USI Group and on their behalf either by itself or through its authorized agents in the same manner and with the same force and effect as the companies of the USI Group might or could do.

RP&C shall keep or cause to be kept on behalf of the Company such records and statements as shall give a complete record of all transactions carried out by RP&C on behalf of the companies of the USI Group in relation to the investments and the assets, including such records as will enable the Company to publish its yearly and half-yearly report and accounts, and as are otherwise reasonably required by the Company in the proper discharge of its obligations to shareholders and creditors. RP&C shall permit the Company and its agents and auditors to inspect such records and statements at all times.

4.3.2 RP&C's authority and obligations

Pursuant to the Management Agreement, subject to the prior approval of the Board, RP&C has the authority, power and right, for the account of and in the name of the USI Group, to implement the investment policy laid down by the Board from time to time in respect of the USI Group's investments and assets. In that connection, RP&C is authorized:

- to issue orders and instructions with respect to the investments and assets;
- to exercise rights for the account of the companies of the USI Group and effect transactions on behalf of, and for the account of, the companies of the USI Group in connection with any such assets or investments;
- to implement borrowings and the sale of debt and/or equity securities of the companies of the USI Group as authorized from time to time by the Board; and
- to enter into, make and perform on behalf of the companies of the USI Group all contracts, agreements and other undertakings as may, in the opinion of RP&C, be necessary or advisable or incidental to carrying out the objectives of the Management Agreement (subject to the prior approval of the Board in certain cases as described in section 3.4 above).

4.3.3 Duties of RP&C as administrator

Pursuant to the Management Agreement, RP&C has the following duties as administrator to the Company:

- maintaining and establishing necessary accounting records of the USI Group;
- maintaining all necessary books and records of the USI Group required by law or deemed necessary for the proper operation of the assets and investments. Such documents shall be kept in accordance with statutory provisions for the time being in force and the Articles;
- preparing and delivering all statutory returns to the registrar of companies and other competent authorities and performing all duties and services normally performed by the secretary of a company;
- preparing monthly statements and annual accounts of the USI Group and submitting the latter promptly to the Board and to the auditors of the USI Group for audit;
- dispatching to shareholders, to creditors, to directors and to the auditors of the USI Group such circulars, notices of meetings, reports, financial statements and other written material as may be required or as may be requested from time to time by the Board;
- informing the Board from time to time of all amounts due and payable by the USI Group and paying on behalf of the USI Group and from the USI Group's funds all costs, expenses and taxes properly charged to or levied on the USI Group;
- collecting any and all amounts due to the USI Group and applying to relevant authorities for any tax rebates and other payments which may be due to the USI Group;
- upon the instruction of the Board, taking out and maintaining in the USI Group's name such policies of insurance as the Board shall determine to be appropriate;
- submitting to the Board such reports and information as it may reasonably require from time to time and, in consultation with the Chairman of the Board, preparing an agenda in advance of each Board meeting and distributing a copy of it together with any supporting papers to members of the Board prior to each meeting;
- preparing and circulating draft minutes of meetings for approval by the Board;

- preparing tax computations of the USI Group at the end of each financial year and submitting them to the auditors and appropriate taxation authorities;
- monitoring the custodian and otherwise supervising and administering all bank accounts and investments of the USI Group and performing the treasury activities of the USI Group; and
- with the agreement of the Board, retaining and supervising such outside firms of auditors, lawyers, taxation advisers or other agents as shall be deemed desirable to properly administer the assets and investments and/or to discharge RP&C' duties.

5 Compensations, shareholdings and loans

Details on compensation and participation of members of the Board and of group management are disclosed on Note 29 to the Consolidated Financial Statements.

5.1.1 Content and method of determining compensation and shareholding programs

The Nomination and Compensation Committee is competent to establish the Company's general compensation policy for directors and direct employees (if any). The Board determines, upon proposal by the Nomination and Compensation Committee, the amount of any remuneration payable to its members. Persons whose remuneration is decided upon do not have a right to participate in the relevant meeting, or otherwise to participate in the process. The Company does not employ external advisors or use external benchmarks for fixing compensation.

The compensation of RP&C is determined by the Management Agreement (see section 4.3).

5.1.2 Compensation

Armin Hilti, Dr. Robert Bider and Dr. Volkert Klaucke receive a flat fee of CHF 30,000 per annum before statutory deductions for their services as non executive members of the Board. The annual compensation provided by the Company to these Board Members was decided in 2005 by the Board, in a discretionary decision in which all members participated at the time; it has no performance-related component. Dr Lanfranconi receives no fee for his services as executive member of the Board; however, he is reimbursed for office, secretarial and related expenses in the amount of CHF 306,350 for the year ended 31 December 2010 and receives from RP&C a minimum of one third of the fees which RP&C receives from the Company under the Management Agreement (see section 4.3).

Dr Doraiswamy Srinivas and David Quint are members of the Board of the Company, RP&C and various companies of the USI Group. They receive no directors fees; however, RP&C is entitled to receive fees from the Company for its services as a Manager according to the Management Agreement (see section 4.3). William Vanderfelt is a director of the Company and of RP&C and receives a director's fee from a subsidiary of the Company in the amount of CHF 30,000 per annum. This flat fee was decided in 2005 by the Board along with other non-executive members' fees (see precedent paragraph) and has no performance related component.

5.1.3 Options

The Board adopted a stock option plan in July 2005, under which the Board may select the members of Management to be granted options or stock appreciations rights, determine the number of options and stock appreciation rights to be granted, the date each option or stock appreciation right shall be granted and the other particulars of the option and stock appreciation rights.

No options have been granted as at 31 December 2010.

5.1.4 Loans to members of governing bodies

USI Group had not granted loans to any member of the Board or of the senior management of RP&C at 31 December 2010. However, on 4 April 2008, the Group advanced a loan to Ridgmont Holdings Limited, a subsidiary of RP&C in the amount of €2 million. The loan is repayable on or before 31 March 2013 and bears interest at the rate of 6% per annum.

6 Shareholders' participation

6.1 Voting rights and representation restrictions

Each share carries one vote. The Board may refuse to enter an acquirer of registered shares in the share register as a shareholder with the right to vote, if the holdings of the shareholder together with his shares already registered exceed the limit of 2% of all the shares recorded in the commercial register. Legal entities and associations that are linked together by capital, voting power, management or in other manner, as well as all persons, entities and partnerships that are acting in concert with a view to circumventing the percentage limit, shall be deemed one person.

No exemptions from the above rules have been granted during the accounting period. See also section 2.6.2.

The limitations on the transferability of shares (see section 2.6.1) may be abolished by a vote of the shareholders' meeting.

A shareholder may be represented at the shareholders' meeting only by his legal representative, by a member of the Board, by the independent proxy, by a representative of deposited shares or by another shareholder with the right to vote.

6.2 Statutory quorums

Resolutions of the general meeting of shareholders are passed by the majorities set forth in the applicable legal provisions. The Articles do not change the applicable majorities.

6.3 Convocation of the general meeting of shareholders

The general meeting of shareholders must be called, at the latest, twenty days prior to the day of the meeting.

6.4 Agenda

One or more shareholders representing together at least ten percent of the share capital or shareholders representing shares with an aggregate par value of one million Swiss Francs may request items to be included in the agenda. Items for inclusion in the agenda shall be requested at least 60 days prior to the meeting in written form listing the items and the proposed motions of such shareholder(s).

6.5 Record date for entry into the share register

The record date for the inscription of registered shareholders into the share register in view of their participation in the general meeting of shareholders, as set by the Board, is a date falling in between 10 and 20 days prior to the meeting.

7 Changes of control and defence measures

Duty to make an offer

According to Article 7 of the Articles, persons acquiring shares of the company directly, indirectly or acting in concert with third parties shall be exempt from the obligation to make a public purchase offer pursuant to Article 32 of the Swiss Federal Act on Stock Exchanges and Securities Dealing, irrespective of the number of voting rights conferred by the shares acquired ("**opting out**").

7.1 Clauses of change of control

See section 4.3 for the termination period which applies in respect of the Management Agreement.

8 Auditors

PricewaterhouseCoopers AG, Zurich, are the Company's auditors.

8.1 Duration of the mandate and term of office of the lead auditor

PricewaterhouseCoopers AG, Zurich assumed its existing auditing mandate in 1992. It was re-elected as auditors for the financial year 2010 by the annual general meeting held on 25 May 2010.

The lead engagement partner, Patrick Balkanyi, responsible for the existing auditing mandate took up office in respect of the financial year ended 2006.

The Board proposes to the annual general meeting due to be held on 26 May 2011 to re-elect PricewaterhouseCoopers AG as auditors for the 2011 financial year. In the case of a re-election of PricewaterhouseCoopers AG for the 2011 financial period, the responsible lead engagement partner for the auditing mandate will be the same as for the 2010 financial year. The rotation interval applicable to the lead engagement partner is seven years (art. 730a para. 2 CO).

8.2 Auditing fees

The total fees for auditing the 2010 consolidated financial statements and all group companies are estimated to be CHF 138,000, of which CHF 32,000 have been invoiced at the date of this report.

8.3 Additional fees

Additional fees of approximately CHF 140,004 were charged by PricewaterhouseCoopers AG during 2010, CHF 130,039 for tax compliance work and CHF 9,965 for transaction consulting.

8.4 Informational instruments pertaining to the external audit

Most communication between the auditors and the Company takes place through RP&C; there is an ongoing dialogue, via telephone and email correspondence and periodic meetings between the auditors and RP&C throughout the year.

The Board and the Audit Committee also liaise directly with the auditors regarding the annual audit work to be carried out and discuss the results of such audits. On request, representatives of the auditors attend meetings of the Board and of the Audit Committee in which such matters are discussed (for the organization of the Audit Committee, see section 3.3.3.2). At the Audit Committee meetings, the auditors present a detailed planning report and a detailed report on the conduct of the audit of the financial statements. This details findings on material financial accounting and reporting issues in addition to findings on the Group's internal control system (ICS).

In the year 2010, representatives of the auditors were present at one meeting of the Audit Committee.

The Board of Directors annually reviews the selection of the auditors in order to propose their appointment to the General Meeting. The Audit Committee assesses the effectiveness and the quality of the auditors as well as their independence based on the reports received and general discussions. Their quality, their knowhow, their cost consciousness and timely reporting are major factors in the assessments of the auditor's work. PricewaterhouseCoopers AG monitors its independence throughout the year and confirms this to the Audit Committee annually.

9 Information policy

Financial reporting consists of semi-annual and annual reports. Financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB), in compliance with Swiss law and the standards laid down by the SIX Swiss Exchange's Listing Rules.

The company shall publish information according to the following schedule:

Reporting

28 April 2011 - Publication of audited annual report and accounts for the financial year ending 31 December 2010

28 Sept 2011 - Publication of unaudited accounts for the six months ending 30 June 2011

Meetings of Shareholders

26 May 2011 - Annual general meeting of shareholders for 2011

The ad hoc notices of the Company are available under www.usigroupholdings.ch/?task=usi01

Additional information and all publications (including this annual report) are available under www.usigroupholdings.ch

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